TRADE AND PAYMENTS ASPECTS OF DEVELOPMENT PLANNING

Note by the Indian Authorities

In GATT/AIR/338 contracting parties were invited to submit to the secretariat material on their development plans or other plans relating to the expansion of their exports. In response to this invitation the following note has been received from the delegation of India.
Relationship between the Trade and Payments
Aspects of India's Development Planning and her Foreign Exchange Needs

1. The Third Five-Year Plan of India which sets out the economic development programme for the period 1961-66 was studied by Committee III of the GATT. The conclusions reached by the Committee as a result of the study are highly relevant to the consideration of the relationship between the export earnings and the development needs of India. The Committee recognized the magnitude of the task of the Government of India in improving the standard of living of the people and observed as follows:

"In order to achieve this end a great deal of foreign exchange will be required both for continuing investment and for servicing current loans. India would therefore have to increase its foreign exchange earnings very considerably. This was a matter of importance not only for India but for other trading countries also, as otherwise India would have to rely increasingly on policies aimed at import substitution rather than development leading to increased levels of trade and more rational division of trade. The Committee noted that many Indian export products continued to be subject to tariff and non-tariff barriers to trade which limited the possibilities open to India for substantially increasing its foreign exchange earnings. By reason of the availability of raw materials, manpower and skills actual or potential, India would be able to expand several industries if these barriers were relaxed and thereafter quickly removed. Such action would also lead to the channelling of investment into directions of expanding existing industries or developing new industries with a view to securing efficient allocation of resources and the maximum expansion of trade."

2. The broad objective of Indian planning is to establish a growth rate of around 6 per cent per annum, to be independent of external assistance after a decade. At the same time, it is desired to take full advantage of the gains from international division of labour and trade. This cannot be achieved without a substantial expansion in export earnings. During 1962-63, imports amounted to Rs. 11,410 million (US dollars 2,187 million) and exports only to Rs. 6,920 million (US dollars 1,454 million) and there was also a deficit on account of invisibles. The gap covered by foreign assistance, and use of resources, amounted to Rs. 5,030 million (US dollars 1,057 million). Over the next decade, the payments on account of invisibles will increase substantially, as the quantum of external debt will rise and provision will need to be made also thereafter for debt repayment. The development of agriculture will reduce import requirements of foodgrains and commodities such as raw cotton. The industrial programme envisages expansion of output of steel,
fertilizers, industrial transport and power equipment, petroleum products, aluminium, various chemicals etc., to meet the country's growing requirements. However, it is estimated that export earnings in 1970-71 will have to be at least Rs. 13,000-14,000 million (US dollars 2,731-2,941 million) if any wasteful import substitution is to be avoided. This involves a doubling of export earnings over a decade.

3. In estimating the foreign exchange needs of development, provision has been made for meeting a part of the requirements from credits secured from friendly foreign countries. Export earnings would however have to serve both for financing a part of the imports required for maintaining and increasing production and for servicing and repayment of current foreign loans.

4. The repayments to be made over the years 1961-66 on the external obligations incurred by the end of the Second Plan will come to about Rs. 4,200 million (US dollars 882 million). The outstanding total foreign debt by the end of 1962 (including World Bank loans) in dollar equivalents amounted to more than 2,423 million (Rs. 11,535 million). Provision being made for some repayments to fall due in respect of loans obtained in the Third Plan period and taking into account other capital transactions, mainly on private account, the net disbursements on capital account during the Third Plan period are estimated to amount to Rs. 5,000 million (US dollars 1,050 million). Already about fifteen per cent of the current export earnings are mortgaged towards contractual liabilities to repay and service foreign debts and as the volume of foreign debt increases, even larger proportions of the export earnings will have to be committed for this purpose alone, leaving a smaller margin for financing imports.

5. In the earlier stages of the Second Five-Year Plan, the foreign exchange required for development had been met largely by drawing on India's foreign exchange reserves. These reserves have however dwindled to a very low figure just enough to back the currency. No addition to it had been made because of the large deficits in current trade accounts. The balance-of-payments position has been under considerable pressure and towards the end of 1961 further restrictions on imports became unavoidable. With the progressive tightening of restrictions a stage has already been reached when any further increase in the degree of restrictions would impair seriously the chances of higher production and of higher exports required for earning the much needed additional foreign exchange to correct the situation. The solution of the overseas payment problem has therefore to be found in terms of an increase in exports at a faster rate.

6. Nearly 50 per cent of India's foreign exchange has been from the export of tea, jute manufactures and cotton textiles. An expansion in the overseas markets for these products will no doubt add significantly to India's export earnings and a moderate expansion can take place if the obstacles to the trade of these commodities which have been identified, several years ago, were eliminated forthwith. It is, however, imperative for India to diversify her exports in new lines of semi-processed goods and simple manufactures. The raw material and other natural resources
available to India are favourable for the development of iron and steel, chemical and electrical industries and the manufacture of consumer durables based on these industries. Over the last few years, India has been developing the mining of iron ore with a view to meeting the growing requirements of the steel industry not only in India but in other countries. Production of iron ore is currently of the order of 12 million tons, and it is planned to increase to about 50 million tons by the end of the Fourth Plan. An increase in exports is envisaged from 6 million tons to 25 million tons. Japan, which is collaborating in the ore production programme, will be a major consumer, and sales are envisaged to Europe also. It is hoped to achieve and sustain exports of manganese ore at around one million tons, and to step up the exports of ferromanganese to around 100,000 tons. Expansion is also planned in exports of ores, such as kyanite, ilmenite and sillimanite.

7. Sales are hoped to be developed in respect of various items of equipment produced by the engineering industries, both to developing and developed countries. Among the products for which markets have already been established in a small way are railway track fittings, transmission line towers, diesel engines, pumps, equipment for textile mills, oil mills, rice mills, sugar mills and simple types of machine tools, and miscellaneous electrical equipment. If the conditions in world markets are satisfactory, increased exports can take place in these lines. It is also hoped to develop production on a large scale for export of other products, such as steel and iron castings, structures and structural parts, including cranes, boilers, cast iron pipes and tubes, steel tubes and pipes, switch gear and transformers and other electrical equipment, and component parts of machinery generally. The industrialization programme envisages a rapid expansion in the output of steel and of engineering products. It is hoped that these industries will also make a major contribution to the export effort. While the country will become self-sufficient in terms of steel tonnage, export of some types of steel and import of others will be necessary to take account of specialized requirements, and of temporary surplus capacities in some sections of steel plants. Primarily, however, the export will take the form of iron and steel manufactures, as India's competitive advantage is greater in such products.

8. A beginning has also been made with the establishment of export markets for some consumer durables, such as sewing machines, electric fans, bicycles, steel furniture and domestic utensils and several other consumer items, such as containers, razor blades and miscellaneous hardware. India's share in world markets for these simple manufactures is as yet negligible and with growing demand, as living standards rise, particularly in the developing countries, expansion of India's exports of these articles should be possible. In addition, India has developed production in certain lines on a cottage industry basis and the maintenance and improvement of these industries is important on sociological and employment grounds. Effective overseas demand is however essential for maintaining economic viability in these cottage and other industries.
Statement Showing the Present Production and Exports of Certain Products

(Value in Rs. lakhs) \(^1\)

<table>
<thead>
<tr>
<th>Product</th>
<th>Unit</th>
<th>Production 1961</th>
<th>Exports (1961-62)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Quantity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Million kgs.</td>
<td>206</td>
</tr>
<tr>
<td>Tea</td>
<td>kgs.</td>
<td>347,808</td>
<td></td>
</tr>
<tr>
<td>Coffee</td>
<td>'000 kgs.</td>
<td>65,700</td>
<td>29,712</td>
</tr>
<tr>
<td>Cotton fabrics</td>
<td>'000 mtrs.</td>
<td>4,694,448</td>
<td>51,500</td>
</tr>
<tr>
<td>Jute manufactures</td>
<td>metric tons</td>
<td>969,600</td>
<td>793,000</td>
</tr>
<tr>
<td>Tanned hides and skins (both chrome and vegetable tanned)</td>
<td>'000 pos.</td>
<td>3,490,800 pos.</td>
<td>20,747</td>
</tr>
<tr>
<td>Linoleum</td>
<td>'000 SMT</td>
<td>721.2</td>
<td>562</td>
</tr>
<tr>
<td>Iron ore</td>
<td>'000 metric tons</td>
<td>12,100</td>
<td>3,366</td>
</tr>
<tr>
<td>Footwear</td>
<td>'000 pairs</td>
<td>5,419</td>
<td>4,662</td>
</tr>
<tr>
<td>Sewing machines</td>
<td>'000 nos.</td>
<td>327</td>
<td>34</td>
</tr>
<tr>
<td>Power driven pumps</td>
<td>Nos.</td>
<td>125,000</td>
<td>1</td>
</tr>
<tr>
<td>Electric fans</td>
<td>'000 nos.</td>
<td>1,064</td>
<td>73</td>
</tr>
<tr>
<td>Diesel engines</td>
<td>Nos.</td>
<td>540,000</td>
<td>26</td>
</tr>
<tr>
<td>Electric motors</td>
<td>Nos.</td>
<td>136,000</td>
<td>40</td>
</tr>
<tr>
<td>Safety razor blades</td>
<td>millions</td>
<td>768</td>
<td>5</td>
</tr>
<tr>
<td>Bicycles</td>
<td>'000 Nos.</td>
<td>1,047</td>
<td>13</td>
</tr>
</tbody>
</table>

\(^1\)US$1 = Rs. 4.78; "lakh" denotes 100,000.
9. The expansion envisaged in India's exports is small as compared to the rate at which world trade has been expanding. The growth aimed is not even to the extent of the increase in imports over the Third Plan period. In the early years of the Plan the rate of growth in export earnings would be low. By the end of the Third Plan, however, it would become necessary to attain a growth in exports at a substantially higher rate as the contractual debt liabilities as well as the need for financing maintenance and development imports from current earnings would have increased considerably. However, considerable difficulties are being experienced even for reaching the modest target in exports aimed under the Third Five-Year Plan. One of the reasons for the conservative approach made in the Plan is the existence of certain economic factors which contribute to increased costs of production with the result that, in a number of instances, prices of Indian goods are not sufficiently competitive in world markets. Production to full capacity and on a large scale will help the industries to bring down costs but any such expansion depends to a large extent on the availability of freer access to foreign markets. With a view to increasing exports India, on her part, has been taking measures to encourage expansion of production and to make available for export to overseas markets a larger proportion of the output. As a result of these steps export possibilities have been steadily increasing in a number of items. These quantities are so insignificant that it can be asserted, that in the rapidly growing world market hardly any disruptive effect will be felt anywhere particularly when freer access to markets is made available in all industrial markets of the world without any exception.

10. Committee III has carried out detailed commodity studies, which have led to the identification of the obstacles to the expansion of trade in several of the products in which India is interested in increasing her export trade. The ministerial meeting of 1961 which gave an important place on its agenda to the consideration of measures for promotion of the export trade of less-developed countries unanimously recommended the early adoption of concrete measures by the advanced countries for the abolition of barriers to trade in these products. In presenting a seven-point programme for the implementation of the ministerial recommendation to the twentieth session, twenty-one less-developed countries have drawn attention to the urgency for international action in the field.

11. The persistent and large imbalance in her foreign exchange budget is a major problem for India and a solution to it has to be sought in the ultimate analysis by creating conditions so that a sizeable expansion of India's exports takes place. In addition to the removal of obstacles in the various markets for her exports, India would therefore welcome international action designed to provide the "assured off-take" by the world markets for her exportable surpluses of primary commodities and manufactured products. The active co-operation of other countries especially the advanced countries is essential for translating exportable surpluses into actual exports for enabling India to narrow down the wide gap between present export earnings and the external financial needs of her development programme.
12. The present decade has been aptly described as the "Development Decade" and the United Nations has embarked on several fields of activity to achieve the main economic objective of the decade which is to create conditions in which the national incomes of the developing countries not only will be increasing by 5 per cent yearly by 1970 but will also continue to expand at this rate thereafter. The foreign trade record of countries like India has been showing a disappointing trend in recent years due to obstacles hindering the entry of Indian products into industrial markets and also because of the fact that a true appreciation of the industrial and export potential of India has been lacking in certain important markets.

13. The recommendation made by the United Nations is that steps should be taken to facilitate the growth in foreign exchange income from $1.5 per cent and more. It has been calculated that if the terms of trade and export earnings of the developing countries could be improved by 10 per cent over the present level and kept at this level during the decade this would go a long way to providing the additional resources required.

14. The Economic Survey of Europe, 1960 has attempted a projection which suggests that the aggregate import requirement of the less-developed countries will rise from about $20 billion now to $60 billion (at constant prices) by 1980. Even if about 10 billion dollars were available to them in the form of capital loans and grants this projection implies that the developing countries would need to expand their aggregate exports from $19 billion to about $50 billion, i.e. more than two and a half times in twenty years. Out of this, at least $15 billion by 1980 would have to be in the form of manufactures including the value added by processing of materials. According to this survey, Western Europe will need to expand its imports of manufactures from the developing countries to about $5 billion in 1980. This $5 billion represent only about 2 per cent of the increase in the domestic Western European demand for manufactures that will occur in the next twenty years, if the targets of domestic economic growth to which Europe now looks forward are achieved. The present indications are that these targets may even be exceeded and the imports of manufactures from developing countries will then constitute an insignificant percentage of the increase in Western European demand for manufactures.

15. The Economic Survey for Europe then goes on to say that the need for action is urgent for several reasons. Firstly, freer access to European markets for processed materials and manufactures is necessary in the next few years for many developing countries - not least for India, the largest and poorest of them all. Secondly, no developing country will embark on the effort of building up export industries unless it feels reasonably sure that the necessary markets will not be closed to it when it has the goods to sell. Thirdly, the developed countries will not, in fact, find it practicable to liberalize their commercial policies, unless they adjust their domestic industrial development to the prospect of an increasing exchange of their own products, chiefly capital goods, for the manufactures, chiefly products of industries requiring relatively little capital
or advanced technology, of the developing countries; this process of adjustment must be gradual and prepared well in advance. Finally, the time seems ripe for action now in as much as the countries of Western Europe, in their schemes of economic integration, are already engaged in far-reaching adaptation of their "pattern of industrial development".

16. Mr. Wyndham White, Executive Secretary of the GATT in his address at Helsinki on 8 May 1962 gave a clear analysis of the challenges before the CONTRACTING PARTIES as a whole and said that "the problems of the less-developed countries have not yet been solved satisfactorily". He has observed that unequivocally liberal policies - whether commercial or fiscal - in industrialized countries would be required to meet this challenge. Professor Hallstein, the Chairman of the European Economic Commission in an address in New Delhi on 6 April 1963 stated "but in essence, my message today is a very simple one; it is a plea for understanding". What India's plea has been for the last several years in the GATT forum is also "for understanding", and that the gap between intent and performance should not only be narrowed but be eliminated completely.

17. Any concrete proposal of the advanced countries, e.g. projection of their own import requirements from India over the next ten years period with positive programmes of action, would be of great assistance in this field. It may be added that several countries, not necessarily members of the GATT, have in the past few years been helping India to expand her exports significantly in not only primary commodities and traditional items but in newer items of manufactures. If a satisfactory solution of India's problem is delayed, it will have the "snowball effect" of getting magnified and the damage to her economy will leave a lasting impact on world conditions. The effect on world trade of the additional exports from India will be so marginal, that has been so well recognized and expressed by all the spokesmen of the advanced countries, without any exception, all that remains is the working out of a detailed "plan of action".

18. India is racing against time along with a number of developing countries who are also struggling hard to improve their standards of living. This paper can conclude by aptly stating that "justice delayed will be justice denied", and the combined will of the CONTRACTING PARTIES will, it is hoped, not allow any more delay in working out just and equitable solutions. An attempt has been made in this paper to set the problem in its proper perspective and to prove that given the goodwill and understanding, the task set before the CONTRACTING PARTIES can be solved by making very few and marginal adjustments in the policies of advanced countries. The growth in exports aimed at by India during the next decade, although it would be double of her performance today, would be less than 1 per cent of the total trade exchanged between various countries of the world.
ANNEX

List of Products for which India is Keen to Develop Export Market

1. Iron ore
2. Sugar
3. Salt
4. Tea
5. Vegetable oil products (Vanaspati)
6. Cigarettes
7. Cotton textiles
8. Cloth
9. Jute textiles
10. Footwear (leather)
11. Plywood
12. Paper and paperboard
13. Tanned hides
14. Footwear (rubber)
15. Tyres
16. Tubes
17. Other rubber products
18. Sulphuric acid
19. Bleaching powder
20. Bichromates
21. Superphosphates
22. Ammonium sulphate
23. Paints and varnishes
24. Matches
25. Soap
26. Rayon
27. Phenol Formaldehyde moulding powder
28. Glass and glassware
29. Laboratory glass
30. Glass sheets
31. Cement
32. Ceramics
33. Asbestos (cement sheets)
34. Finished steel
35. Pig iron and ferro-alloys
36. Aluminium
37. Screws
38. Razor blades
39. Hurricane lanterns
40. Oil pressure lamps
41. Enamel-ware
42. Diesel engines
43. Power-driven pumps
44. Sewing machines
45. Machine tools
46. Twist drills
47. Complete ring spinning frames
48. Grinding wheels
49. Conduit pipes
50. Dry cells
51. Storage batteries
52. Electric motors
53. Power transformers
54. Electric lamps
55. Electric fans
56. Radio receivers
57. Cables and wires
58. Bare copper conductors
59. Rubber and plastic insulated cables and flexibles
60. Automobiles
61. Bicycles
62. Woollen carpets
63. Coir mats and matting
64. Handicrafts