GENERAL AGREEMENT ON TARIFFS AND TRADE

CONTRACTING PARTIES

Fourth Session

DISCRIMINATORY ADMINISTRATION OF RESTRICTIONS TO SECURE THE BALANCE OF PAYMENTS

Description of Restrictions on Imports

(Replies to Questions 1, 2 and 3 of GATT/CP/39)

ADDENDUM

Reply by India

2. Import restrictions are not exercised directly through exchange control, but rather through a system of direct licensing of imports of commodities from other countries.

These countries are classified, by the sterling area as a whole, of which India is now a full-fledged member, into (a) dollar area, (b) other hard currency areas and (c) soft currency areas. For India, South Africa, though a member of the sterling area, constitutes a fourth category, because, arising out of racial discrimination against the Indian population in that country, the Government of India decided in July 1946 to prohibit trade between the two countries.

For the purpose of licensing of imports, goods are divided into five classes:

(a) Goods under the open general licence for imports from soft currency countries;

(b) Goods for which import licences are granted within monetary ceilings from soft currency countries;

(c) Goods for which import licences are granted within monetary ceilings from dollar and other hard currency countries;

(d) Goods for which no licences are granted for imports from dollar and other hard currency countries; and,

(e) Goods for which no import licences are granted from any source whatsoever.

In common with the sterling area, India has to exercise the utmost economy in imports from dollar and other hard currency areas. The strictest criteria of essentiality have to be satisfied, due weight being attached to the factors of delivery dates and price advantage. In each case, it is also to be examined whether the goods in question are not available in a soft currency area. In relation both to hard and soft currency areas, since foreign exchange has to be spent, the quantum of indigenous supplies available is also taken into account in fixing the overall monetary ceilings up to which import of each commodity is to be permitted.
India has entered into a number of trade agreements with individual countries with a view to ensuring the maximum possible trade with those countries for meeting reciprocal demands and developing possibilities of obtaining goods from soft currency areas for which otherwise scarce currencies will have to be spent. These agreements are not, however, exclusive in character, for they leave it to the trade to work up to the prescribed ceilings, depending upon economic factors such as prices, delivery dates, etc.

The distinction made between dollar and other hard currency countries and soft currency countries occurs in virtue of the provisions of Article XIV (a) and (b).

3. In February, 1948, under the Sterling Balances Agreement concluded with the United Kingdom Government, restrictions were imposed for the first time on the convertibility of India's sterling balances, and not more than £10 million were made available for financing our deficit with the hard currency countries. This made it necessary to apply import restrictions with greater severity against the hard currency countries, from which India had to import such essential commodities as food grains and capital goods, than against the soft currency countries. Under the same agreement, North, Central and South America and adjacent islands (excluding territories which are parts of Sterling Area, Dutch Monetary Area and French Monetary Area), Japan, Phillipines, the Belgian Monetary Area, Portuguese Monetary Area, (excluding Portuguese India), Sweden, Switzerland, and Leichtenstein were declared as hard currency countries.

By June 1948, our balance of payments on current account with soft currency areas had developed a large surplus. This coincided with an accentuation of the inflationary tendencies already in operation. In July 1948, therefore, Open General Licence XI was issued covering a large number of articles mostly essential consumer goods and industrial raw materials.

In July 1948, under another Sterling Balances Agreement concluded with the United Kingdom Government, Brazil, Chile and Uruguay, and later Peru, were excluded from the hard currency countries and reclassified as soft currency countries while the joint United States-United Kingdom Zone of Germany was included in the hard currency area. Under the same Agreement, it was agreed that so long as our trade deficit with Sweden and Switzerland did not exceed the 1947 trade, no hard currency liability would be involved. Accordingly, O.G.L. XI was extended to Sweden and Switzerland from the 22nd July 1948.

On the 22nd September 1948, O.G.L.XI was extended to Japan. This was done, because the trade agreement concluded between Japan and the sterling area countries had provided that for the year beginning from 1st July 1948 any balance in favour of India, subject to an maximum limit of £2,5 million, would be convertible into U.S. dollars, and it was expected that even if imports from Japan were allowed to the maximum extent freely India would be able to achieve this surplus in view of the credit in her favour in the Raw Cotton Open Account.

From July to November 1948, in pursuance of the Government's anti-inflationary policy, the scope of O.G.L. XI was extended from time to time. In November 1948, certain categories of luxury goods were also added to the O.G.L. list.
From the 31st December 1948, Sweden was placed on the soft currency list.

On the 31st January 1949, the Open General Licence for Switzerland was cancelled, since that country was then declared to be a hard currency country.

From the 31st March 1949, the O.G.L. in respect of Japan was withdrawn, since our trade with that country had then begun to show a large deficit.

On the 5th May 1949, O.G.L. XI was cancelled, and on the 19th May 1949, O.G.L. XV, which included a smaller number of articles, was issued. The cancellation of O.G.L. XI was necessitated by the fact that the liberal import policy followed since July 1948 had led to an excessive flood of imports and this combined with a simultaneous reduction in exports resulted in a trade deficit which was too large in comparison with the foreign exchange resources available for financing it. In view of the marked deterioration in the balance of payments position, the restrictions on imports from the dollar and other hard currency countries were also tightened.

During January-June 1949, the licensing of commercial imports was severely curtailed, and consumer goods were not licensed for imports from dollar and hard currency areas. Even the licensing of imports of plant and machinery and industrial raw materials was restricted to such commodities as could not be obtained easily from other sources. Special attention was given to imports of machinery goods. Where such goods could be obtained from the soft currency areas and were such that their contribution to economic development was not very material, licences were refused. A number of items like mineral oil, which were hitherto liberally licensed, were placed in the restricted category.

In the last week of June 1949, in view of the heavy depletion of the Sterling Area Central Reserves, the licensing of imports from the dollar and other hard currency countries was temporarily suspended. The suspension remained in effect until about the middle of September 1949.

In July-August 1949, another Sterling Balances Agreement was concluded with the United Kingdom Government. The main features of this Agreement were as follows. In the first place, provision was made to regularise the overdrawal made during July 1948 to June 1949, so that this did not affect the release of sterling for 1949-50 and 1950-51. Secondly, when the O.G.L. XI was withdrawn in May 1949, it was considered desirable both in the interest of our own economy and that of the exporting countries that the process of bringing down our imports should be a gradual and tapering one. For meeting the charges arising from this process, the United Kingdom Government agreed that a further sum of approximately £250 million would be released in addition to the normal release. Thirdly, the annual release for 1949-50 and 1950-51 was increased from the original figure of £40 million to £50 million. Fourthly, India became once more a member of the sterling area and the quantitative limit on her drawings of dollar and other hard currencies from the Central Reserves was withdrawn. It was also agreed by all the sterling area countries, including India, to limit dollar imports during the twelve months ending June 1950 to 75 per cent of their respective dollar imports during the calendar year 1948. The licensing policy for the
period July-December 1949, which was announced on the 12th September 1949, was designed to implement these various decisions and involved severe restrictions on imports from all sources.

On the 25th August 1949, O.G.L. XV was cancelled and was replaced by a much more restrictive O.G.L. XVI which covered mainly essential raw materials and machinery.

In September 1949, after devaluation, the import programme was again reviewed, but no drastic changes were considered necessary, since the policy for the period had already been framed on a restrictive basis and announced only a few days before devaluation. Imports from the sterling area and the soft currency countries were not directly affected, but in the case of certain commodities, e.g., petroleum products which were imported from the Middle East, and non-ferrous metals obtained from Commonwealth sources, world prices were primarily determined by the prices of supplies from the dollar area, and hence prices tended to rise. Adjustments were accordingly made on this account in the import programme. As for the dollar area, in view of the inelastic nature of India's exports, and the difficulties arising from the non-devaluation of the Pakistan rupee, it became more than ever necessary that this should be severely regulated.

Pakistan's decision not to devalue her currency created a new threat to India's balance of payments position by increasing the prices of all imports from that country by forty-four per cent. In spite of this in order to carry out the spirit of the Inter Dominion Commodities Agreement no action to restrict imports from Pakistan was taken by India for some time. Pakistan, however, cancelled her Open General Licence in respect of Indian goods after devaluation and this was later followed up under its Public Notice No. 42(49)-1 of 12th November 1949 under which the Pakistan Government placed a ban on imports of piece goods from India along with those from a number of hard currency countries.

India is a soft currency area for all members of the sterling area, including Pakistan, and the latter particularly had a heavy balance of trade in her favour vis-a-vis India during 48/49. In spite of these favourable factors Pakistan decided to ban imports of piece goods from India along with those from hard currency areas and in the light of these developments India had no alternative but to withdraw the Open General Licence for imports from Pakistan.