Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Working Party has conducted the consultation with India under paragraph 4(b) of Article XII. The consultation concerning the substantial intensification of quantitative restrictions by the Government of India as from 1 July 1957 was conducted at the same time.

2. The Working Party had before it:

(a) notification of measures effective on 1 July 1957 (L/648);

(b) a basic document prepared by the secretariat in collaboration with the Indian authorities describing the system and methods of the balance-of-payments import restrictions in operation in India and the intensification of import restrictions for the period 1 July - 30 September 1957; the document also contains a statement, made by the Indian authorities, on the "Effects on Trade" (MGT/89/57);

(c) supplementary information supplied by the Government of India on the licensing policy for the period October 1957 to March 1958 (L/718);

(d) documents provided by the International Monetary Fund.

These documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultations the Working Party followed the plan recommended by the CONTRACTING PARTIES for this series of consultations and the plan previously adopted by the CONTRACTING PARTIES for consultations with countries which intensify their restrictions substantially. This report summarizes the main points of the discussion during the consultations.
Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with India. As a part of the consultation between the CONTRACTING PARTIES and the Fund the latter transmitted the results and background material from its consultation with India concluded on 7 September 1956, supplementary information dated 5 September 1957, and a further paper dated 6 September 1957 on developments since that consultation. In accordance with agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of India. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with India under Article XIV of the Fund Agreement, which consultation was concluded on September 7, 1956.

"As some time has elapsed since the conclusion of this consultation with India, the Fund has also provided a supplementary paper on India, dated September 6, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the last consultation under Article XIV of the Fund Agreement, and the results of that consultation, have been distributed to the members of this Working Party.

"With respect to Section I of the Plan for Consultations, relating to balance of payments position and prospects, the general level of restrictions of India which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Working Party is drawn to the results of the last Fund consultation with India. Pending the conclusion of its 1957 consultation with India, the Fund has no additional alternative measures to suggest."

Opening Statement by the Representative of India

5. The full text of the opening statement of the Indian representative is attached to this report as Annex I, and is summarized in the following paragraphs.
6. The representative of India drew attention to the facts that these consultations had been initiated under Article XII of the original GATT, and that since then the revised Article XVIII had come into operation, paragraph 8 recognizing that under-developed countries in rapid process of development tended to experience balance-of-payments difficulties; that was precisely what had happened in India.

7. Development naturally meant considerable imports of capital goods; imports of semi-finished products (the most important being iron and steel) had also increased steadily and substantially. Unfortunately, large amounts of foreign exchange also had to be used for foodgrain imports, especially over the last eighteen months, food production being severely affected by local climatic conditions. These payments had been necessary despite the very generous assistance from the United States of America, and more recently from Canada also. Latest crop reports were discouraging.

8. India had in the past followed liberal policies regarding imports of other consumer goods and expenditure on them had been substantial.

9. The net result was a steady decline in external reserves which now were Rupees 3,290 million. It had been necessary for the Government to amend the minimum reserve requirements to Rupees 2,000 million including gold; this was equal to the value of two months' imports at current levels and four months' at 1953-54 levels.

10. The Indian representative believed that, in these circumstances, the Working Party would agree that the Government had no option but to impose the fairly drastic cuts in July-September 1957. For October 1957-March 1958, a somewhat less restrictive but nevertheless tight policy had been announced. These measures, as the IMF had pointed out, did not exceed what was required to stop the serious decline in monetary reserves; there was little likelihood also that the reserves position would improve significantly for many months to come.

11. A very relevant point was what other contracting parties could do to assist countries in such a position. India had obviously to look first of all to increased exports to finance development. The Indian representative expressed the hope that India's effort to expand exports would not be hampered by unduly high tariffs, restrictive quotas or State trading devices.

12. Recognizing the importance of foreign investment, the Indian Government had allowed not only remittances of dividends but also repatriation of capital.

13. The Government had taken several fiscal and monetary measures to reduce inflationary pressures, and appropriate action would continue to be taken in the future.
14. The very tight licensing policy regarding the import of capital goods since early 1957 ensured that uneconomic industries would not be established.

15. The new import policy provided for the granting of licences to established importers over a wide range of items, the import of which might not be justifiable on strict balance-of-payments grounds, in order to avoid undue damage to the interests of other countries.

16. Concerning future prospects, the tight position could be expected to continue for the next two or three years, but they hoped to be able to achieve a more stable position in overseas trade from 1961 onwards, and, what was more significant, to reach higher levels of overall trade because of higher living standards and higher productivity. Despite the expected increase in production under the second Five Year Plan per capita income would still be only Rupees 330 in 1960-61.

17. The Indian representative stated that the exports of India had been more than adequate to finance the import of the current requirements of industry and the consumer, making available a small surplus for investment and development. This amount together with other resources was being utilized to establish capacity for the manufacture of steel, textile, sugar mill and electrical machinery, machine tools, diesel engines, aluminium, dyestuffs and other items. As local output increased to meet a substantially larger proportion of domestic needs, funds would be released to finance imports necessary to continue the development programme. The industries were those for which India was eminently suited. Thus India had concentrated on steel production, being among the world's cheapest producers. The substantial investment in developing the transport system would help to increase exports particularly of metallic ores, the demand for which could not be met fully at present. This would increase foreign exchange earnings. Also, the increase in output of foodgrains, raw cotton and raw jute as a result of the steps being taken to increase agricultural productivity, would ease the foreign exchange position.

18. In concluding, the Indian representative affirmed that their economy was a sound one, and the object of the development programme was to make it even sounder. The main problem was that of financing the development necessary to make fuller use of their resources and to provide more employment and higher living standards. Success would result in higher levels of production and trade, so promoting the objectives of the CONTRACTING PARTIES.

Balance of Payments Position and Prospects, and Alternative Measures to Restore Equilibrium

19. In reply to questions about the prospects for an expansion of the export market for traditional products - such as jute, cotton and tea - as well as for new products, the representative of India said that it was
obviously very necessary that exports should expand as that was perhaps the principal way in which the development programme could be financed. There was no doubt that exports, even of the traditional items, could be increased. There was, for example, a good market abroad for vegetable oils and, at times in the past, quite substantial quantities had been exported. Last year, however, there had been a decline due to weather conditions and the large internal demand. In the development programme, a great deal of attention was being given to agricultural production and it was hoped over the years to sell more of these products. India was an efficient producer of jute goods and had natural advantages, and some expansion in sales could be expected. There was, however, competition from substitutes. Restrictions for protective reasons constituted an additional barrier to sales. Nevertheless some growth in demand for jute was anticipated. The jute industry was being modernized in order to offer a better and cheaper product. In regard to tea and cotton, it was hoped that there would be some increases. There were also plans to develop new industries, such as pig iron, for which ores were available. It was hoped to export steel. One of the difficulties in connexion with industries of that sort was the inadequacy of transport, but as the railway programme developed that would be overcome. A start had been made in marketing light engineering products and there had been encouraging response to efforts to export cottage industry products. A member asked whether special efforts had been made to increase exports of new products to neighbouring countries. These markets were likely to expand in the future. He mentioned in particular the possibility of exporting the output of the electronics factory at Bangalore. The Indian representative replied that these possibilities were being actively pursued as part of the export promotion drive.

20. A member noted with satisfaction the recognition of the role which foreign capital could play in India's development, and asked what sectors of industry were considered most attractive to foreign capital and what impediments there might be to the admission of such capital.

21. In reply, the representative of India said that there were no special fields in which foreign capital was restricted. Foreign capital was welcome throughout the whole field of industrial development. The Government undertook a general screening of all industrial projects, primarily for the purpose of ensuring that facilities, such as land, power, raw materials and water supply were available. This applied to all investments. It seemed natural that a foreign investor would wish to consult the government on matters of that sort before investing his money. In regard to particular fields for development, foreign capital was welcome in any of them; but the initiative had primarily to come from the foreign investor and the Indian business man with whom he was collaborating. One of the advantages of that sort of collaboration was that it helped to raise the general level of technical and managerial skill. Foreign capital could be invested in manufacture from local raw materials for export; ferro-manganese and ferro-chrome would be examples. Engineering and chemical industries such as machine tools, aluminium and dye-stuffs were all promising fields. Manufacture of film also offered attractive prospects; India was the second largest consumer of film, next to Hollywood. These examples were illustrative.
22. One member asked what the prospects were for foreign investment in India and whether any positive measures were being taken to attract foreign capital. The Indian representative stated in reply that there were good prospects for foreign investment. The basic conditions required were present in good measure, e.g. political and economic stability, provision of basic facilities such as power and transport, availability of raw materials and a steadily expanding market.

23. Replying to a member who asked what the policy was in regard to compensation in the event of nationalization, the representative of India said that it was the Government's firm policy to pay full and adequate compensation. The foreign investor had been fully satisfied with the compensation given in the very few recent cases of nationalization involving foreign capital. Further, the Government of India had declared that as a great deal of industrialization had yet to be undertaken, it would not wish to expend its resources in nationalizing private undertakings.

24. A member of the Working Party said that the success of India's development effort was important not only to that country but to other countries also. He referred in this context to the steady rise in India's population and the strain this imposed on the Indian economy. In reply, the Indian representative stated that this was one of the reasons why a rapid rate of development was essential. In spite of the big effort contemplated under the second Five-Year Plan, it would be able to absorb only the increase in the labour force, and the existing level of unemployment and under-employment might continue. The problem could only be solved through greater investment and productivity over a number of years.

25. Questioned about the effect of the intensification of restrictions which had been undertaken last July, the representative of India said that the position had to be viewed as a whole in the light of the measures introduced not only in July but in January and October as well. Together, they represented an adjustment of the import licensing programme to the changed conditions which had resulted from the increase in the level of development expenditure. In 1956 there had been an extremely liberal import policy which obviously could not be sustained along with an intensive development programme. In assessing their effect, no one of the measures introduced could be considered in isolation, as their results would overlap. Broadly speaking, the effect of all the policies (as of any specific policy) would be to enable the financing of the imports of raw materials needed to keep the country's industries going, and to maintain licences for consumer goods at as high a level as practicable.

26. A member noted that since the time of the 1956 IMF consultation it was clearly apparent that there had been a very heavy decline in India's reserves. The pressure seemed to have been due to a considerable increase in imports. Did that, he wondered, indicate that there had been a "bunching" of imports required for the development programme; and would such an exceptional concentration of demand mean that, perhaps for the next couple of years there would not need to be such a high level of imports? Was it the case that a substantial part of India's needs for development purposes had been met by those imports and that, consequently, within the next two or three years,
the balance of payments would not have to bear as heavy a burden of
capital goods imports? Or was the picture worse and was there likely
to be very heavy pressure on the reserves within the next few years,
even with a fair amount of foreign investment and public loans?

27. The representative of India replied that a combination of factors had
been responsible for the change in the balance-of-payments position from
1955/56 to 1956/57. A poor monsoon had led to an increase in imports and to
a lesser extent a reduction in exports of agricultural products. Secondly,
there had been a higher rate of imports because of much higher development
outlays. Thirdly, there had been the consistent policy of liberalization
which India had followed, not merely in relation to development goods but
also for other kinds as well. As regards the future, it appeared that the
position would continue to be difficult for the next two or three years.
The level of imports was likely to remain high, although that did not imply
a continuing drain on reserves. In the past, most of the imports had been
paid for out of reserves. In the near future it was expected that the pattern
of India's imports would be such that much of them would be covered by loans,
e.g., equipment for the steel plants, railways and ports. In framing its
current import policy, the Government had taken its commitments fully into
account and would proceed in the light of its available resources.

28. A member asked whether imports of steel would continue at the current
high level. In reply, the Indian representative stated that there would be
some reduction in the coming months, and more after the expansion schemes of
the existing steel plants had been completed.

29. A member asked whether the extent to which the current development programme
was implemented would depend on the level of additional resources that might
become available. The Indian representative replied that it should in any
event be possible to meet essential current requirements, to honour existing
commitments and to implement the "hard core" of the Plan consisting of rail
transport, power, coal and steel production. The extent of further invest­
ment and the fields in which it would take place would depend on the level of
additional resources that might become available.

30. A member observed that there was a possibility of an inflationary situation
developing in India. But it was also clear that the Government was fully aware
of the situation and was taking measures to deal with it. There had been, for
example, two issues of Government bonds and he wondered what effect they had
had on the situation. Had the issues absorbed funds which might otherwise have
been idle? In reply, the Indian representative indicated that it was difficult
to say whether money subscribed to loans would otherwise have been used or not.
He added that money was generally tight and credit difficult to obtain.

31. Members of the Working Party from the dollar area noted with appreciation
the policy of the Indian Government in enabling established importers to
utilize 50 per cent of the face value of their soft currency licences (or where
the value did not exceed Rs. 5,000, the full value) for imports from the dollar
area, and welcomed the latest policy which enabled these importers to utilize
half the value of soft currency licences or Rs. 5,000, whichever was the greater,
for dollar imports. This represented a reduction in discrimination, and they hoped the Indian Government would be able to maintain the momentum towards complete elimination of discrimination, when the balance of payments permitted. They asked whether this right to employ 50 per cent of the value of soft currency licences for imports from the dollar area was applied to all importers - established importers, actual users and others, and to all types of imports and enquired to what extent the soft currency licences in question had in fact been utilized by Indian importers to procure goods from the dollar area. A question was also posed concerning the criteria applied in import licensing policy and procedures and especially on the parts played by relative price factors and by availability of the goods in question from domestic production.

32. The Indian representative stated that the problem of India's balance of payments was an overall one. The import licensing system discriminated only between the dollar area and the rest of the world, though India had substantial deficits with some soft-currency countries. Import discrimination against dollar areas had been progressively reduced. There was no discrimination at all in regard to licensing of goods required by actual users and of capital goods. The discrimination in licensing to established importers had been further reduced under the current policy. Detailed information was, however, not readily available regarding the extent to which the soft currency licences had been utilized for dollar imports. There had also been reduction in discrimination with regard to licensing under the Export Promotion Scheme; whereas previously dollar licences had been granted only if the finished products were exported to the dollar area they were now being granted (subject, of course, to considerations of price and quality) even if the finished products went to non-dollar areas.

33. In regard to criteria applied, he emphasized that price considerations were certainly taken into account, and were most carefully studied in various quarters; for example, on the Import Advisory Councils consumer representatives had ample opportunity to help keep a check on this point. They did take into account domestic availabilities - because if satisfactory local products were available at reasonable prices, it would clearly be disadvantageous to the balance of payments to import them.

34. One member expressed appreciation of the adequacy of the Indian Government's publications and notices on import and licensing policy and procedures, a matter which his country regarded as one of considerable importance. The Indian representative welcomed the expression of opinion concerning the publications on import and licensing policy and procedures.

35. One member, commenting on the Indian distinction between the "dollar area" and the "soft currency area", suggested this could be misleading, and could imply that all currencies other than the dollar area were "soft". He wondered whether India could not employ other more suitable terms to describe the position.
36. The Indian representative replied that this had a historical basis. The Government of India had progressively moved towards non-discrimination in import licensing. They had not therefore expanded the hard currency list or created further currency-area categories for import licensing purposes, even when India had substantial balance-of-payments deficits with particular areas, and even though some of these currencies might be said to be hard in the same sense that the dollar was hard. This policy could obviously be sustained only if trading partners were prepared to reciprocate. It was to be hoped that all concerned would adopt policies which would ensure an increased level of world trade on a non-discriminatory basis.

37. Another member said he wished to mention a specific point of importance to his country. When restrictions had been intensified on 1 July 1957, the import of some commodities was totally or almost completely prohibited. Unfortunately this affected his country's important exports very much; as far as he could understand there was no discrimination by India between "soft currency" countries (in which his own was included) so far as quantitative restrictions were concerned. But the import ban on some of his country's products might necessarily be felt as a kind of discrimination. This was due to the fact that his country's exports to India were limited to a few commodity groups. The hardship to his country was therefore more serious than for most others. He mentioned as examples, staple fibre and fish-oils, imports of which into India were, for the time being, prohibited. Furthermore, it seemed to him that this policy was not in accordance with the obligations under Article XII:3(c) of the revised GATT.

38. On this point, the Indian representative observed that his Government's policy was not based on any discrimination, except, as pointed out earlier, between the dollar and soft-currency areas. It was necessary to differentiate between commodities as foreign exchange reserves had to be used to the fullest possible advantage. The basic document of the secretariat had referred to the liberal policies previously in operation, but now it had become necessary to impose import cuts over a fairly wide range of goods. The provisions of Article XII of the GATT required countries not to apply restrictions so as to prevent unreasonably the importation of any goods. In view of India's foreign exchange difficulties, the restrictions imposed could not be considered unreasonable. The point raised by the member of the Working Party would, however, be kept in mind.

39. One member asked whether the quantitative restrictions imposed by India had rendered less effective the concessions on bound items made during tariff negotiations since 1947.
40. The Indian representative pointed out that import controls dated back to 1940 when they were being applied under the Defence of India Rules. War-time regulations could not be continued indefinitely, so legislation was passed in 1947. Concerning the question on bound items, he observed that quantitative restrictions were certainly being applied at the time the tariff negotiations took place; but over the years India's import control policy had been determined by the balance of payments and reserve position; there had been periods when the level of restrictions was appreciably lower than at the time when tariff concessions were negotiated. At the end of 1956 quotas were liberal, and the liberal licensing scheme was in operation. They had tried to ensure that imports were permitted of items for which tariff concessions had been granted. Generally speaking, it would be quite incorrect to suggest that where tariff concessions had been granted they had been vitiated by the use of quantitative restrictions. The Indian representative cited figures to illustrate his point. Imports of many items on which direct or indirect concessions had been granted had increased substantially.

41. One member, referring to the new credit and deferred payment conditions associated with the granting of licences for imports of capital goods, suggested that these terms went beyond those normally regarded as commercial, and created problems for countries unable to extend such facilities. This tended to accentuate the restrictive effects of the import policy. He also enquired about other conditions attaching to the issue of certain licences (mentioned in paragraph 2, page 3 of the secretariat basic document) especially that concerning price for resale after importation; if international prices were not taken into consideration, this too could have restrictive effects on imports.

42. The Indian representative, replying to the question about capital goods imports, stated that in view of the difficult foreign exchange position, licensing of capital goods had necessarily to be restricted to schemes covered by foreign investment, or, for relatively small projects which would show quick results, by medium-term credits. In regard to the point about price considerations, he remarked that the object of the regulations was to ensure that users in India obtained supplies from established importers at import prices plus a reasonable mark-up. There was no intention on the part of the Government to use the price condition to restrict imports - it was imposed only to secure distribution of the imported product at equitable prices.
43. A member enquired about the prospects of overcoming the deferred-payment problem, and asked where the firms were to be found which were prepared to accept this type of contract.

44. The Indian representative referred to page 17 of the "Red Book" for October 1957-March 1958 and quoted paragraphs 50-52, where it is stated that import licences (for capital goods) against long-term overseas investment would be issued when the value of the goods to be imported was covered by fresh long-term equity or loan investment or other forms of finance not requiring any remittance before 1960; and that applications for import licences against medium-term credits would be considered for industries, projects or undertakings which were of importance as earners or savers of foreign exchange. Licences would as a rule be granted against medium-term credits only when the outlay on imported plant and equipment was relatively small and would be covered by savings or earnings as a result of the implementation of the scheme within a period of three years from the date of initial payment.

45. He agreed that a credit not involving any payment before 1960 could not be regarded as "normal commercial," and would require special financing.

46. In response to a question about the rate of interest on credits, the Indian representative stated that they would vary from country to country and would have to be considered in conjunction with the duration of credits, and prices and quality of the equipment. He did not think an answer in general terms would be entirely satisfactory. Generally, the importer in India would negotiate with the supplier after obtaining the Government's preliminary approval and then submit detailed proposals.

47. Several members expressed their appreciation of the measures taken by India in the fields of liberalization and of reducing discrimination. They recognized fully the fact that India had considerable balance-of-payments difficulties, and welcomed the fact that, despite this, import policy had moved in the direction of non-discrimination. It was hoped that India would continue to reduce discrimination and also avoid the placing of complete prohibitions on some imports, with a view to preventing unnecessary damage to the economic or commercial interests of other countries.

48. The Indian representative replied that they had fully in mind the possible effects of their restrictions on other countries' trade. Even the current licensing policy provided for the importation of a number of consumer goods which on strict balance-of-payments grounds could justifiably have been kept out. They would continue to bear fully in mind the interests of other countries.

49. One member pointed out that if too much consideration were given to the possible effects of import policy on individual countries this could quickly result in bilateral negotiations and agreements which might well amount to discrimination.
50. The Indian representative said he recognized this as a valid argument, and recalled his earlier statement that they did not discriminate between countries, but differentiated between commodities. Therefore, the question of bilateral negotiations for exchange of concessions in this field did not arise.

51. Members referred to the advantages associated with purchasing and importing at the best possible price. It was encouraging to note the efforts which India had made in the direction of trade liberalization and of reducing discrimination, but they would like to point out that if import commodities were shut out for too long, local production would develop, and make the necessary internal re-adjustments of resources, and subsequent imports of these commodities, very difficult.

52. Appreciation was expressed by the Working Party of the very full and informative statements made by the Indian representative, who, in turn, expressed his thanks for the sympathetic hearing given him during the consultations.
ANNEX I

OPENING STATEMENT OF THE INDIAN DELEGATION

I should at the outset express the appreciation of the Indian delegation of the work done by the GATT secretariat and the International Monetary Fund in preparing a careful and objective analysis of the situation. These documents are before the Working Party, as also a short statement from the Indian delegation describing their latest import policy. I need, therefore, in these opening remarks refer merely to some broad aspects of the problem which the Working Party might take into account.

These consultations have been initiated under Article XII of the original GATT. Since then the revised Article XVIII has come into force. Paragraph 8 of that Article recognizes that under-developed countries when they are in rapid process of development tend to experience balance-of-payments difficulties. This is precisely what has happened in India.

Development has naturally meant considerable imports of capital goods. The value of our machinery imports has gone up from Rupees 549 million in April/September 1955 to Rupees 824 million in the half year October 1956 to March 1957.

Our imports of semi-finished products have also gone up. The most important of these products is iron and steel, imports having risen steadily from Rupees 205 million in April/September 1955 to Rupees 594 million in October 1956/March 1957. Most of the steel has been required for our transport programme and for basic facilities and for irrigation and similar projects.

Unfortunately we have also had to provide exchange in large amounts for foodgrain imports. Our food production is still largely at the mercy of the monsoons and while favourable and timely rains enabled us to manage with relatively small imports in 1955-56, our requirements have gone up since. We have had over the last eighteen months to import more than two-thirds of the quantity of grain that we had assumed to be necessary over five years. In spite of the very generous assistance received from the United States of America under the PL480 programme and recently also from Canada, which has made it possible for us to build up the stocks required to deal with shortages and prevent undue price rises, we have had to increase substantially the allocations of exchange for the purchase of grain. The latest crop reports are discouraging and an increased level of imports may well become necessary.

Other imported consumer goods are not of much significance to the mass of the Indian people. Even so, we have in the past followed liberal policies in regard to imports and the total expenditure on items like drugs and medicines, paper, electrical goods, etc. has been fairly substantial.
The nett result of all this has been a steady decline in our external reserves. The decline has often averaged £1 million sterling per day for weeks together and the reserves are now Rupees 3290 million. It has become necessary for the Government of India to issue an ordinance amending the minimum reserve requirements to Rupees 2,000 million inclusive of gold, which is equal to the value of two months' imports at current levels and four months' imports at 1953-54 levels.

Against this background and in the circumstances which I have explained, I trust the Working Party will agree that the Government had no option but to impose the fairly drastic cuts which they made in the import policy for the quarter July-September 1957. For the period October 1957 to March 1958, a somewhat less restrictive but nevertheless tight policy for imports has been announced and is in operation. These measures, as the IMF has pointed out, do not exceed what is required to stop the serious decline in our monetary reserves. Indeed, it is our estimate that with the fulfilment of orders already placed and the fresh licensing that will take place, there is little likelihood of the position of our reserves improving significantly for many months to come.

In these consultations, we aim not merely at exploring what can be done by the country which has had to impose restrictions but also what other contracting parties can do to assist the country concerned. India must obviously look first of all to increased exports to finance development. Our three main export commodities are jute manufactures, cotton textiles and tea. I shall refer briefly to each of these. We are modernizing our jute textile industry and we would hope that we will be enabled to sell our product without being faced with unduly high tariffs, or State trading arrangements or quota restrictions for protective considerations.

Our cotton textile exports have declined somewhat last year. Here again we would hope that our trading partners would give us adequate facilities for marketing on a competitive basis. We would hope that the efforts of India and other producers to market their teas will not be hampered by the levy of high duties.

Foreign investment can play a very useful part in developing the economy. Recognizing its importance, we freely allow not only remittances of dividends but also repatriation of capital.

The Government have taken several fiscal and monetary steps to reduce inflationary pressures in the economy and these have been set out in the statement circulated to contracting parties. Appropriate action will continue to be taken from time to time in these fields.

The very tight licensing policy followed for capital goods since the beginning of this year ensures that uneconomic industries will not be set up as a result of the intensification of import restrictions. Licences for the import of capital goods are now granted to an extremely limited extent and only for really sound schemes. The industrial projects now being implemented are
almost entirely against 1956 capital goods licences. At that time, a very liberal import policy was in effect for nearly all items and the private investor could not anticipate the tight policy we are now following.

The new policy provides for the grant of licences to established importers over a wide range of items, the import of which might not be justifiable on strict balance-of-payments grounds, in order to avoid damage to the interests of other countries. The import of samples and advertising materials continues on Open General Licences.

Having explained the nature of our present difficulties and indicated that the restrictions on imports which we have imposed are by no means too severe or unmindful of the interests of other contracting parties, I feel I ought briefly to indicate the picture as we see it, of the future. For the next two or three years the tight position will, I am afraid, continue. But we expect to be able to achieve a more stable position in our overseas trade from 1961 onwards, and, what is more significant, we hope then to have higher levels of overall trade than at any time in the past on account of better standards of living in the country and higher levels of productivity.

For the past few years our industrial production has been increasing at the rate of 8 to 9 per cent per annum. We have also during the first Five Year Plan achieved an increase of 11 per cent per capita in the national income - a rate of a little above 2 per cent per annum. It is our hope to achieve a further increase in the second Five Year Plan. Nevertheless, our per capita income would still be only Rs. 330/- in 1960-61.

There is an urgency about all this in a country which is so poor and whose population is steadily rising.

Even today India can finance its imports of the current requirements of industry and the consumer and have some surplus of foreign exchange for development. In 1955-56, there was a small surplus on current account. This was in spite of substantial imports of commodities for developmental purposes. A rough calculation indicates that about one-fifth of India's imports in that year consisted of capital goods and if these are left out of account, there would have been a large current account surplus. Imports of machinery, steel and transport equipment were substantial. What we are now doing is to try to develop at a faster pace. But we are determined to see that development is on sound lines.

We have concentrated on steel. We are probably among the cheapest producers of steel - and have to subsidize the two million tons we import annually at present. When our steel expansion is complete we would save on steel imports. Similarly, with increased production in India of items like textile machinery, sugar mill machinery, machine tools, electrical machinery, diesel engines, aluminium, dyestuffs and other chemicals, we hope to meet a substantially larger proportion of domestic needs with indigenous production and thus release funds for sustaining the imports necessary to continue our development programmes.
The substantial investment in developing our transport system will help us in increasing our exports, particularly of metallic ores for which we find it difficult to cope with all the demand we receive.

Our cotton and raw jute imports between them cost us Rs. 750 million in 1955-56. We shall continue to import these commodities but we trust that domestic supplies will increase significantly.

The Indian economy is a sound one, Mr. Chairman, and the object of our development programme is to make it sounder still. What we face at the present moment is the problem of financing the development necessary to make fuller use of resources and to provide more employment and higher standards of living. The success of this programme will result in higher level of production and exchange of goods, and thus promote the objectives which we as contracting parties have set ourselves.