

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2302  
23 November 1964

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS  
RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH  
I N D I A

1. In accordance with its terms of reference, the Committee has conducted the consultation with India. The Committee had before it a basic document for the consultation (BOP/37), a decision by the Executive Board of the International Monetary Fund dated 19 February 1964 (see Annex II) and background material supplied by the Fund, as mentioned in paragraph 3 below.
2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 9 November 1964. 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 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 International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision of February 19, 1964 taken at the conclusion of the last consultation with India under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation. The Fund has also prepared a supplementary paper dated October 14, 1964 to supply background information on recent developments.

"Pending the conclusion of its next consultation with India which it expects to conduct during 1965, the Fund sees no reason to alter the general view expressed in the decision taken at the conclusion of its last consultation with India and transmitted to the CONTRACTING PARTIES."

Opening statement by the Indian representative

4. In his statement, the full text of which is annexed to this report, the representative of India first referred to the successive five-year plans by which his country has been endeavouring, since 1951, to improve the living standards of the people of India. These plans, the third of which is now drawing to a close, have uniformly attempted, he said, to develop an expanding interchange of goods between India and other countries, and the import restrictions which have been necessary have been designed solely to keep imports within the limits of what India can afford to buy. The restrictions have been non-discriminatory in character and India has whenever possible liberalized imports.

5. Currently, India's balance-of-payments difficulties are accentuated not only by the development effort but also by a substantial defence effort. Price pressures have developed, notably in foodstuffs, and measures to combat inflation have had to be taken, all the more so as agricultural shortages threatened to cause further disturbance. To combat inflation, deficit financing is to be reduced through a cut of Rs.750 million in Government expenditures in the current fiscal year. Interest rates have been increased and other steps have been taken to tighten credit. The Government has arranged to import substantial quantities of foodgrains to relieve pressure on food prices. Price controls were reviewed; also, certain further efforts have been made to promote savings. A part of the apparent increase in money supply was purely the result of a technical change in classification of savings deposits; another source of added money was an improvement in foreign exchange reserves.

6. To promote agricultural production, which is one of the most urgent tasks facing the Government of India, a package programme of intensive cultivation has been taken up. Floor prices have been established for the more important cereals. It is hoped that these prices will encourage investments in, and improved methods of farming, which will increase crop yields so that, from now on, and for the duration of the Fourth Plan, agricultural output can be increased by 5 per cent annually. In the industrial sector, the twin objectives are to utilize installed capacity more fully by trying to obtain, and utilize effectively, greater amounts of long-term foreign aid on a non-project basis and proceeding with the investments envisaged in the Plan. Appropriate choice of industries to be fostered will enable India to make progress in import substitution which, however, should not mean smaller but rather larger imports, given the wide range of imported materials which India will require in this connexion.

7. An important part of India's increased production will, it is hoped, be exported, in order to achieve balance in India's external payments; export promotion has played an important part in Indian economic policy for some years. Recent export results have been encouraging, but the level of exports is a matter not altogether within India's control, and it is India's continuing

concern regarding barriers maintained by other countries which has led India to participate actively in efforts within the GATT and in the UN Conference on Trade and Development to find ways of overcoming impediments to trade development. Recent developments make it very difficult to forecast with any degree of precision export results for the year 1964-65. Domestic shortages will cut certain exports, and the surcharges recently announced by the United Kingdom will have an effect on others which cannot be forecast with assurance. The export target for the five years of the Third Plan is Rs.37,000 million, but India will be doing well to achieve this goal in the light of present difficulties.

8. In the Fourth Plan, now taking shape, investment is expected to total from Rs.215 to 225 thousand million, which it is hoped will enable national income to grow by more than 6 per cent per year. The export target for the five years of the Fourth Plan is Rs.51,000 million. There is no prospect that India will be able to proceed to any wholesale liberalization of imports in the immediate future, but India's imports should continue to grow, as they have done, in proportion as her industries continue to develop; there should be no harm to India's trading partners in this process in the future any more than there has been in the past.

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

9. The Committee welcomed the clear statement by the representative of India, particularly concerning efforts to promote production of goods which might be suitable for export. In this connexion, further detail was elicited concerning the difficulties, now being overcome, in the way of a planned development of iron ore exports, which have included both the construction of a new railway and the building of new port facilities. Although the representative of India referred to a list of export promotion measures which have already been put into operation, he said that India would be alert to find and adopt additional measures. For the immediate future, he thought that measures to increase agricultural production and to utilize effectively the export potential of existing industries would be the measures to which highest priority would be given in the interest of achieving the target exports of Rs.51,000 million for the Fourth Plan period, but achievement of that target would also require further export promotion measures. He did not believe that it would be possible to give a more precise figure on export prospects for the immediate future, even though estimates were being made for internal use in the preparation of the foreign-exchange budget for the current year. New forecasts were being worked out for the March meeting of the Aid to India Consortium. The Committee welcomed these indications that India attaches great importance to development of exports and to export promotion.

10. A member of the Committee noted that the representative of India had referred in his statement to the importance of persuading lender countries to provide aid to India on a long-term basis at low interest rates; he enquired what success India had had in this effort. The representative of India replied that there had been a certain measure of success. Some countries are now extending long-term loans while some others are trying to improve the terms and conditions of their export credits.

11. In answer to a further question about India's attitude towards private foreign investment, and the establishment by the Government of a committee to study matters of this nature, the representative of India confirmed the establishment of such a committee and stated that India welcomes private foreign investment in industry in accordance with the priorities established in the development plan; the authorization which has been given to a private company to participate in oil refining is entirely in conformity with this position. There are no restrictions on the transfer of dividends and profits on foreign capital, nor on the repatriation of the capital, although the Government, in permitting an investment, might require an assurance that the capital would not be withdrawn within a stated period, and India hopes very much to be able to continue to receive substantial private investment funds. In the Third Plan, foreign investments of Rs.3,000 million were planned for, and both the skills and the funds which foreign private companies can provide will be needed in the future as well.

12. In reply to a question concerning the governmental agency which had been mentioned as having been established recently to trade in foodgrains, the representative of India stated that the State Foodgrain Trading Corporation was not concerned with international trade. It had been found recently that large wholesalers were taking advantage of consumers. This Corporation had been set up for better procurement and distribution of foodgrains. The agency would buy foodgrains from domestic producers at a guaranteed price and resell them at a fixed price for processing or retail trade; the object is to distribute supplies under fair conditions and to build up internal stocks.

#### Alternative measures to restore equilibrium

13. There was discussion of the various measures which the representative of India had mentioned as having been taken to control the level of prices. With respect to the encouragement of savings, one member of the Committee enquired as to the success of the recently established Unit Trust. The representative of India replied that it is too early to give a definitive opinion, as the institution is only about three months old, but that the first results seem to indicate that it will be more successful than was the previous prize bond system in attracting the savings of small depositors. The latter system would probably be eliminated. It was too early yet to judge the effectiveness of the higher interest rates in attracting long-term capital. Another member of the Committee called attention to information showing that one of the larger sources of inflationary pressure had been bank credits extended to the Government. The representative of India said that his Government was well aware of the dangers of undue monetary expansion and that this was one consideration underlying the decision to cut government spending by Rs.750 million in the current year.

14. Questions were also put to the representative of India concerning the conditions that had given rise to some of the sharp commodity price increases that have taken place this year, particularly for groundnuts and jute. Groundnut oil, it was explained, has no great industrial importance except to some extent for the manufacture of Indian margarine. But, when the groundnut crop is short as happened this past year, and exports of groundnuts are permitted, the price rises sharply because groundnut oil is a staple source of fat for the Indian people. The 49 per cent increase in groundnut prices reflects, in other words, a shortage of an essential foodstuff. Happily this year's jute crop is larger than the last, and India has also begun a programme to maintain a buffer stock of this commodity, so that this potential pressure on the price structure has been removed.

#### System and methods of the restrictions

15. One member of the Committee, while recognizing India's need to limit imports and to limit especially imports of non-essential goods, noted that all imports other than essential commodities were either severely restricted or prohibited, and enquired whether India might not review its definitions of what is non-essential with a view to easing somewhat the severe limitations now in force. Not all consumer goods, he felt, were non-essential, and if there were categories which had to be severely limited, could India not at least establish a token import plan, as foreseen in the General Agreement. He also wished to know what proportion of India's foreign-exchange expenditure went for consumer goods. The representative of India agreed that consumer goods are not necessarily of a luxury nature but said that in India's situation it was important not to import a consumer good if it is available in some quantity from domestic sources; India regrets that these prohibitions for consumer goods may hurt the trade of other countries, but imports have to be limited in some way. He hoped other countries would remember that India's overall imports are growing, even if not all kinds benefit equally. In 1963-64, 17 per cent of India's total expenditures for trade was spent on consumer goods. So far India had not been able to afford a "token import" plan as even such small imports would constitute a luxury. Books were, he thought, the only exception so far made to that rule. He noted the suggestion and would report it to his Government for their consideration.

16. The representative of India was also asked to explain the rôle of the State Trading Corporation mentioned in the basic document. This body, he said, had as its essential function to watch over trade with the centrally-planned countries. Licences to import from such countries may be issued to it or to private importers, but the Corporation's function is to see that the annual trade plan for each country is fulfilled and that agreed maxima are not exceeded; this function extends to exports as well as imports in trade with those countries. Individual importers register their import licences with the State Trading Corporation, and such licences are not issued in excess of the amount provided for in the respective trade plan.

17. A member of the Committee enquired whether India planned to extend the rôle of the State Trading Corporation. The representative of India said there was no plan at present to extend State trading into other commodities. Iron ore and manganese exports are handled through this mechanism at present as the iron ore trade in particular was not well organized in the past. Such organization was necessary as it had been planned to increase iron ore exports substantially.

18. The representative of India was also asked to comment on India's plans with respect to advice India has previously been given to reduce reliance on bilateral payments agreements; interest was expressed both in bilaterals with countries outside the GATT and IMF and in those with countries members of one or both organizations. The representative of India emphasized, in reply, that his country had repeatedly stated its faith in multilateral non-discriminatory trading and the Indian Finance Minister had reaffirmed this in his statement at the annual meeting of the IMF and IBRD which was recently held in Tokyo. But, with the centrally-planned economies, which were also assisting India's developmental effort, bilateral trade and payments arrangements had to be entered into as these countries traded on this basis. It had also to be noted that under these arrangements even development aid was paid back in the form of exports from India. Bilateral payments arrangements with other countries were very few and covered in some cases only part of the trade with the country in question. One agreement, with Afghanistan, mainly concerns dried fruits, a luxury India could not afford to buy for convertible currency. Yugoslavia is a country with which a bilateral agreement is maintained for essentially the same reasons as with centrally-planned economies. A bilateral payments arrangement with the United Arab Republic is a holdover of an old arrangement which enables India to obtain cotton and supply tea and so maintain a traditional trade. The representative of India added that in the GATT, as well as in other forums, the view had been expressed that developing countries should be encouraged to liberalize trade as between themselves. The small bilaterals with Afghanistan and the United Arab Republic belonged to this category. However, when India's trade position improves attention would be given to a review of these arrangements. Members of the Committee welcomed the assurances of India's continued attachment to the policy of non-discrimination and multilateralism.

#### General

19. The Committee noted the difficult internal situation confronting the Government of India and hoped that the Government would be successful in curbing inflation, which might otherwise threaten the good progress which has been made in increasing exports and in promoting investment and development. It hoped that trade development would continue and that India would find ways to ease restrictions as appropriate and to move towards fuller application of the principles of non-discrimination. They thanked the representative of India for the information which he had provided and for his co-operation in responding to the Committee's enquiries.

ANNEX IOPENING STATEMENT BY THE  
REPRESENTATIVE OF INDIA

May I, at the outset, compliment the secretariats of the GATT and the International Monetary Fund for the excellent objective documentation that they have prepared in connexion with the present balance-of-payments consultations with India. The Fund's document dated 14 October 1964 brings more up to date the background material they had prepared on the 19 February 1964 for the Article XIV consultations with India and gives an account of the stresses and strains undergone by the Indian economy consequent on the recent spurt in prices, particularly of foodgrains. Representatives of the contracting parties taking part in this consultation would also doubtless have seen the Government of India's submission circulated by the GATT secretariat under reference BOP/37 dated 30 September 1964.

As the contracting parties are aware, since 1951 India has been engaging itself on the task of improving the living standards of its millions by a massive developmental effort through a succession of five-year plans. We are today at the close of the Third Five-Year Plan and the lineaments of the Fourth Five-Year Plan are already discernible in broad outline.

An examination of the content of the Indian Five-Year Plans will go to show that, far from envisaging autarkic economic development, the Indian authorities have endeavoured to predicate Indian economic growth on expanding interchange of goods and services with other countries and import restrictions have been solely determined by the ability to pay for them either through exports or long-term financial accommodation from abroad.

These restrictions have also helped to foster the growth of several branches of industry in India. But it is well worth noting that our import licensing has been non-discriminatory in character and whenever the situation has permitted it, the Government of India has been quick to liberalize imports.

It was almost exactly two years ago that the previous consultation took place with India. What the Indian representative to the consultations had to say in October 1962 about the odds in the balance-of-payments field that India is battling against in the context of intensive economic development is even more valid today as, consequent on the threat to our Northern borders which began two years ago, and is still continuing, the economy has had to find resources for a much more substantial defence effort as well.

In his speech on economic policy in the Indian Parliament on 17 September 1964, the Finance Minister of India analyzed the reasons for the recent pressure on prices in India and dealt with the measures being taken to check the inflationary tendencies stemming therefrom. The adverse weather conditions in the past few years resulted in a stagnation of agricultural production. This, coupled with

lower market arrivals, especially of rice, resulted in an almost 20 per cent increase in the price of this important foodgrain over a period of one year. The rise in wholesale prices generally during the same period was of the order of 15 per cent. Plan, and latterly Defence, expenditures have been on the increase, but it has been a major objective of the Government of India to finance these increasing expenditures by non-inflationary means. During the current financial year (1964/65) deficit financing will be lower than during last year and a cut of Rs.750 million has been proposed on Government outlays. Bank credit has also been regulated through selective credit controls. The bank rate was increased from  $4\frac{1}{2}$  per cent to 5 per cent about a month ago. Money supply in 1963/64 increased by Rs.4.4 billion as compared to Rs.2.64 billion in 1962/63. Of the increase of Rs.4.4 billion, Rs.1 billion was of a purely statistical nature as it was decided to reclassify savings deposits as demand deposits instead of time deposits as previously. Secondly, there was an improvement in foreign exchange reserves of Rs.860 million which, welcome as it was, resulted in an increase in the money supply. I need not repeat here the main features of the Central Budget of India presented to Parliament on the 29 February 1964. The investment climate was improved by adjustments in corporate taxation. Some tax concessions were also accorded in connexion with the employment of foreign technical personnel. Existing price controls were reviewed and rationalized. A Unit Trust has been established to mobilize small savings. An Industrial Development Bank has been incorporated to provide long-term finance to industry. The lesson of the last three years has been that continuous efforts should be made to improve returns from investment in every field so that the rate of growth of the economy is speeded up.

The Government of India are fully seized of the crucial importance of a sustained increase in agricultural production which will be in consonance with the progress in industry and in other sectors of the national economy. To meet the immediate problem, substantial imports have been arranged. A State Foodgrains Trading Corporation has been established to improve procurement and distribution arrangements. A large number of fair price shops have been opened and in several cases maximum selling prices have been fixed. It is fully realized that it is not merely the consumer who should get a fair deal. It is thus that minimum prices for the next crop in respect of the more important cereals have been fixed. In agriculture India has reached a stage when only increasing inputs will result in the desired increase in output. It is thus that for the current year, package programmes of concentrated effort have been undertaken to maximize agricultural output in eighty selected districts in India. These programmes will gradually be applied all over the country. It is realized that only a 5 per cent rate of growth in agricultural output will be compatible with the rate of overall development envisaged for the remainder of the Third Plan and the five years of the Fourth Plan.



Though industrial production by contrast has advanced impressively, installed capacity in some engineering and chemical industries remained unutilized in part on account of shortage of foreign exchange for import of materials and components required for current production. Efforts have been made towards better utilisation of installed capacity by encouraging domestic production of these materials and components and by seeking increased non-project assistance from abroad. These efforts have been assisted by a portion of the \$1,028 million commitment by the World Bank Consortium for India for 1964/65, having been in the form of non-project aid. Of course if this type of aid were available in even larger measure, a further increase in industrial output could be achieved.

In view of the inhibitive effect of the continuing shortage of foreign exchange on growth in industrial production, efforts are being made to complete the programmes in hand and secure as large an output from each of them as possible; to utilize idle capacity by augmenting supplies of the required components and materials to existing units and giving preference to priority and essential industries wherever the availabilities fall short of overall requirements; to give preference to the expansion of existing units over the establishment of new units wherever conditions justify as this would help to secure additional capacity with minimum investment; to give preference to faster maturing schemes over those which are likely to have a longer gestation period; and, in the case of industries which offer possibilities of export opportunities or import substitution, to give them preference over others not similarly placed.

Import substitution may suggest increased trade restrictions in a forum like the GATT. But it must be realized that import substitution which is the inevitable result of industrialization does not imply import saving. On the contrary, for an open economy like India's, import substitution necessarily entails an increasing volume of other imports. A cursory reference to India's external trade statistics over the last dozen years or so will show how, even as import substitution has taken place, India's imports have steadily increased. Indeed, India would have imported even more had she been readily able to find the means to pay for them. In the words of the Finance Minister of India, "India does not believe in an autarkic scheme of development. As our economic development becomes increasingly complex and advanced, we would need, more than even now, to keep in touch with technical progress abroad; we will have to continue to import new innovations, technical know-how and even new products. Self-sustenance, in my opinion, is best understood as the capacity to generate within oneself adequate potential for growth; if all the factors of growth are not available internally, as they would not be for quite some time, it would mean capacity to find from within ourselves resources to pay for their import".

This "capacity to generate within oneself adequate potential for growth", to which the Indian Finance Minister made a reference, will be achieved in the field of external payments only when India is in a position so substantially to step up its exports as would pay for all the required imports as well as service all the external debts that are incurred. Over the past few years, export promotion has been a crucial plank of Indian economic policy. Apart from the dismantlement of the remaining restrictions on exports, the Government of India have followed a vigorous policy designed to stimulate exports. India's export performance during the first three years of the Third Plan has been markedly superior to that in the Second Plan. The trend of exports so far in the fourth year of the Plan has also been encouraging. But exports do not depend exclusively on production in India or Indian export policies. Access for India's export products, particularly the non-traditional items, comprising semi-manufactures and manufactures, to the markets of the world is of equal importance. Contracting parties are aware how the various barriers to the export trade of developing countries like India have been identified in the Committees set up by them and how an Action Programme has been adopted by the more developed members of the GATT. My delegation notes with regret that though CONTRACTING PARTIES have given concentrated and continuing consideration to this problem, it has not been possible to free several traditional exports from discriminatory import restrictions in countries having no balance-of-payments justification. On the more positive side, India along with other developing countries have put forward proposals for amending the rules of the GATT with a view to permitting preferential entry for the manufactured and semi-manufactured products of developing countries into the markets of the developed countries. Here again there has been practically no progress. The United Nations Conference on Trade and Development which met in Geneva between March and June this year also identified the obstacles to the trade of developing countries and recommended possible measures which would overcome them. It is to be hoped that acceptable solutions to these problems will emerge in the near future and that these solutions would also assist India in its efforts to build up its ability to import.

I now turn to the immediate prospects for India's balance of payments. I have already stated that the trend in exports for the first few months of 1964/65 is, on the whole, encouraging. It has become very difficult to forecast how the rest of the year will turn out because on the one hand, as a result of domestic shortages, there is likely to be an appreciable fall in exports of sugar and groundnut oil. More recently, the only developed market to which we had free access, namely that of the United Kingdom, has suddenly become somewhat uncertain as a result of the imposition by the United Kingdom authorities of a surcharge of 15 per cent on most imports. We are, however, encouraged by the assurance of the United Kingdom authorities that these surcharges are temporary. We do trust that urgent consideration will be given to some of our immediate concerns by the United Kingdom authorities. We on our part will persevere in our efforts to reach the export target of Rs.37 billion envisaged for the Third Plan. Since access to industrial markets have not been up to our expectations this export target seems difficult of achievement.

I stated earlier that the broad outlines of the Fourth Five-Year Plan are being worked out. Total outlays on the Fourth Plan are expected to be around Rs.215 billion (with this figure increasing by Rs.10 billion on the basis of additional resources becoming available during the course of the Plan) resulting in a rate of growth of over 6 per cent in national income. Export receipts during the Fourth Plan have been projected at Rs.51 billion. This figure will be realized only if the domestic supply position improves (and the agricultural programme of the Fourth Plan is designed to ensure this) and there is a marked improvement in access to India's export products in the markets of the world, particularly those of the developed countries.

To conclude. The restrictions on imports maintained by India are strictly for balance-of-payments reasons. The foreign exchange available from year to year by way of exports and foreign aid are deployed in such a way that output is maximized and the investments envisaged in the Plan are made. Appropriate monetary and fiscal policies are being followed. Special attention is being paid to the fuller utilization of installed capacity and to the import requirements of industries with export possibilities. There are no prospects of a wholesale liberalization of imports into India in the immediate future, given the developmental effort still required of the country. It is clear, however, that Indian import restrictions have not hurt India's trading partners taken together. India's imports have been steadily increasing showing how India continues to be a large and growing market for the export products of its trading partners.

ANNEX II

International Monetary Fund Executive Board Decision  
Taken at the Conclusion of the Fund's Consultation  
with India on 19 February 1964

The Government of India has consulted with the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

During the past year, India has faced the difficult task of mobilizing resources for large-scale defense requirements in addition to the needs of the development effort. The difficulty was aggravated by a slow growth of output; in particular, the output of foodgrains declined in the crop year ended June 1963, chiefly because of adverse weather. As a result, moderate pressure on prices was felt during most of 1963.

Despite the heavy additional taxation imposed in the current year, bank credit to the Government has increased markedly and has been mainly responsible for the recent acceleration of monetary expansion. The authorities intend to keep deficit financing within reasonable limits and to take measures to intensify tax collections and to increase surpluses of government enterprises. Credit policy, which was tightened in the latter part of 1962, has recently been eased somewhat to assist production. In view of increased monetary expansion and pressure on prices, the Fund welcomes the intention of the authorities to take such corrective measures as may become necessary. The Fund welcomes also the official policy of rationalizing the present system of price and other controls and hopes that additional measures in this field will soon be taken.

Since about the middle of 1962, India's export performance has shown a distinct and very welcome improvement. Foreign aid receipts also have increased. Nevertheless, India continues to rely on severe exchange and trade restrictions which should be relaxed as soon as the balance of payments position permits. The Fund urges India to intensify its efforts to promote exports on a multilateral basis and also to review its bilateral payments agreements with Fund members with a view to terminating them as soon as possible.

In concluding the 1963 consultations, the Fund has no other comments to make on the transitional arrangements maintained by India.