GENERAL AGREEMENT ON
TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1982 CONSULTATION WITH INDIA
(SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

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

I. India's previous consultations


3. The last full consultation with India took place on 21 November 1978. The Committee noted at this consultation a significant improvement in the balance-of-payments situation and a comfortable foreign exchange reserve position and commended the Indian authorities for the liberalization and simplification of the import regime. The Committee concluded that "the overall balance-of-payments situation provided scope for continued liberalization which, together with policies to increase investment, should promote the economic development of India and the interests of its trading partners". The Committee added that it was aware that certain restrictive policies in other countries posed problems to the expansion of India's exports. It recommended that "India pursue its policy of liberalization and simplification of import restrictions" (BOP/R/104).

II. Recent changes in India's trade policy

4. In India's present system of quantitative restrictions, imports are divided into three categories: (i) "limited permissible", (ii) "automatic permissible" and (iii) "canalized" (importable by state trading enterprises only). The items not included in any of these categories may be imported freely under Open General License.

5. The import of consumption goods is generally prohibited. Most raw materials, components and spare parts are freely importable and, to the extent that such imports are restricted, licences are in general issued automatically on the basis of past use. The import of most capital goods requires licensing intended to ensure that only requirements which cannot be met from domestic sources are imported. There is a range of special import facilities for exporters of selected products and "export houses". Import licensing formalities have been dispensed with altogether for "100 per cent export oriented units", including the units located in the Kandla Free Trade Zone and the Santacruz Electronics Export Processing Zone. The main canalized items are petroleum and petroleum products, fertilizers, iron and steel, non-ferrous metals, and edible oil. The state trading
enterprises formulate import programmes for each fiscal year, taking into account demand and domestic supply and the foreign exchange allocated to them. The share of canalized imports in total imports is about 60 per cent; excluding petroleum and petroleum products it is about 20 per cent.

6. The main changes introduced in the 1981/82 import policy are listed on pages 77-78 of the IMF report "Recent Economic Developments", dated 31 March 1982. The changes consisted of numerous, but relatively minor adjustments in import procedures and in the classification of goods, which were designed to simplify and rationalize the import procedures.

7. The changes introduced in the 1982/83 import policy are described on pages 6-15 of document BOP/225 of 28 May 1982, and in the IMF paper "Recent Economic Developments - Supplementary Information", dated 14 April 1982. This policy introduced a series of liberalization measures, the most important of which were:

- The addition of 100 items of raw materials and components and of 85 items of capital goods to the list of goods freely importable under Open General Licence;
- An increase in the value of automatic licences by 10 per cent;
- A doubling to US$ 500,000 of the limit for technology imports for modernization under the technical development fund; and
- The abolition, for all but 97 items, of the actual user condition (imports may now be made also for resale purposes).

In addition, a number of measures to streamline import procedures and to facilitate imports by exporting units have been taken.

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

8. The Indian economy required two reasonably good monsoon years to fully recover from the effects of the severe 1979 drought. Following a decline in 1979/80, real GNP was up nearly 8 per cent in 1980/81 and is estimated to have increased by some 4 1/2 per cent last year. Agricultural output increased 15 per cent in 1980/81 and a further 3 per cent in the following year: by 1981/82, foodgrains production had reached a record level, but it is estimated that the level of per capita output was below the pre-drought level. The upturn in agriculture and improving power supplies also enabled the Indian industry to step up production growth from 4 per cent in 1980/81 to 8 per cent in 1981/82, despite a fall in textile output in the latter year. Early in 1982, however, the important engineering sector was showing recessionary signs, reportedly due to monetary constraints. For more than half a year, the official wholesale and consumer price indices have shown no increase.

9. Imports totalled $14.3 billion in 1980, 46 per cent above their level in 1979. Imports of capital goods declined, suggesting that domestic investment remained sluggish in 1980, as in the preceding year. The bulk of the increase in
the import bill came on account of petroleum and, to a lesser extent, edible oils and fertilizers. Petroleum imports reached nearly one-half of total merchandise imports in 1980, corresponding to roughly the amount of the country's export earnings, which rose by only 5 per cent to $8.2 billion. Among India's export items, tobacco, coffee, cashew nuts, iron ore, cotton and chemicals recorded sizeable increases in value terms. There was a large increase in India's merchandise trade deficit in 1980 (imports, c.i.f., less exports, f.o.b.): from $1.2 billion in 1978 and $2 billion in 1979 to $6.1 billion. In 1981, both imports and exports declined in dollar value, but India's trade deficit increased further, to some $6.6 billion; during this same period, international monetary reserves (excluding gold) declined by $2.2 billion.