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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1991 CONSULTATION WITH INDIA UNDER ARTICLE XVIII:12(a)

Basic Document for the Consultation[1]

Revision

SECTION I

Developments in India's Balance-of-Payments since 1989-90

Macro-Economic Trends in the Indian Economy

1. The Gross National Product at factor cost (constant Prices) recorded an increase of 5.8 per cent in 1990-91 compared with a growth of 6.1 per cent in 1989-90. Agriculture and allied sectors recorded a growth rate of 4.1 per cent in 1990-91 compared with 2.9 per cent in 1989-90. Industry and construction achieved a growth rate of 6.9 per cent in 1990-91 compared with 6.8 per cent in 1989-90, banking and real estate recorded a growth of 6.0 per cent in 1990-91 compared with 10.8 per cent in 1989-90 and transport, storage and communications recorded a growth of 6.4 per cent in 1990-91 compared with 6.7 per cent in 1989-90, while the growth rate in the public administration, defence and other services was 8.7 per cent during 1989-90 and 5.2 per cent in 1990-91.

2. The Indian economy had to face many uncertainties in 1990-91. The effects of the political situation at home, and the persistent fiscal imbalances were accentuated by the Gulf crisis which intensified strains on an already weak balance of payments position. It is estimated that the growth of Gross Domestic Product (GDP) in real terms during 1990-91 was 5.6 per cent compared with 6 per cent in 1989-90. However, due to the combined impact of internal and external factors, consumers faced double digit inflation and the economy faced a serious balance of payments crisis.

3. The crux of the balance of payments problem during the recent years has been the large and persistent trade deficit and the declining capacity of invisibles to finance this deficit. Net invisibles as a

[1]Material provided by the authorities of India.

percentage of GDP declined from an average of 2.2 per cent during the Sixth Plan 1980-85 to 1 per cent during the Seventh Plan 1985-90, while the trade deficit as a percentage of GDP declined only marginally from an average of 3.4 per cent to 3.2 per cent over the same period. Consequently, the current account deficit which needs to be financed through capital receipts, increased from an average of 1.3 per cent of GDP in the Sixth Plan to 2.2 per cent of GDP during the Seventh Plan.

4. Given the large current account deficit and the consequent need to finance it through large scale external borrowing, corrective measures became essential to restore international confidence. This required management of the BOP and the Budget in a manner which ensured the viability of the BOP and strengthened debt servicing ability of the economy. To this end, a new BOP adjustment strategy was put in place. It comprised three main elements, viz., exchange rate adjustment, fiscal correction and the structural reforms in the area of trade and industrial policy. The underlying rationale of each of these measures is described below:

(i) Exchange Rate Adjustment: Downward adjustment in the external value of the Indian Rupee was effected in two steps on July 1 and 3, 1991 designed to improve and make more uniform export incentives. Apart from improving the profitability of exports, in the short run this adjustment is expected to quell destabilising market expectations.

(ii) Fiscal Correction: Reduction in fiscal deficit by about two percentage points from around 8.4 per cent of GDP to 6.5 per cent of GDP within a period which is about two-thirds of the current financial year, to be followed by continued fiscal consolidation. This fiscal correction is being complemented by a restrictive monetary policy. These are aimed at reducing aggregate expenditure and thereby the current account deficit.

(iii) Structural Reforms: These have been initiated in the field of trade and industrial policy with a view to integrating India more closely with the world economy. In the realm of trade policy, the new measures have replaced import licensing for a wide range of intermediate products with the tradeable import entitlement carrying a uniform replenishment rate of 30 per cent of export value. This new instrument known as Exim Scrip is freely tradeable at a premium, providing added incentives for exporters and allocating imports according to the market forces within the available pool of Exim Scrips. In the area of industrial policy, industrial licensing that regulated entry and expansion of firms

has been largely eliminated; the exclusive reservation for the public sector has been sharply curtailed and; significant reduction in barriers to foreign investment effected. These structural reforms are designed to improve efficiency and competitiveness of the Indian economy and facilitate export expansion and other supply responses needed to support long term growth and poster balance-of-payments equilibrium.

(iv) Mobilisation of Substantial Exceptional Financing: The Government has negotiated a stand-by arrangement with the IMF for US$2.2 billion (over a 20 month period). This has been necessitated by the need to provide adequate foreign exchange cover for import and maintain confidence of the foreign investors during the adjustment phase. The World Bank has approved a structural adjustment loan of US$500 million in order to help the country during the process of reforms in industrial and trade policy. Further the Asian Development Bank sanctioned a restructuring programme loan of US$250 million for assisting the restructuring of the Oil and Natural Gas Commission and associated policy reforms in the oil sector. Japan assisted India with two fast disbursing loans of US$150 million each for import of diesel and for operations of the Small Industries Development Bank of India (SIDBI).

Balance of Payments

5. The external sector came under pressure of crisis proportion during the fiscal year 1990-91 and the first quarter of 1991-92. This was reflected in a massive depletion of foreign exchange reserves and an extremely critical payments situation. While the symptoms of the emerging crisis were visible earlier, global developments aggravated the problems from 1990-91.

6. With a view to ensuring that the external payment obligations were met and that the foreign exchange reserves remained at a reasonable level, certain exceptional steps were taken during the period including transactions relating to gold.

7. There were major international developments during 1990-91 which resulted in a payments bind for the country. First, the global slowdown in world trade following the recessionary conditions in industrialised countries and the economic disruption in Eastern Europe including the USSR had already begun to affect India's exports during the initial months of 1990-91, and had, in the face of rising imports, contributed to a widening of the merchandise deficit. Secondly, the Gulf crisis, which began in August 1990, resulted in a wide-ranging

disruption in the external payments situation: sharp increases in the petroleum oil and lubricant (POL) import bill due to a steep rise in prices and volume growth in the wake of relative stagnation in domestic output of crude petroleum, partial loss of the export markets in West Asia and foreign exchange expenditure on repatriation of Indians from the affected countries in the Middle East. Thirdly, due to some social and political instability in certain parts of the country, there was a precipitous fall in invisible receipts in the form of private remittances, travel and tourism earnings etc. Fourthly, as a result of the temporary loss of confidence arising from the above mentioned factors, net accruals under non-resident deposits, which financed nearly one-fourth of the current account deficit in recent years, suffered an unprecedented setback during 1990-91 and more significantly in the first quarter of 1991-92. Fifthly, the erosion in the country's credit rating, combined with the general shortage of liquidity in the international financial markets, tended to dry up commercial borrowings, both as long-term and short-term sources of finance. Despite the larger aid utilisation and also borrowings from the IMF during 1990-91, the stresses and strains on the external payments situation became acute towards the end of the year in the absence of a medium-term stabilisation programme.

8. There was also a conscious attempt on the part of international banks to reduce exposure in order to meet capital adequacy norms. The access to short-term credit, particularly Bankers' Acceptance Facility, became restricted. International rating agencies lowered the credit ratings of India and Indian entities which made it difficult to raise funds in the commercial markets. In these circumstances, the country had to approach multilateral agencies and donor countries for balance of payments support. In addition to the drawdown of India's Reserve Tranche position of SDR 487 million in the International Monetary Fund in July-September 1990 the country also purchased SDR 1.27 billion under the IMF's financing facilities in January 1991. A number of measures were also taken by the Government and the Reserve Bank of India to control imports and expedite the repatriation of export proceeds, which are referred to in paragraphs below.

9. As a result of the factors cited above, the current account deficit during 1990-91 is estimated to be much higher as compared with that in 1989-90. For 1989-90, it was placed at Rs.10,391 crores (US$6,241 million or SDR 4,863 million). POL imports increased to Rs.10,706 crore (US$ 5,948 million) in 1990-91 from the level of Rs.6,273 crores (US$3,768 million) in 1989-90, reflecting higher prices and also volume growth. The imports of crude and petroleum products amounted to 20.8 million tonnes and 8.2 million tonnes, respectively, in 1989-90. The average prices for crude and petroleum products were US$ 21.13 per

barrel and US$ 279.2 per metric ton, respectively, in 1990-91 as against US$17.37 per barrel and US$176.8 per metric ton, respectively, in 1989-90. The current account deficit during 1990-91 is thus expected to be around Rs.13,100 crores (US$7,301 million or SDR 5,271 million). As a percentage of GDP (at current market prices), the current account deficit is estimated to have gone up to 2.5 per cent in 1990-91 from 2.3 per cent in 1989-90.

10. As a result of BOP adjustment strategy put in place, there has been some improvement in the BOP situation as reflected in the gradual build up in the reserves position. Foreign currency assets which had declined to Rs2383 crores (US$1132.55 million) in June 1991 increased to Rs.9287 crores (US$3597 million) in December, 1991.

11. To mobilise foreign exchange resources, effective October 1. 1991 the State Bank of India launched India Development Bonds (IDBs) with full repatriation benefits (for both interest earned and principal) to Non-Resident Indians/Overseas Corporate Bodies. A sum of US$320 million and Pound Sterling 39 million has been mobilised under this scheme up to January 2, 1992. Besides, a scheme known as "the Remittances in Foreign Exchange (Immunities) Scheme 1991" was introduced to encourage repatriation of capital remittances. In respect of such remittances, their source, purpose and nature would not be subject to scrutiny under the exchange control regulations and Direct Tax Laws. A sum of US$ 533 million has been mobilised up to January 2, 1991.

12. Final balance of payments data for 1989-90 and 1990-91 are not yet available. However, in order to provide some indicators in respect of the main heads of accounts, provisional estimates have been published by the Reserve Bank since 1988-89 to give an idea of the broad order of magnitudes. Such provisional estimates for 1989-90 have been presented in Table 1. 'Quick Estimates' have been prepared for balance of payments statistics for 1990-91 based on data available with the Reserve Bank and other sources of information. The results of the Quick Estimates are also presented in Table 1. They show that the trade deficit during 1990-91 stood at Rs.15,142 crore (US$ 8,439 million), higher by Rs.2,203 crore (US$667 million) over the previous year. estimates of other net invisible receipts during 1990-91 showed a decline to Rs.1,200 crores (US$ 669 million) from Rs.1,700 crore (US$ 1,021 million) a year earlier. As a result, the current account deficit showed a sharp increase of Rs.2,697 crore (US$1,053 million). In the capital account, larger net drawals under external assistance and receipts under 'Other Capital', over the year, were offset by a steep decline under net commercial borrowings and non-resident deposits. There was, however, a net withdrawal of Rs.2,178 crore (US$ 1,214 million) from the IMF

as against a net repayment of Rs.1,460 crores (US$ 877 million) during 1989-90. The drawdown on reserves was almost double that during the preceding year.

Foreign Exchange Reserves and IMF Transactions

13. The fiscal year 1990-91 and the first quarter (April-June) of 1991-92 witnessed a steep fall in the country's foreign exchange reserves attributable to a combination of adverse short-term factors such as a surge in the POL import bills, continuing erosion in net invisible earnings, reduced access to international financial markets and lower inflows into non-resident deposit accounts. At the beginning of April 1990, India's foreign exchange reserves, at Rs.6,251 crore (SDR 3,045 million) stood equivalent to a little under the value of two months' imports, having declined by Rs.789 crore (SDR 670 million) during the fiscal year 1989-90 (See Table 2). During the year, there were some special transaction. The amount of SDR 487 million (equivalent to Rs.1,170 crore) in the reserve tranche in IMF was drawn in instalments on July 20, August 14 and September 4, 1990. By the end of September 1990, the reserves declined to Rs.5,656 crore (SDR 2,523 million). With effect from October 17, 1990, gold holdings are being valued nearer the international market price in contrast to the erstwhile statutory price of Rs.84.39 per 10 fine grammes. During the quarter October-December 1990, exclusive of the revaluation of gold, reserves recorded a precipitous fall of Rs.2,658 crore (SDR 1,080 million). The import cover of reserves shrank to three weeks of imports by the end of December 1990. As a part of concerted efforts towards liquidity management, India negotiated with the International Monetary Fund (IMF) for a drawal of SDR 716.90 million under its Compensatory and Contingency Financing Facility (CCFF) and SDR 551.93 million under the first Credit Tranche of its stand-by arrangement. The drawals were made on January 23, 1991. Excluding the revaluation of gold, reserves rose by Rs.1,871 crore (SDR 668 million) during the last quarter of the financial year and amounted to Rs.4,869 crore (SDR 2,111 million) at the end of March, 1991, giving a decline in reserves during the year of Rs.1,382 crore (SDR 934 million). Inclusive of the revaluation of gold referred to earlier, foreign exchange reserves amounted to Rs.11,416 crore at the end of March 1991 and Rs.9,926 crore at the end of June 1991; in SDR terms, the reserves stood at SDR 4,329 million and SDR 3,564 million, respectively. Exclusive of the net use of IMF credit and drawal of Reserve Tranche, and also adjusted for gold revaluation, the actual loss of reserves during 1990-91 was of the order of SDR 2,221 million as against an accretion to reserves, albeit nominal, of SDR 11 million during 1989-90. What is more, between end-March 1991 and end-June 1991, there occurred, net of gold revaluation effect, a further erosion of Rs.2,073 crore (SDR 833 million) in foreign exchange reserves;

net of transactions with the IMF, the reserve loss during the quarter worked out to Rs.1,857 crore or SDR 754 million. A second drawal from the IMF of SDR 166.18 million (Rs.570.41 crore) was made in July 1991 under the Compensatory and Contingency Financing Facility (CCFF). India made the final drawal of SDR 468.90 million under the CCFF in September, 1991.

14. Repayments to the IMF amounted to SDR 525 million (Rs.1,291 crore) during 1990-91 comprising SDR 469 million (Rs.1,156 crore) under the Extended Fund Facility (EFF) and SDR 56 million (Rs.135 crore) under the Trust Fund loan. Repayments under EFF have been tapering off, after having peaked in 1988-89 and as at the end of March 1991, the outstanding liability out of SDR 3,900 million purchased under the Facility stood at SDR 679 million (Rs.1,789 crore). With the repayment of SDR 56 million (Rs.148 crore) during 1990-91, the Trust Fund loan was completely retired.

15. A number of measures were also taken by the Government and the Reserve Bank of India to control imports and expedite the repatriation of export proceeds. A system of cash margins for import and for the centralised clearance for import of goods other than capital goods was introduced by the RBI from 19 March, 1991. Under the centralised scheme, import of capital goods was permitted only against lines of credit available in foreign exchange with the term lending institutions. For imports other than capital goods where the value exceeded Rs.5 million authorised dealers were required to seek prior permission from RBI's Exchange Control Department. In addition to the cut-off limit of Rs.5 million, a cumulative limit of Rs.20 million per importer was also introduced from 23rd April, 1991. As a further measure of compression, the cut-off limit of Rs.5 million was reduced to Rs.2.5 million with effect from 6 May, 1991. At the same time, the measure to subject imports other than capital goods to prescribed minimum cash margins which was introduced by the RBI on 25 October, 1990 was made more stringent with effect from 19 March, 1991. Cash margin/deposit requirement for opening Letters of Credit for imports other than capital goods was raised from 50 per cent to 133.33 per cent on 19 March, 1991 and then 200 per cent on 22nd April, 1991. For imports under Special Licences, cash margins were prescribed at 110 per cent. Cash margins for imports under other categories were also raised. From 9 May, 1991, in order to discourage the use of bank credit to finance imports a surcharge of 25 per cent was imposed on such credit.

16. These measures helped to reduce the outgo of foreign exchange against imports. As a result, it was possible to liberalise these curbs in a phased manner. With effect from 31 July, 1991, the cumulative limit of Rs.20 million was withdrawn. From 9 August, 1991, imports of

goods other than capital goods by 100 per cent Export Oriented Units, Units in Export Processing Zones and Free Trade Zones were excluded from the centralised clearance system along with imports against Advance Licences and Advance Intermediate Licences. In October, 1991, imports of goods other than capital goods against Postpayment REP Licences, Additional Licences, Special Additional Licences and Exim Scrips were also removed from the centralised clearance system. In November, 1991 the centralised clearance system was discontinued in respect of imports of goods other than capital goods were the prescribed cash margins had been waived. In addition, the requirement of centralised clearances by RBI for imports against Exim Scrips was also waived. The cut-off limit relating to import of goods other than capital goods was raised from Rs.2.5 to Rs.5 million. Finally, on 9 December, 1991, the centralised clearance system was discontinued altogether. Similarly, the cash margin requirements under OGL and Specific Licences were progressively relaxed to 150 per cent with effect from 8 October, 1991 to 50 per cent from 9 December, 1991 and to 25 per cent with effect from 1 January, 1992. The cash margin requirement for imports other than capital goods has been withdrawn altogether with effect from 13 February, 1992. The surcharge of 25 per cent on the rate of interest charges on import finance by Banks has also been withdrawn.

17. The Government leased 20 tonnes out of confiscated gold to State Bank of India (SBI) which in turn entered into a sale with a repurchase option in the international market. The net foreign exchange augmentation as a result of this transaction was of the order of US$200 million equivalent to about Rs.400 crore. The lease of gold did not affect either the domestic pool of gold or the gold held by the Reserve Bank as a part of its foreign exchange assets. Secondly, the Reserve Bank, both as part of its reserve management policy and as a means of raising resources temporarily, took a decision to keep its gold abroad up to the limit permitted by the Reserve Bank of India Act, 1934. Thus the Reserve Bank in four instalments, sent gold to the vaults of the Bank of England to the extent of total quantity of 46.9 tonnes which is close to the permissible limit. The Reserve Bank of India Act 1934 authorises the Bank to keep 15 per cent of its gold holdings outside India. The Act also authorises the Reserve Bank to borrow from any monetary authority for a period of one month and provide the necessary security for that purpose. A total amount of Rs.1,037.73 crore (equivalent to US$405 million) was raised from Bank of England and Bank of Japan in July 1991 against the gold deposited with the former.

Exchange Rate of the Rupee

18. The value of the Rupee continues to be determined in relation to a weighted basket of currencies of India's major trading partners,

with the Pound Sterling as the intervention currency. It was observed that since October 1990, there had actually been an appreciation of about 2 per cent in the effective real exchange rate as a result both of a slower rate of depreciation of the nominal exchange rate and the widening inflation differentials as the country's domestic inflation accelerated after October 1990. In the five-month period between February 1991 and June 1991, the nominal effective exchange rate of the Rupee fell only by 2.5 per cent. There was thus a need for an adjustment in the exchange rate as our international competitiveness was being eroded. It was in this context that on July 1 and July 3, 1991, the value of the Rupee in relation to major currencies was adjusted downwards. Cumulatively, the adjustment worked out to 17.38 per cent against the intervention currency, namely, the Pound Sterling.

19. During 1990-91, particularly towards the end, and also in 1991-92, a number of monetary policy measures were taken against the background of a difficult balance of payments situation and a high inflation rate. The measures aimed at directly curbing imports as well as reducing aggregate demand in the economy, thereby working towards a rectification of the external payments imbalance.

20. With effect from July 3, 1991, the Bank rate was raised by one percentage point, i.e., from 10 per cent to 11 per cent. All other rates on credit from the Reserve Bank which are specifically linked to the Bank Rate were correspondingly raised by one percentage point, unless otherwise specified. With a view to relaxing the degree of intervention and impart greater flexibility to the structure of interest rates, the RBI stipulated a floor rate of interest for providing freedom to commercial banks to charge interest rates above the floor level based on their perceptions of risk. In the context of the need to reduce aggregate demand in the economy and also taking into account the increase in deposit rates, the lending rate on limits of over Rs.2 lakhs was raised by 1.5 percentage points from 17 per cent to 18.5 per cent with effect from July 4, 1991. From the same date, export refinance, stand-by refinance, discretionary refinance and export refinance rates were also revised upwards, the increase ranging from 0.5 percentage points on export refinance to 3 percentage points on discretionary refinance.

21. In the busy season credit policy announced on October 8, 1991 the Reserve Bank of India raised the bank rate from 11 per cent to 12 per cent, and consequently the minimum lending rates, of commercial banks across the board by 1.5 percentage points; discontinued RBI refinance except for export credit and imposed a freeze on loans for consumer durables, shares and real estate at levels obtaining on October 9, 1991. These measures are aimed at containing the heavy inflationary pressures in

the economy. The interest rates on pre-shipment and post-shipment export credit as well as on deferred credit were also raised by 2.5 percentage points while the limit of export refinance has been raised.

22. The 1980s were marked by higher fiscal deficits resulting from increased borrowing by the Government to finance its rising expenditure levels. Gross fiscal deficit on the average rose from 6.3 per cent of GDP during the Sixth Plan period (1980-85) to 8.2 per cent in the Seventh Plan period (1985-90). At macro-economic level, fiscal deficits inevitably spill into balance of payments problems and create inflationary pressures in the country. In an effort to correct the existing fiscal imbalance, the Central Government budget for 1991-92 has proposed to reduce fiscal deficit from 8.4 per cent of GDP in 1990-91 to 6.5 per cent in 1991-92.

SECTION II

India's foreign trade régime

(a) Legal and Administrative basis of the import restrictions

23. The Imports and Exports (Control) Act, 1947, empowers the Central Government to prohibit, restrict, or otherwise control imports. In exercise of the powers conferred by this Act, the Imports (Control) Order, 1955 has been issued. The Schedule to the said Order contains the list of articles import of which is controlled. The import of such items is prohibited except:

i) under and in accordance with a licence or a Customs Clearance Permit issued under the said Order, or

ii) if it is covered by Open General Licence (subject to such conditions as may be stipulated), or

iii) if it is covered by the Savings Clause 11 of the Imports (Control Order).

Import of gold, silver, currency and currency notes, bank notes and coins is controlled by the Reserve Bank of India, under the Foreign Exchange Regulations Act. Imports from the Republic of South Africa, Fiji and Iraq are currently prohibited.

24. The Imports (Control) Order, inter alia, specifies the conditions governing grant, amendment, transfer, suspension or cancellation of import licences.

25. Import control is administered by the Import-Export Control Organisation of the Ministry of Commerce headed by the Chief Controller of Imports and Exports. Besides the main office at New Delhi, the organisation has regional offices in different parts of the country.

26. Imports and exports are regulated through the Import and Export Policy announced by the Chief Controller of Imports and Exports by a Notification published in the Gazette of India. Up to 1984-85, the Import and Export Policy was being announced in April every year.

27. Since 1985, the Government has announced an Import and Export Policy for a three-year period with the objective of providing a stable regime of economic policies, which would minimise year to year uncertainties and help industry to plan their economic activities in a

longer-term prospective. In April, 1990 the Import Export Policy for 1990-93 was announced. Amendment to the Policy, where necessary, is notified by means of Public Notices by the Chief Controller of Imports and Exports from time to time.

(b) Methods used in restricting Imports

28. Prior to the recently introduced changes in the trade policy the broad features of the import policy were as follows:

(i) Capital Goods:

29. The régime for the import of capital goods provided for 3 categories: First, where domestic production was nil or marginal or where regulation through tariff was preferred, specified Capital Goods could be imported under OGL by actual users. Second, where there was adequate domestic production and imports were an exception rather than the rule, the specified capital goods were placed on Restricted List. Third, where capital goods were not specified in either of the two aforesaid categories, imports were subject to the capital goods licensing procedures. These licences were granted after establishing the need for import and the non-availability through indigenous sources.

(ii) Raw materials, consumables, spares, etc. :

30. Imports of raw materials, components, consumables, and spare parts for industry were classified into four categories:

1. Banned items;
2. Restricted items;
3. "Limited" permissible items;
4. Canalised items.

31. Import of only one item, i.e. fats/oils etc. of animal origin was banned. In respect of items appearing in the restricted list and in the list of limited permissible items, the degree of restriction implicit was inter-alia a function of the proportion of estimated domestic demand that could be met through domestic production. Where domestic production was adequate to fully meet the requirement of the domestic industry, specified intermediates were placed in the restricted categories and imports were an exception rather than the rule. Where domestic production was significant, but available quantity, quality and delivery schedule was not optimum, the specified intermediates were placed in the Limited Permissible category and import licences known as Supplementary Licences were issued on merits. Those intermediate goods which were not specified in the aforesaid two categories

or were not canalised for import through a State Trading Agency, were on Open General Licence for actual users.

32. For facilitating access to inputs at international prices exporters were granted replenishment licences for raw materials and components at slab rates ranging from 5 to 40 per cent as indicated in the import policy. In the case of diamonds the import replenishment rate was 55 to 90 per cent.

33. The system of advance licences is designed to provide exporters with duty free access to inputs they need to produce competitively for world markets. Imports are allowed duty-free in bond or against a legal undertaking to the extent stipulated in the input-output norms.

(iii) Consumer Goods:

34. As a rule, the Import Policy did not permit the import of consumer goods, except for a limited range of essential commodities such as medicines, books, etc. Import of a few consumer items such as dry fruits was permitted on a restricted basis.

(iv) Goods allowed to be imported freely on stock and sale basis:

35. The import policy envisaged imports of 75 items comprising of specified raw materials and a few consumer items for stock and sale i.e., without any actual user condition.

(v) Goods allowed to be imported by export houses, trading houses, and star trading houses.

36. Trading concerns with achievement of 40 million, 200 million and 750 million by way of net foreign exchange (NFE) were designated as export houses, trading houses and star trading houses respectively. These trading concerns were entitled to import at varying rates (10, 13 and 15 per cent respectively) based on their NFE in the previous year. These imports were limited to OGL items and Limited Permissible items (upto 10 per cent only).

(c) Recent changes in the Trade Policy

Import Compression Measures

37. Following the announcement of the Import Policy for 1990-92, a number of import compression measures were taken in response to the persistent Balance-of-Payments problem. In July, 1990, the special facility available to Public Sector Undertakings for import of

raw materials, components, consumables, spares and capital goods under Open General Licence, on the basis of foreign exchange release and indigenous clearance, was withdrawn. A cut of 15 per cent of the value of actual import entitlement of raw materials, components and consumables by Actual Users engaged in the manufacture of automobiles, electronic items and consumer durables. In addition, 34 items of Capital Goods were taken off from the Open General Licence list and brought under licensing. In November, 1990, the facility for import of raw materials, components, consumables and spares including jigs, fixtures, dies and patterns under Open General Licence, not specified in the Import Policy was initially suspended for a period of three months. This measure was later extended up to 30 June, 1991 and thereafter up to March 1992. The provision for grant of licences for import of dry fruits and almonds for stock and sale under Paragraph 166 of the Import Policy was deleted on 28.3.1991. However, with effect from 20.9.1991, it was decided to issue Special Licences subject to a maximum of the Rupee equivalent of US$1.300 each during 1991-92 to all those who obtained licences or import of almonds in 1991 in terms of Paragraph 166 of the Import Policy. In October, 1991, the provision for import of dry fruits other than almonds and raw cashew nuts was made permissible against Exim Scrips. Restrictions were also imposed on imports of canalised items requiring clearance by the Finance Ministry on a case-by-case basis. To expedite repatriation of export proceedings, the Government decided to issue Import Replenishment Licences only after realisation of such proceeds.

38. Along with the Trade Policy Reforms announced on 4 July, 1991, certain categories of Capital Goods as well as 76 items of raw materials and components were shifted from OGL to the licensable category and made eligible for imports against Exim Scrips. Thirty four items of raw materials were added to this category from OGL in December, 1991 and in February 1992. Nine items were shifted to the Limited Permissible List. Measures for relaxation and for bringing greater transparency in import policy

39. Several measures have been taken in recent months for liberalizing, simplifying and imparting greater transparency to the import policy.

40. Far reaching changes have been made in the Trade Policy from 4th July 1991 onwards. The main objective of these changes is to significantly reduce discretionary import licensing. Another temporary objective, in view of the Balance-of-Payments situation, is to bring about import compression. As far as exports are concerned the administratively complex system of Cash Compensatory Support to provide for reimbursement of unrebated taxes used in the production of exported goods and to neutralise other handicaps has been abolished. Instead, higher rates

of replenishment have been provided. One of the main features of the new trade policy is that exporters have been granted a new instrument named Exim scrips as a means of obtaining access to international markets for raw materials, components and spares. The basic rate at which Exim scrips is issued against exports is 30 per cent of FOB value. For certain value added agricultural products, electronics, bulk drugs and formulation, marine products and advanced engineering goods, the rate of Exim scrips is 40 per cent. Exim scrips issued to exporters are freely tradeable and can be used to import the following categories of goods:

(a) Raw materials, consumables, spares etc. falling in the limited permissible category.

(b) A number of canalised items listed in the Appendix V Part A of the Import Policy.

(c) A number of Restricted List items of raw materials, components, consumables, tools and spares.

(d) Licensable capital goods without the formality of indigenous clearance.

(e) Dry fruits other than almonds and raw cashew nuts.

(f) Fascimile machines.

(i) The procedure for import of capital goods has been simplified. New units and units undergoing substantial expansion will be granted licences for import of capital goods other than those on the restricted list without any clearance from indigenous availability angle provided the import of capital goods is fully covered by foreign equity or the import requirement is up to 25 per cent of the value of the plant and machinery subject to a maximum of Rs.20 million.

(ii) By way of further relaxation in January, 1992 the requirement of licence for import of capital goods under the above scheme of direct foreign investment up to 51 per cent foreign equity in high priority industry has been done away with. Import of OGL capital goods, non-OGL capital goods and Restricted capital goods will be allowed without a specific licence on the basis of the clearance given by the Reserve Bank of India in cases where foreign exchange for import of the capital goods is fully covered by the Foreign equity.

(iii) The requirement of indigenous angle clearance for import of capital goods has been waived in the case of externally financed projects in which international competitive bidding procedure is followed.

(iv) The Actual User requirement in respect of OGL capital goods, raw materials and components has been removed. The condition of having registration/industrial approval from the concerned authority for import of OGL Capital goods, raw materials, components, consumables and spares has also been dispensed with.

(v) For transparency the Import Policy has been drawn up tariff line wise, following the Harmonised System. A copy of the tariff line wise import policy has been made available to the GATT Secretariat.

(vi) The Government reviewed the list of items canalised for imports or exports. 16 items of export have already been decanalised. In the case of imports, 22 items have been decanalised. Six have been placed on OGL while 16 items have been placed under the limited permissible category so that they are available for import against Exim Scrips.

(vii) Export houses, trading houses, and Star trading houses will be entitled to import against Additional Exim scrip all the items which are importable against Exim scrips.

(viii) Imports of spares by or through Indian agents of foreign machinery, instruments and office machinery can now be made only through the Exim Scrips route. Similarly, import of spares for imported vehicles and imported tractors permitted under the Import Policy have also been made subject to surrender of Exim Scrips at the time of customs clearance. Special Licences for import of Restricted List items are being granted only against surrender of Exim Scrips of equivalent value.

(ix) There were 176 categories of items in the Restricted List. As a result of a review in August and October, 1991, 98 restricted items were removed from this List and brought under the Limited Permissible Category. In February 1992, a further 26 items were shifted to the Limited Permissible List.

General policy in the use of restrictions for BOP reasons

41. The policy changes now being implemented imply a substantial reduction in the extent of licensing and in the number and types of licences. Supplementary licences for imports of items in the limited permissible list as well as some other lists have been abolished except

for units which are in small scale and units manufacturing essential Drugs/Equipment. With this change the policy for import of raw materials, components and other inputs needed for production has been simplified. Most raw materials and other inputs can be freely imported either against Exim scrips or OGL. Some raw materials continue to be canalised but in most of these cases requirements beyond those provided by the canalising agency can be made through Exim scrips. It is the policy of the Government to move to a situation where imports of essential raw materials and components needed for industrial production are regulated through appropriate tariffs. However in view of the Balance-of-Payments position which necessitates containment of import this cannot be done immediately. Many items must, therefore, remain on the limited permissible list with imports permitted only against Exim scrips. The Government's policy is also to progressively reduce the extent of canalisation. The medium term objective of the Government is to progressively eliminate licensing and quantitative restrictions on capital goods and raw materials/components so that all these items can be placed on OGL save for a small quantity in the negative list.

(d) Treatment of imports from different sources including information on the use of bilateral agreements:

42. Licences for imports including Open General Licence are valid for import from any country having trade relations with India. The restrictions are applied on a non-discriminatory basis. The Government of India has signed trade agreements with a number of foreign countries. These agreements do not involve specific commitments on import of any goods, nor do they limit the imports either in terms of items or value. The Government of India does not direct the importers to buy from any particular source.

42. With certain countries, India has concluded special payments and trade arrangements which provide for payments for all commercial and non-commercial transactions in non-convertible Indian rupees through a central clearing account. These arrangements help in conserving freely convertible foreign exchange. The underlying principle in such bilateral agreements is the balanced growth of trade with mutuality of benefits. These bilateral arrangements have not been at the expense of other countries with whom India conducts her trade on a multilateral basis.

(e) State Trading

43. Import of certain essential items like cereals, edible oils, fertilizers, petroleum products, drugs and certain raw materials are canalised through public sector agencies such as State Trading

Corporation, Minerals and Metals Trading Corporation etc. The concerned agencies import these commodities under OGL on the basis of the foreign exchange made available in their favour for this purpose. The policy for canalisation of certain items through the designated public sector agencies has been evolved with a view to effecting economical imports for the actual users, particularly small users, by securing the most favourable terms of payments and trade. Purchases by the public sector agencies are guided by the normal commercial considerations and are entirely non-discriminatory in nature.

44. As explained above government's policy is to progressively move away from canalisation.

Table I
India's overall balance of payments

(Rs crores)

	Items	1988-89	1989-90e	1990-91*
A.	Current Account			
1.	Exports	20647	28235	33178
2.	Imports	34202	41174	48320
3.	Trade Balance	- 13556	- 12939	- 15142
4.	Non-Monetary Gold** mvt.		6	
5.	Official transfers	724	842	854
6.	Other invisibles (net)	2421	1700	1200
7.	Current account (net)	- 10410	- 10391	- 13088
B.	Capital Account			
1.	External Assistance (net)	3210	3054	3241
	Disbursements	4860	4970	5528
	Repayments	-1650	-1916	-2287
2.	Commercial borrowings (net)#	2743	2866	1244
	Disbursements	4265	4238	3507
	Repayments	-1522	-1372	-2263
3.	Non-resident Deposits(net)	2465	2175	209
4.	Other Capital(net)	1887	2247	3923
5.	Total Capital Account	10305	10341	8617
C.	I.M.F(net)	-1547	-1460	2178
D.	S.D.R. allocation			
E.	Capital A/c, I.M.F., & S.D.R. allocation	8757	8882	10795
F.	Total Current a/c,Capital a/c, I.M.F. & S.D.R. Alln.	-1653	-1509	-2293
G.	Errors & Omissions	203	278	
H.	Reserves & monetary gold (increase -, decrease +)	1449	1232	2293
	Memo Items			
	As per cent of GDP			
	Trade balance	-3.5	-2.9	-2.9
	Current account balance	-2.6	-2.3	-2.5
	Year end reserve level (incl. Gold & SDR)	7040	6251	114160

e:estimates; *quick estimates
excluding refinancing credits
**Valuation of gold at near international prices since October, 1990.

Source: Reserve Bank of India.

Table 2
India's Foreign Exchange Reserves

(Rs. crores)

At the end of	SDRs Million of SDRs	SDRs Rupees Crore	Gold	Foreign Currency Assets	Total
1985-86	115	161	274	7384	7819
1986-87	139	232	274	7645	8151
1987-88	70	125	274	7287	7686
1988-89	80	161	274	6605	7040
1989-90	82	184	281	5787	6252
1990-91					
June	89	207	281	5356	5844
Sept.	343	864	281	4512	5657
Dec.	222	565	6585	2152	9302
March	76	200	6828	4388	11416
1991-92					
April	134	365	6961	2527	9853
May	48	134	7160	2677	9971
June	48	133	7411	2383	9927
July	88	304	9106	3313	12723
August	37	128	8883	2965	11976
Sept.	134	476	8658	4442	13576
Oct.	105	373	8910	6032	15315
Nov.	32	116	8945	7016	16077
Dec.	32	120	9490	9287	18897

Note:- Gold valued at Rs.84.39 per 10 grams upto 16 October, 1990. With effect from 17 October 1990 it has been valued at a price close to international market price.