



5. In April 1985, India introduced further liberalization in its import policy, which was for the first time announced for a three-year period 1985-88, in keeping with the general objective of fostering stability and continuity in economic policies. The resulting import growth coupled with sluggish exports contributed to a large trade deficit in 1985/86 of around 3.9 per cent of GDP, and a sharp increase in the current account deficit to the order of 2.7 per cent of GDP. To finance these deficits, foreign exchange reserves were drawn down by nearly US\$600 million (after taking into account valuation gains). The recanalization of ten categories of imports in 1986 should not be interpreted as a deviation from the course of import liberalization, since canalization was not an instrument for restricting imports.

6. The representative of India stated that provisional trade data for 1986/87 indicated that exports had grown by about 15 per cent in US dollar terms, and that, despite a sharp fall in oil prices, total imports had increased by about  $4\frac{1}{2}$  per cent in US dollar terms, with non-oil imports growing by almost 11 per cent.

7. The full effects of the import liberalization carried out in the policy for 1985-88 could be appreciated by comparing the import values for major categories of non-oil imports in 1984/85 and 1986/87. In this period, imports of machinery and components had increased by over 60 per cent from about \$2,523 million to about \$4,116 million; imports of professional, scientific and control instruments had increased from \$241 million to \$356 million; those of artificial resins, plastic material etc. had grown from \$187.5 million to \$341 million; and imports of iron and steel products had increased by over 40 per cent from \$790 million to \$1,135 million.

8. The representative of India stressed that over the past few years, net invisible earnings, which were a source of strength in the past, had shown a declining trend. Inward remittances appeared to have ceased to grow, and the terms of external financing had hardened, resulting in rising interest payments on external liabilities. The maintenance of this trend in 1986/87 had resulted in a further drawdown of reserves of over \$500 million to finance the balance-of-payments deficit.

9. Fiscal year 1987/88 had begun with a rebound in international oil prices, which together with the decline in India's self-sufficiency ratio in oil had put further pressure on the balance-of-payments position. The accumulation of debt service liability from past obligations, combined with the declining proportion of concessional flows in external financing, continued to exert pressure on India's current and prospective balance-of-payments position. Nor did the international economic environment give any cause for optimism. Protectionist actions continued to increase in important developed country markets, while the continuing debt crisis and the persistence of historically low prices for primary commodities severely constrained the import capacity of a large majority of developing countries.

10. Thus, India was already facing a difficult balance-of-payments situation when a drought of unprecedented dimensions afflicted the economy. India estimated the net adverse consequences of the drought for the balance of trade to be about US\$1 billion in 1987/88 and about \$0.5 billion in the following year. Most of this would reflect additional import requirements to offset a fall in the production of essential agricultural commodities. While efforts were under way to speed up disbursement of external finance, it was expected that there would be a further drawdown of external reserves during the year. By the end of September 1987, when the consequences of the drought for the balance-of-payments position had not yet been reflected, reserves had fallen to cover the equivalent of only about 3.7 months of imports. Thus, on the eve of formulating a new import policy for the next three-year period, the balance-of-payments situation was clearly strained.

11. The representative of India stated that while India expected to continue to rely substantially on quantitative restrictions in future to safeguard its balance-of-payments position, it was making some progress in shifting from quantitative restrictions to tariffs. An inter-ministerial committee was set up in late 1985 to evolve a mechanism for harmonizing the structure of tariffs and import licensing policy and to lay down principles for moving from a régime of quantitative restrictions of imports towards a system of controls based on tariffs. A beginning was made in the 1986/87 budget, when 32 items of machine tools were shifted to OGL and tariffs were raised to provide reasonable protection to producers. Extensive studies were currently being carried out by the Committee with a view to further rationalization of import duties. The policy to gradually shift from quantitative restrictions to tariffs reflected the increasing use of fiscal and financial policies to manage the economy. The last two years had also witnessed far-reaching reforms in fiscal policies. Their principal objectives were to simplify the tax structure, move to a régime of lower tax rates, foster a stable and predictable tax policy environment and place much greater emphasis on the use of fiscal and financial policy instruments as compared to physical controls. A long-term fiscal policy was adopted in December 1985. Changes in industrial policy were also made with an emphasis on simplifying procedures and removing bottlenecks to capacity expansion and upgrading technology. A large number of industries were de-licensed, and schemes of broad banding and capacity re-endorsement were introduced to increase output and improve capacity utilization. Several other policy measures were taken to encourage investment and expansion of existing units to ensure economies of scale. Side by side with these new policy initiatives, macro-economic management had maintained reasonable stability in prices during the past five years. These policies had, inter alia, resulted in improving the international competitiveness of Indian industries.

12. India had progressively relaxed its balance-of-payments restrictions without waiting for improvements in the external financial position. Alternative corrective mechanisms, including long-term measures designed to raise productivity and export capacity and to reduce structural

balance-of-payments disequilibrium, were being undertaken. Macro-economic policies had also been designed for prudent management of the balance of payments. However, in view of the growing pressures, it would be difficult to sustain the pace of import liberalization in future. The future course of India's policies on import restrictions would clearly depend, to a large extent, on two external factors: first, the availability of adequate external finance on concessional terms, and second, improvement of access to the main world markets for goods in which India was internationally competitive.

13. The representative of India recalled that paragraph 12 of the Declaration on Trade Measures taken for Balance-of-Payments Purposes required the Committee to give particular attention to the possibilities for alleviating and correcting the balance-of-payments problems that contracting parties might take to facilitate an expansion of the export earnings of the consulting contracting party. He drew the attention of the Committee to four sets of restrictions affecting India's export earnings. First, India's export earnings from textiles and clothing had been severely constrained by restrictive import régimes of industrialized countries, including seven bilateral agreements under the MFA. Secondly, anti-dumping and countervailing duty proceedings had disrupted India's exports of certain metal manufactures in important markets. Thirdly, consumption taxes levied by certain countries on two major export commodities, namely tea and coffee, depressed India's export earnings. And lastly, while India had had the possibility of exporting substantial quantities of surplus foodgrains in the past two years, its export efforts had been inhibited by the artificially low levels of international prices due to competitive subsidization by certain industrialized countries. These circumstances had caused a substantial loss of potential export earnings. He requested the Committee to recommend to the CONTRACTING PARTIES to take effective steps, particularly during the course of the Uruguay Round, for facilitating the expansion of India's export earnings.

Statement by the representative of the International Monetary Fund

14. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the full text of which is reproduced in the Annex.

15. Commenting on the Fund statement, the representative of India drew attention to the drawdown in the use of foreign exchange reserves by India and the IMF's reference to "large balance-of-payments surpluses" and "comfortable reserves". He noted that different trends in reserve levels over time could be shown depending on whether reserves were calculated in rupee, dollar or SDR terms. In particular, he noted that in SDR terms the reserves had declined in 1985/86 and 1986/87 and had further declined in the first half of 1987/88 (April/September). The Reserve Bank of India did not include gains or losses from revaluation of foreign exchange in their calculations of reserves. The representative of the Fund noted that the

information given in the Recent Economic Developments report and in her statement were based on figures supplied by the Indian authorities in rupees converted into US dollars according to an agreed method. The Fund did include valuation gains and losses in their calculations of reserve levels. They also included India's reserve position in the Fund which RBI figures did not. Whatever method of calculation was used, India's reserves were reasonably healthy in relation to imports.

Balance-of-Payments position and prospects: alternative measures to restore equilibrium

16. One member said that he was not convinced that the trade restrictions maintained by India were justified by its balance-of-payments situation. India appeared to have no difficulty in financing the present current account deficit: hence there could not be said to be an overall balance-of-payments problem. It appeared to him that India's trade measures were more correctly related to economic development and should therefore be justified under Article XVIII:C. He recognized that India had regularly experienced current account deficits which had widened during the 1980s, and that the rupee had depreciated against the dollar since 1984. These represented tensions in India's economic policies which should be addressed; however, generalized quantitative restrictions did not solve the problem but rather damaged the trading system and harmed the Indian economy through distortions, lower living standards and increased adjustment difficulties. Furthermore, Article XVIII:B should not be regarded as a generalized exception to GATT obligations. The 1979 Declaration had highlighted contracting parties' conviction that restrictive trade measures were an inefficient method of dealing with balance-of-payments problems. He did not think that the range of measures adopted by India was consistent with the provisions of the Declaration. At the same time, he was encouraged by the direction of policy undertaken in recent years by India and in particular by the stability introduced by the three-year import policy initiated in 1985. He took note of the Indian representative's statement that his authorities were considering ways of moving away from physical controls of imports. He urged India to present a plan containing concrete indications concerning the steps which it was proposing to take for the elimination of quantitative restrictions, together with a timetable, by the next regular consultation.

17. Another member recognized that there were pressures on the Indian economy, including on the external balance. However, he also noted the scope for continuing import liberalization by India, given favourable world economic trends. He noted that the Indian import licensing system had been progressively liberalized but that it was still highly complex and asked whether any indication of a timetable for the move to greater use of tariffs could be given.

18. Another member said he agreed with the views expressed by the first speaker. He congratulated India on the improvement in its trade and

current account balances, and on the increase in its reserves level in 1986/87 which continued the trend of the previous four years. He noted that in the first quarter of financial year 1987/88 there had been a decline of nearly 20 per cent in the trade deficit. He felt that India could speed up the pace of its liberalization, which was long overdue. The deterioration in the trade and current account balances resulting from the present drought and floods appeared to be manageable. He noted that while India's exports had increased relatively slowly in volume terms in the first half of the 1980s, the rate of growth had increased considerably since 1985, aided by reductions in barriers to imported inputs. He asked what steps India was taking to reduce these barriers further. Noting that an excessive level of controls inhibited economic adjustment, he asked how India was addressing its problem of export competitiveness. He asked the Fund representative to give a view on the advisability of further trade liberalization by India.

19. Another member, while noting that India's overall balance of payments had been in surplus for the past two financial years and that the present reserves position of India was relatively comfortable, recognized that the balance of payments could still be a constraint given the one-time nature of recent improvements and that the Indian economy was still very vulnerable to such shocks as the present drought. He wondered whether the target of 7 per cent growth in exports implied by the 5 per cent GDP growth target in the current plan - which would be significantly above historical levels - could be achieved. He felt that in the light of the above considerations, he would not contest the invocation of Article XVIII:B, but disagreed with India's view that "structural" factors could justify a quasi-permanent exception from GATT obligations; Article XVIII, paragraph 11 contained clear commitments to ensure the temporary nature of restrictions, to minimize their incidental protective effects and to avoid substituting trade restrictions for more fundamental economic adjustment. While welcoming the prudent nature of India's macro-economic policies, he expressed his concern about the increasing budget deficit as a possible threat to reform. He noted that exports had responded strongly to the devaluation of the rupee and asked whether exchange rate policy would continue to be aimed at maintaining competitiveness. The representative of India's statement had mentioned a number of governmental reports dealing with increasing efficiency and decreasing production and trade controls; he wondered how far the current liberalization was likely to go. Noting that a timetable for structural reforms was an element in the Fund's consultations with India, he asked whether India would consider announcing such a timetable which would emphasize a clear link between the liberalization of domestic controls and that of the trade régime, in the spirit of the 1979 Declaration. Current short-term difficulties should not detract from the momentum of the reform process.

20. Another member recalled that India had been in current account deficit for the past nine years, with an increasing debt-servicing ratio, during a period when external factors were not favourable; nevertheless, he could not say that India was suffering serious balance-of-payments difficulties.

He appreciated the liberalization measures taken by India. However, the justification under Article XVIII:B of restrictive measures maintained for long periods despite favourable changes in the trade situation was questionable. Such long-term measures, which could more properly be regarded as for economic development purposes, should be related to Article XVIII:C. He felt that the measures maintained by India should be phased out.

21. The representative of the IMF said that the question of trade liberalization had largely been answered in her written statement. The Fund believed it necessary for India to maintain the momentum to a more outward-oriented economy. This would imply, as well as further reforms in the industrial sector and other structural reforms, further trade liberalization, including the replacement of quantitative restrictions by tariffs, reduction in the levels of effective protection and simplification of the import systems. Such moves were necessary to improve the efficiency of resource use, inhibit the establishment of inefficient industries and channel more resources into the export sector so as to ease financial constraints on growth. She noted that India had a high rate of investment but at the same time a high incremental capital-output ratio, implying a need to improve the efficiency of resource use. While India had ready access to foreign capital markets, the cautious attitude of the Indian authorities to commercial borrowing, was supported by the Fund; the investment savings gap should therefore be kept relatively small. Further import liberalization would need to be supported by a flexible exchange rate policy and other supporting macro-economic policies to protect the balance of payments. While there was no doubt that the process and speed of liberalization would be affected by the drought, the Fund believed that it would be useful for India to continue its internal and external liberalization and had urged the Indian authorities to continue their efforts in this direction; in this context she agreed that the establishment of a timetable for the removal of restrictions would be useful. She stressed that the ability of India to continue its adjustment process would also require generous concessional assistance and improved access to world markets.

22. The representative of India welcomed the awareness of India's positive achievements contained in the statements made. He noted that one major point was the assessment of the external reserves position which would be made by the Committee. In this respect, he suggested that the trends in import cover of reserves were perhaps the most useful way of looking at the problem. At the end of the financial year 1985/86, foreign exchange reserves excluding the IMF tranche stood at 4.4 months' imports equivalent. By the end of 1986/87, this had fallen to 4.1 months. By June 1987, the figure was 3.9 and by September, 3.7 months' import equivalent. Thus there was a steady decline in the import cover of reserves. In addition, the September figure did not take into account the effects of the drought, which was estimated to cause a net loss of \$1 billion in foreign exchange in the year 1987/88 and would continue to be felt in the following year.

23. Trends in export growth were encouraging. The combination of measures taken by India had led to a significant increase in export profitability. Exports had risen by 6.5 - 7 per cent in volume and by some 15 per cent in dollar terms in 1986/87. Provisional data for the period April-August 1987 suggested an increase in rupee terms of 25 per cent (some 20 per cent in dollar terms) over the previous year. Even given this strong export growth, it would take several years before there was a significant easing in the overall external balance. The speed with which the government had responded to the drought and floods implied a considerable expansion of relief expenditures, but there had also been a reduction in other expenses of some \$500 million while temporary surcharges on income and other taxes were expected to yield \$400 - 500 million. Rapid disbursement of external assistance for drought relief would imply greater counterpart funds. Thus, the government expected to maintain the originally-budgeted decline in the ratio of the central government deficit to GDP.

24. In relation to timetables for trade liberalization or for moving from quantitative restrictions to tariffs, the Indian representative recalled that paragraph 1(c) of the 1979 Declaration stated that a timetable should be publicly announced "whenever practicable". The practicability of such an announcement would be largely determined by India's reserves situation and developments in trade, current and capital accounts. It was not practicable at this time to do so. India would, however, progressively relax its restrictions as the balance-of-payments situation improved; he recalled that the import régime had been relaxed over the past few years without waiting for improvements in the external position. He said that the growth in exports and the number of goods subject to import barriers in foreign markets made it clear that India's export competitiveness was increasing under the steps taken to provide incentives to exports and encourage economies of scale in industry. Referring to an observation made by one member that India's industry was becoming progressively less competitive in the export market, he said that, if this were so, there would be no need for 40 per cent of India's exports to be under restriction in that member's market. Broad principles for conversion from QRs to tariffs were currently being considered by an inter-ministerial committee. The question of tariff bindings was one which would be examined in the context of the Uruguay Round. The elimination of specific licensing of particular products through movement to a greater use of Open General Licence was continuing, while a study group report on the administration and implementation of import policies was being considered by the government. Incentives for exports in the form of duty drawbacks, liberalization of licensing for inputs and of industrial licensing were becoming more effective. The development of export competitiveness was a result of a combination of specific economic and administrative measures taken by the government, as well as general measures relating to price levels and the exchange rate. It would be difficult to identify the separate effects of the various measures. While agreeing that this Committee was not the appropriate forum for discussing the interpretation of Article XVIII:B, he called the Committee's attention to the "proviso" contained in the final sentence of Article XVIII, paragraph 11.

System, methods and effects of the restrictions

25. One member, while welcoming the liberalization of trade policies, noted that the system of discretionary licensing was still a major instrument for restricting imports. "Indigenous angle Clearance", in particular, was clearly protective in nature and as such incompatible with Article XVIII:B. He noted that other measures such as the "actual user" requirement, phased manufacturing programmes, canalization and capacity licensing also acted as significant barriers to imports and wondered whether India would be in a position to announce a phase-out of its complex licensing system in the light of the 1985 Long-Term Fiscal Policy statement. Moreover, it would be useful to consider tariff and licensing policies together in the light of India's high level of tariffs. He asked whether the proposed simplification of the tariff structure was to be linked to a liberalization of the licensing system. He also asked whether the 5 per cent drought surcharge was a temporary measure. He took the view that prohibitions of imports of consumer goods appeared to be inconsistent with the requirement to limit restrictions to the minimum necessary for balance-of-payments purposes, as well as the "minimum commercial quantities" provision of Article XVIII:B. He thought that legitimate social goals could be pursued through less disruptive internal fiscal measures, while avoiding negative effects on economic efficiency. He noted that measures introduced by the Indian authorities to compensate exporters for the effects of the restrictive import régime were equally complex and failed to compensate for the open-ended protection given to domestic manufacturers.

26. Another member stated that the import licensing system appeared to result in misallocation of domestic resources and asked for the Indian representative's opinion on the economic costs involved. He wondered whether India could provide evidence that an import licensing system maintained for 30 years was for temporary balance-of-payments purposes. He also noted that although the 1979 Declaration encouraged the avoidance of more than one type of trade restriction, the combination of import restrictions and high tariffs made India's protective structure one of the highest in the world. In passing, he noted that the unweighted average of Indian tariffs was reckoned to be over 135 per cent and that India's duties on manufactured goods had been calculated by the World Bank to be the highest in a sample of 20 developing countries. He asked for information on the percentage of Indian imports currently subject to discretionary licensing, and for details on prohibited imports. He also asked whether India was prepared to say that the entirety of its licensing system was maintained for balance-of-payments purposes, whether preferential access was given to any imports limited for balance-of-payments reasons, how changes in the licensing régime were notified to traders, and whether the State-trading practices mentioned in India's basic document were justified under Article XVII of GATT.

27. Another member noted that many key raw materials were imported by state agencies and strictly canalized. He felt this could lead to

significant distortions of trade patterns, including through the use of countertrade.

28. In reply, the representative of India said that tariffs were maintained primarily for revenue reasons; income from customs duties accounted for about one-third of central government tax revenue. Tariffs on products imported under OGL also served some protective purposes, but neither tariffs nor surcharges for drought reasons were maintained for balance-of-payments purposes; this Committee was not the place to discuss the Indian tariff structure. A proposal for five broad tariff rate-categories was currently being examined by the inter-ministerial committee referred to earlier (see paragraph 24). In this context, he noted that the weighted average of tariffs would be lower than those cited and would be much nearer 50 per cent. The 5 per cent surcharge was temporary and he would expect it to be reviewed in the context of preparation of the Budget for the coming year. Far from encouraging misallocation of resources, the licensing system sought to encourage upgrading and modernization of industry. There were no cases where industries had been starved of necessary imported raw materials or components if goods were not adequately available from Indian sources. While there were no data on the precise composition of imports by type of import licence, it could be estimated that approximately 40-45 per cent of total imports were covered by the licensing system. No discrimination or preferences were extended to any suppliers. Notifications of changes in the licensing system were published in the Official Gazette and widely reported. Indigenous angle clearance was compatible with the provisions of Article XVIII, paragraph 10 that priority should be given to products which were more essential for economic development. India's import régime was tailored to give priority to capital goods, inputs, and raw materials not or inadequately produced in India and thus could be fully reconciled with GATT obligations. Indigenous angle clearance was not a condition for industrial protection but a means of avoiding unnecessary imports; phased manufacturing programmes were agreements between industry and government to increase the technological component of industrial production in an appropriate and phased manner, aimed at genuine transfer of technology. Only one product - animal fats - was prohibited and that for religious reasons. State trading through national monopolies, and the canalization of imports were not instruments for restricting imports; their rationale was to achieve better terms of trade through bulk purchasing and economies of scale in trading operations as well as more efficient management of the supply of essential commodities. Countertrade by government agencies and state corporations was not discouraged, and offers of offset or countertrade were considered an advantage given the shortage of foreign exchange. India had not notified its state-trading practices as such under Article XVII, but regularly notified its import policies to the GATT Secretariat. No significant liberalization could be envisaged for consumer goods as these had low social priority. In his view, Article XVIII, paragraph 10 did not disallow total prohibitions of low priority items; rather, it implied that, where allowed, these should be in minimum commercial quantities.

29. In response to the Indian statement, one member said that while it was not the rôle of this Committee to question the validity of the Indian tariff régime, the overall level of protection including tariffs was relevant to the level of import restrictions maintained for balance-of-payments reasons and hence to Article XVIII, paragraph 9. He questioned the Indian interpretation of the "priority" provisions of Article XVIII, paragraph 10, and recalled the requirement that countries should minimize the incidental protective effect of balance-of-payments restrictions. The open-ended protection given to industry was a clear obstacle to the opening-up of the Indian economy. The rôle of the Committee was to examine the restrictive effects of measures on trade. While interpretation of the provisions of Article XVIII:B was not a question for this meeting, the differences in the interpretation evident in the discussion showed the need to take up Article XVIII in the appropriate Uruguay Round negotiating group. The Indian representative said that India was adhering to GATT provisions as a whole: where there were differences of interpretation, these should be recognized. Another member agreed that this was not the place for interpretation of Article XVIII but said that he too had some difficulties with some of India's interpretations of its provisions.

30. Another member said that the information provided by India on its import licensing system was inadequate for the purposes of this Committee. The data provided to the Technical Group on Quantitative Restrictions was not up to date and did not constitute an accurate list of the restrictions maintained for balance-of-payments purposes. Article XVIII:B and the Declaration Taken for Balance-of-Payments Purposes clearly required the Committee to make assessments for which this information was necessary. He regarded India's failure to notify such information as a serious breach of paragraph 3 of the 1979 Declaration. He requested India to supply on a regular basis a precise list classified by tariff item of all trade measures taken for balance-of-payments purposes. He noted that other consulting countries provided such information. He recognized that India had taken some liberalization measures without waiting for the external situation to improve. However, while encouraging India to continue to take appropriate macro-economic measures, he hoped that India would give consideration to notifying a detailed schedule for trade liberalization.

31. In reply the Indian representative queried the interpretation of paragraph 3 of the 1979 Declaration. He pointed out that the reference to "all restrictive import measures" in the 1979 Declaration was intended to extend the coverage of restrictive measures for balance-of-payments purposes beyond quantitative restrictions. He recalled that the obligations under Article XVIII:B related to the general level of restrictions and not individual measures, and wondered whether the notifications required were to be at a detailed level or a more general description of measures taken. He noted that the overall changes in India's balance-of-payments measures were notified in its background documents. In response one member said that many countries had notified detailed lists of their restrictions without difficulty. He referred to

the procedures agreed in 1960 (BISD 9S/18). He wondered why India should resist following a common practice.

Factors relevant to paragraph 12 of the 1979 Declaration

32. The representative of India recalled the expectation of trade expansion expressed in the last two paragraphs of his opening statement. He noted that India had a large trade deficit with most of its main trading partners, which limited its possibilities for the expansion of imports from these countries. The Uruguay Round would give scope for early concrete steps to be taken in all four areas mentioned. So far, there had been no such progress. He requested the Committee to recommend to the CONTRACTING PARTIES to take early, concrete and positive action which would give greater scope for the expansion of India's trade.

33. One member, while agreeing that the Committee should look at external factors affecting trade, said that it should not be assumed that the absence of new market opening measures was the only reason why trade could not expand. The four areas mentioned in the Indian statement were all being actively pursued in the Uruguay Round and it was appropriate for the Committee to draw attention to these efforts, as also to the need for efforts in the Uruguay Round to deal with other issues raised in these consultations. Other members, agreeing with this view, noted that while measures which were consistent with GATT provisions (such as anti-dumping, countervailing or Article XIX measures) could be taken into account in the Committee, it would hardly be appropriate for the Committee to recommend to its members that justified measures should be abolished. Another member, noting that paragraph 12 of the 1979 Declaration was dependent on the existence of a balance-of-payments problem, recalled his position on the justification of India's measures, but also noted that in his view many of India's export difficulties related to its internal economic problems.

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34. The representative of the United States recalled his government's requests for the establishment of panels under the Agreement on Import Licensing Procedures and Article XXIII of GATT on India's import restrictions on almonds. He noted that the representative of India had stated in the Council meeting on 7 October that the Balance-of-Payments Committee was the appropriate place for discussion of the issue. His authorities maintained their view that the question of nullification or impairment of GATT benefits should be addressed by a panel constituted by the Council. India's restrictions on almonds were, in the view of the United States, inconsistent with GATT provisions for the following reasons: India had not complied with the notification requirements of Article XVIII:B or the 1979 Declaration; the restrictions had been intensified since they were introduced in 1981; the licensing régime had severe effects on the United States' ability to sell shelled almonds on the

Indian market and had led to a fall of nearly 50 per cent in US sales of almonds to India in a period when world sales rose by 24 per cent; the allocation of quotas according to a percentage of an importer's best year during a reference period restricted orders to such small quantities that it was not commercially viable to ship individual consignments; the combination of a highly restrictive licensing system with tariffs which were exceptionally high even by Indian standards, had caused serious nullification and impairment of United States benefits in the GATT. The United States fully intended to renew its request for the establishment of a panel at the next meeting of the Council.

35. The representative of India noted that, while other delegations might have said that the Balance-of-Payments Committee would be the appropriate place for discussion of this issue, his delegation had not taken this view in the Council meeting. He noted that at that meeting, the United States had said that this Committee's task was to discuss balance-of-payments restrictions at a general level. He took note of the United States' remarks and stated that his delegation remained open to bilateral consultations with the United States.

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#### Summary and Conclusions

36. The Committee noted with appreciation that since the last full consultation, and particularly in the last few years, the direction of India's domestic and external policies had been towards greater liberalization of the economy. The introduction of a three-year framework for trade policies had brought about greater predictability and stability for economic operators. Both imports and exports had increased in dollar terms as a result of these policies. The Committee looked forward to the expected announcement of a new multi-year import and export policy in April 1988.

37. A number of Committee members expressed the view that the reserve position in relation to imports was relatively comfortable. Prospects for the evolution of the current account balance, taking into account such factors as the potential contribution of exports and of other elements such as remittances and tourism, were less clear, particularly in the light of the effects on the current account of the present drought and floods. The partial removal of policy-related disincentives to exports, as well as the exchange rate policies followed by India in recent years, had contributed to the growth of exports. Some members also stressed the need for continuing liberalization and removal of remaining disincentives to trade. India noted that reserves had declined over the last 2½ years, both in terms of SDR's and months of import cover. Further it noted that the rise in international oil prices, the continued decline in net invisible earnings, the progressive hardening in the terms of its external financing, the cumulation of debt service on past obligations and the substantial

adverse consequences of the recent unprecedented drought and floods would continue to exert severe pressure on the balance-of-payments situation.

38. In view of the documentation placed before the Committee and the discussion which had taken place, some members did not accept the justification of India's trade restrictions on balance-of-payments grounds. Some members also suggested that Article XVIII:C might provide a more appropriate justification for the measures. Other members did not question the balance-of-payments justification for trade restrictions in present circumstances. One view expressed in this context was that the restrictions applied were greater than those necessary to restore the situation. India, recalling the reasons why its balance-of-payments position continued to be under severe strain, maintained that import restrictions were fully justified under Article XVIII, section B.

39. The Committee welcomed the reaffirmation by the representatives of India of their authorities' commitment towards internal and external liberalization. While stressing the need to monitor internal and external balances carefully, the Committee took note of India's assessment that fiscal and other domestic policies would maintain control of the internal balance. They drew attention to the combined effects of the existing adjustment policies and changes in exchange rates on India's export performance.

40. In discussion of the import measures applied by India, it was felt that there was a need for fuller and more up-to-date information, and some members requested India to notify complete lists of restrictions and quantification of the measures. Concerns were expressed regarding the complexity of administration of the Indian import system, simultaneous application of different measures, and a lack of proportion between the measures applied and India's balance-of-payments requirements. Members welcomed the market-opening measures already taken by India. There was also a general feeling that there was scope for further opening and greater transparency of India's import system. Further liberalization, as well as the maintenance of an appropriate exchange rate and balanced macro-economic policies, would contribute to the continuing competitiveness of India's trade. A further phased liberalization of imports thus appeared to some members both desirable and feasible.

41. It was noted that improvements in terms of access for Indian exports to world markets would also make an important contribution to improving the situation. Four sets of restrictions were cited by India as particular obstacles to export growth: bilateral agreements under the Multi-fibre Arrangement, anti-dumping and countervailing proceedings, taxes on coffee and tea, and competitive subsidization of foodgrain exports. The Committee noted that the CONTRACTING PARTIES had committed themselves to progress in these as well as other areas in the framework of the Uruguay Round and that negotiations to these ends offered the most promising means of facilitating the expansion of India's export earnings.

42. The Committee noted that a new import-export policy would be announced by India in April 1988, which it expected would be consistent with India's past efforts towards import liberalization and the progressive removal of restrictive measures. India was requested, in announcing the policy, to take full account of the provisions of paragraph 1 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes, in particular sub-paragraph (c).

43. In the light of the in-depth discussions which had taken place and in view of the expected announcement regarding India's import-export policy, it was felt that the next consultation with India should be a full consultation. India took note of this feeling.