CONSULTATION UNDER ARTICLE XVIII:12(b) WITH INDIA

Statement Submitted by India under the Simplified Procedures for Consultations

I. BALANCE OF PAYMENTS

A. Background situation in 1974-75

1. In the wake of the hike in petroleum prices in 1973 and the subsequent spurt in prices of critical commodities (e.g. cereals, fertilizers, non-ferrous metals and other industrial raw materials which are required to be imported in considerable quantities) the balance-of-payments situation deteriorated gravely. The necessity for additional imports of foodgrains in the wake of the drought and the need for building buffer stocks further worsened the situation. Needless to say, the extra pressure on India's balance of payments in 1974-75 essentially arose from a sharp rise in the value of her critically required imports. Exports, too, recorded an improvement but it was not sufficient to offset the much larger increase in import payments, and the trade deficit widened to a figure of Rs 11,230 million in 1974-75 from that of Rs 4,377 million in 1973-74. As a result India's external transactions showed a substantial and precipitous adverse turn in 1974-75. India's foreign exchange reserve (excluding gold and SDR) at the end of 1974-75 at Rs 6,105 million, though Rs 297 million higher than at the end of 1973-74, was equivalent to about one and a half month's imports only, at the rate of imports in 1974-75. India had to resort to larger borrowing from the IMF - to the tune of Rs 4,847 million in 1974-75.

B. Situation in 1975-76 and 1976-77

2. In order to tide over the difficulties a series of internal measures, including severe fiscal and administrative ones, were taken to limit the consumption of oil products and also to keep down the imports of other essential commodities to a bare minimum. Simultaneously, vigorous efforts were launched to increase overall export earnings. Other fiscal and administrative measures designed to attract funds from non-residents abroad and plug loopholes in leakages of foreign exchange were also adopted. As a result of these measures, and a drawing of Rs 207.1 million on the

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IMF Oil Facility Scheme in September 1975 there was some easing of the pressure on the balance of payments towards the second half of 1975-76 and during that year as a whole foreign exchange reserves (excluding gold and SDRs) registered an increase of Rs 8,812 million. The trends of India's foreign exchange reserves are detailed in Annex I.

3. The favourable trends in India's balance of payments witnessed since the latter part of the year 1975-76 continued during 1976-77 also. The situation in 1976-77 remained favourable largely as a result of (i) a growth in exports; (ii) increased flow of remittances from abroad, and (iii) sharp reductions in foodgrain imports in that period. From a level of Rs 40,428 million in 1975-76 exports rose to Rs 50,894 million in 1976-77. Imports into India during the corresponding period were Rs 52,652 million and Rs 50,218 million. The detailed statement on the balance of trade is in Annex II.

4. Gross aid disbursements in 1976-77, however, declined to Rs 17,470 million from Rs 18,390 million in 1975-76. Debt amortization and servicing payments, on the other hand increased during the year, by Rs 750 million, to Rs 7,610 million. There was, thus, a substantial fall in the net inflow of external assistance from Rs 11,530 million in 1975-76 to Rs 9,860 million in 1976-77.

5. Overall, at the end of March 1977, India's foreign exchange reserves (excluding gold and SDRs) stood at Rs 28,630 million, and were higher by Rs 13,713 million when compared to the level of reserves at the end of 1975-76. The level of reserves at the end of March 1977 was even less than 4 per cent of the gross national product and was equivalent to about six and a half months' imports at the rate of imports in 1976-77.

C. Future prospects

6. It needs to be emphasized that the present foreign exchange reserves position, which is better when compared with the earlier years, was achieved at a considerable sacrifice in terms of the domestic availability of many essential commodities, e.g. sugar, rice, fats, oils, etc. The accretion of reserves was also the result of unduly low rates of growth in national income and stagnant investment trends in the Indian economy. It should be noted that the import payments on account of critical intermediates, e.g. crude oil, fertilizers, etc. will continue to loom large in the country's overall import bill. While the short-term outlook for India's balance of payments may appear favourable, it is more than likely that this would not be a continuing trend. A major factor which has contributed to the present balance-of-payments position has been the cumulative effect of two favourable monsoons which made it possible to do away with imports of foodgrains. However, the temporary cessation of foodgrains imports does not represent any long-term trend in terms of excess domestic supplies in foodgrains. The longer term position of the balance of payments would continue to be dependent on the monsoon prospects which are not certain.
7. Furthermore the favourable position in the balance of payments was attained also largely due to the increased inflow of invisible receipts, and it is difficult to predict whether it would be sustained in the future. In the light of the recessionary trends in the world economy, and the protectionist outlook being increasingly adopted by some of India's major trading partners, it appears that growth in exports witnessed in the last two or three years may recede during the years to come.

8. In this context it is pertinent to point out that the substantial increase in exports in the recent past was due largely to "opportunity exports" like sugar, steel and cement. The trends during the current year show that the same opportunities either no longer exist or supplies of these products may not be forthcoming. These products while they contributed substantially to the overall export growth, had very adverse effects on domestic consumption and prices. Additionally, a major export item namely, cotton fabrics and cotton garments has recently come under the brunt of protectionist measures adopted by importing developed countries and it is apprehended that export realizations from these items may go down. There are equally disturbing signs of similar protectionist trends in other important export items including leather and leather manufactures.

9. On the other hand, imports are likely to be higher partly due to further increases in the price of crude oil and partly due to the more liberal import policy being pursued in the current year for essential items like cotton, vegetable oils etc., and the growing demand for imports of machinery and equipment, spare parts, components, metals and other raw materials to sustain the higher order of investments proposed for the next few years.

D. Inadequate rate of growth

10. The fundamental problem of the Indian economy continues to be its inadequate rate of growth essentially due to inadequate investments. India's rate of growth of GNP, at constant prices, in the last three years ending 1976-77 has been 0.3 per cent, 8.5 per cent and 1.5-2.0 per cent respectively. The trends of the growth of gross national product, net national product and per capita net national product are at Annex III. The average growth rate has been around 3.5 per cent which is inadequate considering the rate of population growth at about 2 per cent per annum.

11. Many of India's vital industries continue to remain in an unhealthy state and are in need of urgent rehabilitation through modernization and product improvement. India has taken up the challenge of further intensifying her developmental efforts. A goal has been set to double the annual growth rate in irrigation potential in the country from the present level of about 2 million hectares. Financial outlays are being increased on agriculture, power, village industries, sericulture, handlooms, postal and telephone facilities in rural areas and wide-ranging rural infrastructure
Programmes covering, among other things, schemes like durable link roads and rural drinking water supply. At the same time attention to education, health and family welfare, integrated urban development, modernization, renovation and rehabilitation of key industries completion of industrial projects, development of arterial transport and communication system is being continued.

12. The total outlay on the development plan for 1977-78 is Rs 99,600 million which represents an increase of 27 per cent over the corresponding figure for the last year. These programmes cannot be implemented unless matching resources are found from within the economy so as to avoid the contingency of deficit financing with its adverse effects on prices. When seen in this light it is clear that a large part of our foreign exchange reserves would be depleted for servicing larger imports needs and assisting the massive development programmes at present contemplated.

II. IMPORT REGIME

A. Purpose of import control

13. The import regime being followed by India has to be viewed in the context of the need to safeguard the balance-of-payments position and to meet the fiscal requirements of the imperatives of development growth and social justice outlined in earlier paragraphs. In the last two years while no new import restrictions have been introduced; on the contrary the Government of India has liberalized the import policy on a significant scale. This liberalization has been effected in spite of the temporary nature of the favourable position in the balance of payments.

B. Legal and administrative basis of the import restrictions

14. The statutory authority on which the current import controls are based are the Imports and Exports (Control) Act 1947, and the Imports (Control) Order No. 17/55 dated 7 December 1955 notified under this Act. The Import Control Order 1955 contains provisions prohibiting, restricting or otherwise controlling imports.

C. Import Policy 1976-77

15. Imports are regulated through annual import policies. The import policy for 1976-77 allowed for greater facilities for imports under Open General Licence (OGL), free imports of essential items like cotton, vegetable oils and larger provisions for imports of spare parts, components and raw materials with a view to strengthening the production base.
D. Import Policy, 1977-78

16. The liberalization in the import policy in 1976-77 was continued in the import policy for 1977-78 the broad objectives being:

(i) to meet the legitimate requirements of industry for imported raw materials in full;

(ii) to protect and safeguard the interests of indigenous industry;

(iii) to increase industrial production, maintain price line, particularly with respect to items of mass consumption and to strengthen the production base specially to augment exports and

(iv) to simplify the policy and procedures with an accent on prompt and efficient service to trade and industry.

17. The salient features of the import policy for 1977-78 are given at Annex IV. The rates of duties at present applicable to imports into India, under the import policy for 1977-78 have been fixed keeping in view the need to raise resources for the developmental expenditure planned during the current year of which an idea has been given in the earlier paragraphs. Tariff nomenclature has been changed to CCCN.

LIST OF ANNEXES

Annex I - India's Foreign Exchange Reserves, 1971-72 to 1976-77

Annex II - Balance of Trade, 1971-72 to 1976-77


Annex IV - Salient Features of Import Policy, 1977-78
## ANNEX I

### India's Foreign Exchange Reserves, 1971-72 to 1976-77

(Rs million)

<table>
<thead>
<tr>
<th>End of year</th>
<th>Foreign exchange reserves</th>
<th>Variation in reserves</th>
<th>Net drawings from (+)/Repayments (-) to IMF</th>
<th>Variation in reserves exclusive of transactions with IMF (3-4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-72</td>
<td>4,804</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1972-73</td>
<td>4,789</td>
<td>- 15</td>
<td>+ 620</td>
<td>+ 399</td>
</tr>
<tr>
<td>1973-74</td>
<td>5,808</td>
<td>+ 1,019</td>
<td>+ 4,847</td>
<td>+ 4,550</td>
</tr>
<tr>
<td>1974-75</td>
<td>6,105</td>
<td>+ 297</td>
<td>+ 2,071</td>
<td>+ 6,741</td>
</tr>
<tr>
<td>1975-76</td>
<td>14,917</td>
<td>+ 8,812</td>
<td>- 3,028</td>
<td>+ 16,741</td>
</tr>
<tr>
<td>1976-77</td>
<td>28,630</td>
<td>+13,713</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: At the end of March 1977 India's holdings of monetary gold valued at Rs 84.39 per 18 grs. stood at Rs 187.8 crores which included Rs 5.3 crores of gold received by India under the Restitution Scheme of the IMF. Holdings of SDRs were 187.4 million SDRs (provisional). All foreign exchange holdings are valued at par/central rates up to June 1972, except for the holdings of Canadian dollars from June 1970 to June 1972 which are valued on the basis of the monthly averages of spot buying and selling rates in New York and the holdings of Deutsche Marks from May to November 1971 and of Yen and Sterling from September to November 1971 which are valued on the basis of monthly averages of spot buying and selling rates in London. From July 1972 holdings in Sterling hold are valued at the average of the bank's spot buying and selling rates; all other foreign exchange holdings are valued on the basis of the monthly average of the spot buying and selling rates in London from July 1972 to April 1974 and on the basis of the average of spot buying and selling rates in London from May 1974.

1/ Provisional
## ANNEX II

### Balance of Trade, 1971-72 to 1976-77

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports (including re-export)</th>
<th>Balance of trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-72</td>
<td>18,255</td>
<td>16,092</td>
<td>-2,163</td>
</tr>
<tr>
<td>1972-73</td>
<td>18,674</td>
<td>19,708</td>
<td>+1,034</td>
</tr>
<tr>
<td>1973-74</td>
<td>29,553</td>
<td>25,234</td>
<td>-4,319</td>
</tr>
<tr>
<td>1974-75</td>
<td>45,187</td>
<td>33,288</td>
<td>-11,899</td>
</tr>
<tr>
<td>1975-76</td>
<td>52,652</td>
<td>40,428</td>
<td>-12,224</td>
</tr>
<tr>
<td>1976-77</td>
<td>50,218+1</td>
<td>50,894+1</td>
<td>+676</td>
</tr>
</tbody>
</table>

*Figures are provisional and subject to revision.*

**Source:** Monthly statistics of the Foreign Trade of India, Volume I and Volume II published by the Director-General of Commercial, Intelligence and Statistics, Calcutta.
ANNEX III

Gross National Product, Net National Product, Per Capita
Net National Product 1971-72 to 1975-76

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross national product (Rs crores)</th>
<th>Net national product (Rs crores)</th>
<th>Per capita net national product (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At current prices</td>
<td>At 1960-61 prices</td>
<td>At current prices</td>
</tr>
<tr>
<td>1971-72</td>
<td>38,620</td>
<td>20,634</td>
<td>36,332</td>
</tr>
<tr>
<td>1972-73</td>
<td>42,136</td>
<td>20,415</td>
<td>39,643</td>
</tr>
<tr>
<td>1973-74</td>
<td>52,195</td>
<td>21,515</td>
<td>49,396</td>
</tr>
<tr>
<td>1974-75</td>
<td>61,551</td>
<td>21,572</td>
<td>58,137</td>
</tr>
<tr>
<td>1975-76</td>
<td>64,168</td>
<td>23,414</td>
<td>60,293</td>
</tr>
</tbody>
</table>

1 Provisional
2 Quick estimates
ANNEX IV

Salient Features of Import Policy, 1977-78

The import policy for 1977-78 has effected a substantial measure of liberalization and procedures have also been simplified.

Liberalized imports

(1) The facility for import of various requirements by institutions, hospitals, individuals, etc., without the requirement of an import licence has been further liberalized during 1977-78.

(2) Research and development organizations recognized by the Department of Science and Technology have been permitted to import equipment, instruments, replacement parts thereof, chemicals and other materials up to the total value of Rs 500,000 during 1977-78.

Open General Licence

Imports of several items of machinery, chemicals, drugs, etc., have been placed on Open General Licence, for example, leather machinery, garment making machinery and a large number of drugs and medicines, chemical items, electronic items, anti-cancer and life-saving drugs, iron and steel items, technical and scientific books.

Free licensing

A large number of items such as spare parts of imported machinery, certain machinery items which are not available from indigenous sources, polynosic/viscose fibre, polyester fibre/tow, edible oils, watch parts, dry fruits, cloves, cinnamon, nutmeg, etc., have been placed under free licensing.

Automatic/supplementary licensing

A major simplification has been introduced for the import of raw materials and components by industrial units. A system of automatic licensing has been evolved. It enables all industrial units to apply for import of raw materials and components based on their actual consumption in the previous two years, whichever is advantageous. Applications for such automatic licences can be made direct to licensing authorities without routing them through the sponsoring authorities. A uniformly liberal treatment in the matter of import licensing will be accorded to all industries, irrespective of the fact whether they are classed as select or non-select. This has been done having regard to the fact that a number of industries
producing articles of mass consumption are in the non-select sector. Also, the Government's objective is that legitimate requirements of imported raw materials of all industries should be met in full.

A provision has also been made for the grant of supplementary licences besides the automatic licences for actual users whether in the large-scale or small-scale sector.

Spare parts

The policy for import of spare parts has been substantially liberalized. The import of permissible spares meant for maintenance of imported machinery or imported parts of indigenous machinery will be allowed under free licensing scheme to all actual users. The system of Open General Licence has been changed to free licensing for import of spare parts not only for functional facility but also for proper monitoring of licensing and credit utilization. Import of non-permissible spare parts will be allowed on the basis of 1 per cent of the value of imported machinery provided the value of a single item does not exceed Rs 50,000.

Import of restricted items

The policy for import of restricted items has been simplified. The import of a number of items which was hitherto restricted has been liberalized and a few items for which there was no provision for import earlier will be permitted to be imported.

Capital goods

Import of capital goods is allowed for setting up new industries or for expansion or modernization of existing industries and also for replacement and balancing purposes. A large number of machinery and machine tools which are not available from indigenous sources have been placed under free licensing.

Import for small-scale sector

Special emphasis has been placed on facilities for small-scale units and cottage and village industries. A special assistance is rendered to the units in the small-scale sector. The import procedures in their cases have been further simplified. Units in the small-scale sector will also be eligible for facilities for automatic licences and supplementary licences. As a measure of further liberalization of policy for this sector, an increase of 20 per cent will be made on their entitlement for imported raw materials and components. All units exporting 20 per cent or more of their production will be granted licences entirely against free foreign exchange. New units in the small-scale sector can obtain licences on the basis of 100 per cent of the value of installed machinery.
Simplification of procedures

The procedures for dealing with applications and issue of import licences have been further rationalized and simplified.

Examples are:

(i) The system of production of IVC Number has been dispensed with and in lieu a mere declaration of the applicant that he has filed income tax returns and paid taxes due, will be accepted by the licensing authorities for consideration of applications for grant of import licence.

(ii) With a view to grant licences within a short time, the system of grant of automatic licences has been made simpler. The form of consumption certificate has been simplified. The requirement of reference to sponsoring authorities for endorsing additional permissible raw material items on the licence has been dispensed with, provided the raw material in question is needed for production in the applicant's manufacturing establishment.

(iii) Several licensing functions, which were earlier handled at the headquarters have been decentralized. Small-scale units will be able to get supplementary licences from regional licensing authorities. The powers of regional licensing authorities for grant of capital goods licences, both for large and small-scale units, have been enhanced.

State trading

Essential commodities like foodgrains, fertilizers and industrial raw materials are imported directly by Government or public sector agencies such as State Trading Corporation of India and Minerals and Metals Trading Corporation. Purchase on government account and by the public sector agencies, are guided by nominal commercial considerations, such as price, quality and profitability. An entirely non-discriminatory policy is followed by these organizations, subject only to constraints imposed by foreign exchange availability and the conditions attached to external assistance. State trading or government monopoly is not used as a measure to restrict imports for balance-of-payments reasons.