RESTRICTED

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# GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

## 1984 CONSULTATION WITH INDIA (SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes adopted by the CONTRACTING PARTIES in 1979 (BISD 26S/205-209) to assist the Committee in taking the decision referred to in paragraph 8 of that Declaration.

## I. India's previous consultations

2. Nine full consultations and four simplified consultations have previously been held with India. The most recent full consultation took place in November 1978; it was followed by simplified consultations in April 1980 and June 1982.

3. At the last full consultation, 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. 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.

## II. Recent changes in India's trade policy

4. The policy pursued by India for the year 1983/84 continued the process of liberalization undertaken in the previous financial year. The policy applied from April 1983, and supplemented in May 1983, aimed to provide further incentive to exports, to allow local industry to expand its access to foreign capital goods and technology, and to simplify import procedures. The recently announced 1984/85 Import/Export Policy continues the process of trade liberalization (see BOP/245).

5. The main policy measure used by India for regulating imports remains the import licensing system, which contains five categories of goods - "Open General Licence", "Automatic Permissible", "Limited Permissible", "Canalized" (imported through State agencies) and "Restricted" items. The "Banned" list has been abolished as from April 1984, the only product remaining banned being tallow and animal fats. The period of initial validity of import licences has been increased from 12 to 18 months.

6. In 1983, a large number of goods were shifted from the "Automatic Permissible" list to open general licence; in addition, a further increase in automatic permissible licences was given. Automatic permissible and open general licence lists comprised in 1983 about 20 per cent of import-competing manufacturing production. In 1984, a further 95 items of industrial machinery (net) were added to the OGL list for import by Actual Users. Access for imports of restricted products, including certain manufactured consumer goods, was also significantly eased. In 1984, the value of "Limited Permissible" items which may be imported by Actual Users (Industrial) was raised from 150,000 to 200,000 rupees per item; and "Canalized" items are also importable up to a value of 25,000 rupees per item, within the overall limit of 10 per cent of value of automatic licences permitted to such importers.

7. Provisions for imports by travellers returning home were relaxed in 1983. The general duty free allowance was raised. Indians working abroad for one year or more were permitted to bring an additional Rs.5,000 worth of goods free of duty. OGL imports were also permitted by non-resident Indians returning home to establish small scale enterprises. These provisions have been continued in 1984.

8. Automatic licences continue to be granted to actual industrial users on the basis of the past year's consumption of materials. Actual users whose previous year's automatic licence did not exceed 200,000 rupees, and firms export 25 per cent of annual production (subject to Rs.500,000 minimum) or exporting goods worth at least 1 million rupees in value, can obtain the same value of licences on a repeat basis without having to re-apply.

9. Incentives to manufacture for export were increased in 1983. Manufacturers exporting at least 50 per cent of production were granted supplementary licences up to 50 per cent of the value of automatic licences received in the preceding year. These supplementary licences could be used for imports of any items under "automatic permissible" or "limited permissible" categories. Manufacturers exporting at least 25 per cent of production were given easier access to foreign exchange and licence clearance for capital goods and technology imports without "indigenous angle" clearance. Units exporting up to 50 per cent of production were able to import technology related goods without any value limit. In 1984 various provisions on imports of technology were further relaxed; it is also proposed to draw up a list of industries in which the import of technology may be permitted under OGL. In addition, a new scheme has been introduced which enables exporters of computer software to import computer systems, data processing related hardware, software and peripherals.

10. Greater flexibility was also accorded in 1983 to exporting manufacturers and export houses, for the selection of products under REP (import replenishment) licences out of Limited Permissible or "Canalized" items. Limits on the value of capital goods and technology related goods which can be imported under REP licences without "indigenous angle" clearance were also significantly increased.

11. A further measure of importance announced in May 1983 was that freight would no longer be included in the declared value for the purpose of calculating import licence utilization, where goods are carried in Indian vessels; in addition, if exports are shipped in Indian vessels, REP entitlement increases by 10 per cent.

12. Some measures were also taken in 1983 which had the effect of reducing access to imports. Manufacturers operating within the "phased manufacturing programme" (under which projects with high import intensity may be initiated subject to a commitment to reduce the import content of production over time) were required to submit the list of components to be imported (mostly OGL items) for governmental clearance. Any excess of demand over the programme limits was to be reduced by removing from the list items of requisite quality available from domestic sources. In addition, the entitlement for additional licences on restricted goods, except for export houses whose sales abroad increased by more than 50 per cent over the previous year, was reduced by one-third. The overall effect of these restrictions was, however, considerably less than that of the liberalizing measures mentioned above; overall, import possibilities were estimated to have increased from some 81 billion rupees to 105 billion rupees (29.6 per cent) between 1982/83 and 1983/84, with the largest relative growth in possibilities for imports under OGL and personal baggage allowance.

13. As regards export restraints, India announced on 24 December 1983 a ban on exports of CTC (cut, torn and curled) tea except in the form of tea packets. Export contracts concluded before that date, and tea purchased at auction before that date, were not included in the ban. Since February 1984, all bulk teas sold by contract export from India must be registered and prices of contracts are to be checked by the government against market prices.

14. Other measures taken during the period not forming part of the major import policy statements include:

- import of high technology textile machinery at a concessional duty rate of 20 per cent as against the normal rate of 62 per cent; reductions in duty on certain stainless steel tubes and a number of intermediate products;

- widening of cash compensatory support (CCS) provisions for products with export potential. (General information on CCS has been provided by India in L/5603/Add.6.)

- reductions in customs duty on stainless steel bars, rods and wires and on natural rubber.

- halving of the export duty on soft cotton waste with effect from 1 October 1982; increase in the export duty on coffee from Rs.180 per quintal to Rs.300 per quintal from 20 September 1982.

Auxiliary duty of customs

15. In November 1973, the CONTRACTING PARTIES granted India a waiver from Article II:1 of the General Agreement in respect of a temporary auxiliary duty of customs. It was noted that there were three rates of auxiliary duty, 20 per cent, 10 per cent and 5 per cent, but that almost all the items included in India's GATT schedule were subject to either nil or 5 per cent (BISD 20/26).

16. The waiver has been extended in successive years; the latest decision, extending the waiver to 31 March 1985, is contained in document C/W/436. In 1974, the 10 per cent rate was raised to 15 per cent (BISD 21/26); in the 1982 Finance Bill the Indian government had proposed a marginal increase in the rate of auxiliary duty on two bound items and full exemption in respect of three bound items (BISD 29/25). In 1983/84, auxiliary duty was raised by 5 percentage points on all items except petroleum and fertilizers; however, the levels of duty on bound items were not increased.

## III. Recent trends in India's economy and foreign trade

17. Following a year of slow real growth (2 per cent), the Indian economy recorded in 1983/84 an overall expansion estimated at about 6½ per cent, among the fastest in recent years.[1] In 1982/83 drought caused severe crop damage (and agricultural production fell by about 4 per cent), while last year's exceptionally favourable monsoon brought about a major breakthrough in foodgrain output and total agricultural production was up by over 9 per cent. The industrial sector did not experience such a swing in its output, although some improvement in its performance is reported for 1983/84 (the growth of industrial production would have accelerated from 4 per cent in 1982/83 to about 5 per cent). Key factors in the relatively low industrial growth remain the by-now traditional bottlenecks in power supply and labour conflicts. The price situation in 1983 was still influenced by the excess liquidity created in the wake of the previous year's drought: consumer prices increased by 12 per cent, with particularly strong rises in prices of basic necessities, compared to 8 per cent in 1982.

18. India's trade deficit reached an all-time record in 1981, when it surpassed US$7 billion, but has tended to decline slightly since then.[2] In 1982, a deficit of about US$5.5 billion was recorded, a strong recovery of export revenue (up 13 per cent in dollars) reinforcing the effect of a 4 per cent decline in imports. Though trade data for the whole of 1983 are not yet available, estimates indicate a further reduction of the trade deficit, to some US$4.5-5.0 billion.

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[1] Financial years: April/March.

[2] Trade balances are here based on customs returns: exports f.o.b. and imports c.i.f.

19. Though the narrowing of the trade gap has lately played a leading rôle in improving India's external payments position, the continued buoyancy of the country's receipts from invisibles (in particular, remittances from nationals working abroad) should not be minimized. As a result, in 1983 a halt could be put to the drawing down on international reserves, which had started as early as in 1980.

## IV. Effects of the measures

20. The measures introduced by India in 1983/84, following those taken in earlier years, contribute to a significant further liberalization of trade possibilities and opening of the economy. Because of relatively slack domestic demand in 1982/83, the measures introduced were not fully reflected in import levels, although non-oil imports increased by some 1.6 per cent overall. The Indian Statement (BOP/245) notes that within an overall increase of 2.3 per cent in the rupee value of imports in the first three quarters of 1983/84, non-fuel imports grew by around 20 per cent. The largest increases in imports in the last two years have been in the areas of machinery and transport equipment, and capital goods in general (including imports by returning residents).