Terms of Reference

1. In implementation of section II/2 of its basic work programme, the Committee met from 5 to 9 June to examine in detail, as agreed at its meeting held from 21 to 25 March, the trade and payments aspects of the Third Five-Year Plan of India. This was the first time that the Committee had considered trade prospects and difficulties confronting an individual contracting party in relation to its development needs and programme. At previous meetings the Committee, under this section of its work programme, had examined various aspects of trade measures affecting possibilities for less-developed countries of expanding exports of items, including manufactured items, which they could produce efficiently.

2. In conducting the examination, the Committee had before it (i) the Draft Outline of the Third Five-Year Plan of the Planning Commission of India; and (ii) a secretariat paper on trade and payments aspects of the Third Five-Year Plan of India (COM.III/47). In accordance with the agreed "Arrangements for Studying Development Plans" (Annex B of document L/1435), the Committee in its discussions concentrated on those aspects of the Plan which related to the maintenance and expansion of India's export earnings.

Opening Statement by the representative of India

3. In his opening statement, the representative of India expressed to the Committee the appreciation of his Government that it had been possible to schedule the examination of the Third Five-Year Plan of India shortly after the Plan had entered into effect. He explained that the Plan, covering the period April 1961 to March 1966, after careful examination and review

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1 Section II/2 of the Committee's work programme calls for a "study of the possibility of channelling expansion of existing industries or starting of new industries by less-developed countries into directions where such countries will be economically efficient producers".
by the National Development Council, was soon to be finalized and that the final version of the Plan would be published shortly. He expressed the hope that the experience gained in the examination of the Indian Third Five-Year Plan which was being undertaken with a view to assisting India in reducing and overcoming obstacles to an expansion of its export earnings, would be of assistance to the Committee in rendering assistance to other less-developed countries when examining their development plans.

4. The representative of India explained that although the final version of the Plan had not yet been published, the broad outlines of the Plan, as contained in the Draft Outline submitted earlier to contracting parties, had not undergone fundamental change. Thus, while the data before the Committee would eventually have to be revised, and while there were bound to be certain slight shifts in emphasis, the information available to the Committee was sufficiently close to the revised targets to permit a meaningful examination to be carried out on that basis.

5. The representative of India informed the Committee that the major change had been an increase of 3 to 4 per cent in the overall target of investment of Rs. 102,000 million\(^1\) envisaged in the Draft Outline for the period of the Third Plan. This upward revision had been necessary in order to cover increased requirements for maintenance imports and increases in cost of capital equipment. In line with the upward revision of overall investment, certain production targets in the Plan had also been increased, and export targets for certain items, particularly those for which there existed sufficient foreign demand, had also been increased, even where this increase meant sacrificing domestic consumption. He pointed out in this context that despite the proposed increase in overall investment, and the increase in foreign exchange requirements for imports of certain capital equipment and materials, the Indian Government did not intend to seek additional foreign financial assistance over the level of Rs. 26,000 million envisaged in the Draft Outline for the period of the Third Five-Year Plan. Rather it was hoped that the additional foreign exchange requirements could be met from increased exports. The Indian Government and people would make every effort to increase the range and quantity of goods available for export. The revised export target envisaged total export earnings from commodities

\[^{1}\] Rs. 4.76190 = US $ 1.00
to reach Rs. 37,000 million for the five-year period, as compared to the earlier export target of Rs. 34,500 million. On the other hand, the surplus on invisibles of Rs. 1,200 million, which had been envisaged in the Draft Outline, was expected to disappear as a result of increased payments on freight for the larger volume of imports; additional repayment and servicing obligations on new foreign loans incurred, and a decline in earnings from still further reduced sterling balances. While the revised targets of the Third Five-Year Plan envisaged a small increase in overall export earnings, as compared to the estimates contained in the Draft Outline of the Plan, the overall deficit in India’s balance of payments continued to be very large. Moreover, no allowance had been made in these estimates for any increases in import prices which might occur over the five-year period.

6. The representative of India expressed his Government’s appreciation of the generous financial assistance of $2,225 million to be made available to India over the next two years, which had been pledged by a six-nation consortium comprising the United States, the United Kingdom, West Germany, Japan, Canada, France and by the IBRD and the IDA. While this assistance was sincerely appreciated, as well as the aid provided by other countries, the Indian Government was aware that in the long term aid could not be a substitute for trade. His Government was therefore attaching the greatest importance to finding ways and means of increasing the country’s foreign exchange earning capacity. It was hoped that the examination by the Committee of the trade and payments aspects of the Indian Third Five-Year Plan, and ultimately of other development plans, would lead to greater awareness by contracting parties of the difficulties faced by less-developed countries and of the measures taken by those countries to overcome these difficulties. At the same time, it was hoped that the examination by the Committee would assist contracting parties, less-developed countries as well as industrialized countries, to determine the problems which needed to be resolved most urgently and to take appropriate and energetic action.

7. The Committee expressed appreciation of the statement of the representative of India and welcomed the financial assistance to be made available to India under the agreement with the Aid to India Consortium. The Committee noted in this context that the communique issued on 2 June 1961 by the IBRD
on the agreement reached by the Consortium had stated that "India had demonstrated a capacity to make effective use of foreign aid" and had endorsed the aims and objectives of the Third Five-Year Plan of India. The Committee agreed with the representative of India that, welcome and necessary as this financial aid was in present circumstances in assisting India in its heroic development effort, aid alone could not in the long term be a substitute for trade. It was therefore of vital importance that all possibilities should be explored both by the less-developed countries concerned and by other contracting parties, for eliminating obstacles to an expansion of export earnings of less-developed countries. It was noted with appreciation that the Government of India had expressed its determination and readiness to take whatever fiscal or organizational measures might be required for providing a progressively larger surplus for export.

Export Promotion Measures

8. The Committee agreed with the representative of India on the importance of trade promotion and welcomed the broad and many-sided programme which had been instituted in recent years by India in this respect. On the other hand, members of the Committee pointed out during the discussion on individual items, that there existed still considerable scope for an expansion of promotional efforts both by the Government of India and by Indian business. At the same time the Committee recognized that the lack of trade promotion measures with respect to certain items was due in large part to the existence in many importing countries of trade barriers which would make it difficult to justify trade promotion expenditures in these markets. In other instances, however, where markets were open and where promotional measures were restrained primarily by India's lack of foreign exchange resources, outlays for market research and trade promotion might soon permit rather more considerable trade gains to be realized than might be achieved without such initial expenditure. This was particularly true with respect to some of the newer export lines where the principal barrier to an expansion of exports appeared to be an insufficient awareness in importing countries of the types and characteristics of the items available for export from India. In this connexion, members of the Committee pointed out facilities for interested exporters, in existence in their countries, of which Indian exporters might also
avail themselves, often at no or only nominal charges, for assistance in
the marketing of their products. The representative of India thanked the
Committee for the helpful suggestions made in this respect and stated
that his country would continue to give close attention to measures of
export promotion and to expand such measures to the extent possible. In
response to a number of questions concerning the implementation of various
measures under the overall programme of trade promotion, the representative
of India explained that the Export Risks Insurance Corporation, which had
been established in 1957, was a member of and adhered to the rules of the
Berne Union and that the trade agreements concluded with certain GATT
countries contained only indicative lists of commodities for export. While
industries producing for export received favourable import licensing
treatment, no subsidies were given to exports.

Export forecasts for the Third Five-Year Plan

9. In its evaluation of the export targets contained in the Indian Third
Five-Year Plan, the Committee was impressed with the modesty of India's
overall export targets which envisaged an increase of only about 12 per-
cent over export earnings during the Second Plan. The Committee noted in
particular the cautious realism with which targets for such major exports
as tea, jute manufactures and cotton textiles, as well as targets for
certain other traditional exports, had been drawn up. The Committee
recognized that these export forecasts, although in some instances being
influenced by considerations of difficulties in expanding supplies,
reflected on the whole the assumption that exports of major items would
continue to be faced with severe restrictions and other measures in force
in a number of important markets which had the effect of limiting export/
possibilities for Indian export/commodities. It appeared that additional production capacity could in many
instances be made available within a short time span and with but little
extra effort. This was for example the case for tea and cotton textiles.
For jute manufactures, installed capacity appeared clearly sufficient to
meet any likely growth in domestic as well as export demand.

10. The representative of India agreed with the observation made by some
members of the Committee, that the cautious export forecast for the three
major Indian export commodities, as well as those for a number of other
products, were primarily based on the assumption of continuing difficulties
in expanding exports of these items, as long as they remained subject to various forms of restrictions and measures having a similar effect in a number of potentially important markets. He stated that, given an encouraging response by importing countries to the efforts by India for expanding exports, it was thought possible to improve upon the level of exports envisaged in the Third Plan estimates. He pointed out that although India's position and concern regarding the effect of these measures on trade had been voiced in connexion with the commodity-by-commodity examination which had been carried out by the Committee at previous meetings, the present examination afforded an opportunity to the Committee and to contracting parties in general to consider the severity of the combined impact of the various restrictive measures on trade over the full range of products exported from a single less-developed country.

Obstacles facing Indian exports

11. Although every effort was being made by India to diversify production and exports, the country continued to depend for the bulk of its export earnings on a few traditional export commodities. Tea alone had accounted for more than 20 per cent of total export receipts during the Second Plan. Tea, jute manufactures and cotton textiles, when taken together, had accounted for almost 50 per cent of the total. If account was taken of the restrictions of various sorts facing exports of such other important commodities as leather goods and footwear, coir manufactures, carpets, coffee, vegetable oils, fruits and vegetables, fish and fish products, and tobacco, about two thirds of India's export trade was faced with obstacles other than those which might arise from limitations in export availabilities. Even with respect to some of the newer export items, such as sewing machines and bicycles, India found export opportunities limited because of the imposition by certain countries, including industrialized countries in Western Europe, of protection in the form of quantitative restrictions and high tariffs.

Tea

12. Commenting on the considerations which had induced the Indian Planning Authorities to forecast virtually unchanged exports of tea, of approximately 500 million pounds a year valued at Rs. 1,350 million, as
compared to actual average exports per annum of about 480 to 490 million pounds, valued at Rs. 1,300 million, during the Second Plan, the representative of India explained that his Government was viewing with concern the lack of progress, in response to the findings of the Committee, in eliminating obstacles to an expansion of tea exports from less-developed countries. The concern of his Government concerning the continued application of these measures was the greater since tea - on a weight basis - continued to be taxed even more heavily than coffee. While it was true that a given quantity of tea yielded a larger quantity of beverage than an equal amount of coffee, the fact remained that as a result of the very high fiscal charges on tea, the retail price per unit of tea was still higher than that for coffee. This obviously had a pronounced inhibiting effect on consumer expenditures on tea, particularly in those markets where tea was at present not widely consumed. While India was also a producer of coffee and while it had consistently supported the view that the high fiscal charges should be reduced and eliminated on all tropical products to which they were applied, it had to be pointed out that India, as the world's largest exporter of tea, was probably the country suffering most from the market limitations confronting this commodity. Were it not for the measures inhibiting the consumption of tea, an increase in export earnings from this commodity would well be within the capacity of India. Even a small increase in investment in the industry for further research, replanting and increased use of fertilizers, could be expected to contribute significantly to the level of production, as was evident from the results of efforts and investments made by the Indian tea industry in recent years. It had to be appreciated, however, that further investment in the tea industry, desirable as it might be for increasing labour productivity and yield per acre, could hardly be justified in view of India's scarce capital resources as long as market outlets for this commodity remained unfavourable.

13. In the discussion on particular measures which would permit an expansion of exports of tea from India, the representative of India renewed the appeal made by India and other tea exporting countries at earlier meetings of the Committee, that industrialized countries, notably certain of the countries in Western Europe, should at an early time give sympathetic consideration to the reduction or removal of high tariffs,
revenue duties, fiscal charges. He agreed with some members of the Committee who had pointed out that such action might in certain instances, in any event in the short-term, lead to a reduction in tax revenue derived from these particular commodities. He asked, however, that governments of contracting parties applying such measures should consider whether the inconvenience and the difficulties associated with shifting towards other sources of revenue which might be necessary, might not be small as compared with the important and fairly rapid contribution to foreign exchange earnings of less-developed countries which might reasonably be expected to result from such action. The representative of India welcomed in this connexion the decision by the EEC to establish the duty for tea in its common external tariff at 18 per cent ad valorem rather than at 35 per cent as previously envisaged. However, even a rate of duty of 18 per cent was high and in any event above the duty previously applied to tea imports by the Netherlands, the major tea consuming country in the Community. Moreover, the benefits of the lower duty were being offset by compensatory taxes on tea applied by certain EEC member countries. He expressed the hope that this welcome gesture by the EEC in considering the appeal by tea exporting countries for a concession on the originally proposed tariff rate, would soon be followed by other measures by member governments of the EEC which would effectively open import opportunities for imports of tea and other tropical beverages.

Jute Manufactures and Cotton Textiles

14. Turning to export prospects for other major export items, the representative of India explained that the forecast of practically unchanged export earnings during the Third Plan over those of the Second Plan, for jute manufactures and cotton textiles, were primarily due also to market limitations in overseas markets, rather than to problems arising on the side of supply. With respect to jute manufactures, India was making every effort to overcome certain shortages in the supply of raw jute, which during the Second Plan had at times led to reduced production and consequently also reduced availabilities for export. The fact, however, that during most of the Second Plan period about 12½ per cent of Indian jute looms had had to remain sealed, was not the result of inadequate raw material supplies, but a reflection of the restrictions on imports of
Indian jute manufactures in force in a number of important markets. India was aware that considerable efforts were being made in a number of countries, notably in the United Kingdom, for adapting the domestic jute industry to the changing requirements of the market. The representative of India welcomed the measures reported by the representatives of France and of the Federal Republic of Germany on measures they were taking for assisting domestic industries in adapting themselves to increasing competition from imports. He welcomed the renewed assurance by the representative of the Federal Republic of Germany that imports of jute manufactures still subject to restrictions would be liberalized by 1964, in accordance with the waiver granted by the CONTRACTING PARTIES. The representative of India pointed out, however, that in the meantime, notwithstanding the progress which was being made by certain countries in liberalizing imports, exports of jute manufactures from India remained subject to severe restrictions in many important countries. He appealed to governments of contracting parties, particularly industrialized countries, maintaining such restrictions, to review their respective import policies and to proceed as rapidly as possible towards the dismantling of remaining restrictions on imports of jute manufactures.

15. Members of the Committee noted with satisfaction that increased efforts were being made by India for assuring adequate supplies of raw jute. They pointed out in this connexion that the recurring shortages of the raw material had led to fluctuations in the price of the finished product and that these fluctuations had been a factor inhibiting exports of Indian jute manufactures.

16. With respect to cotton textiles, the representative of India explained that the annual export target of 850 million yards, valued at Rs. 670 million in the Third Plan, was primarily a reflection of the disappointing export realization from cotton textiles during the Second Plan. He explained that the Third Plan target was considerably below the target of 1,000 million yards originally forecast in the Second Plan for 1960/61, and, in terms of export value, even below the revised export target for 1960/61 of Rs. 680 million. As a result of the widespread application of quantitative restrictions on cotton textiles, production in the mill sector had not been expanded as had originally been envisaged in the Second Plan. Provision was made, however, in the Third Plan for an
expansion of production in the mill sector in the final year of the Plan by about 15 per cent as compared with production in 1960/61. This expansion was primarily designed to satisfy the growing home demand for cotton textiles. The representative of India pointed out that cotton textiles was another commodity where positive measures by importing countries could make a significant contribution to an expansion of export earnings from less-developed countries.

Other Traditional Exports

17. The representative of India explained to the Committee that exports of such items as gums, resins and lac, raw hides and skins, raw cotton and waste, raw wool and hair, mica, spices, cashew nuts and most metal ores, were on the whole not significantly affected by tariff or non-tariff measures. On the other hand, some of these products, for example mica, gums, resins and lac, were affected by the growing use of substitutes which had the effect, at any rate, of limiting the growth of the market. Similarly, export demand for manganese ores was affected by changing industrial requirements. Other items in the category of goods having relatively unimpeded access to foreign markets were either specialities such as spices and cashew nuts or raw materials such as raw hides and skins, raw cotton, iron ores, etc., for which there existed a ready market in industrialized countries, particularly for some of the special varieties exported by India. While India was anxious to expand its export earnings by making available for export all types of products for which there existed a ready export market, some of the items for which this was true were in short supply domestically. While provision was made in the Plan for increasing production of products in short supply in order to meet the growing domestic as well as foreign demand, increased exports of raw materials were not always desirable, both from the point of view of the greater contribution which increased exports of processed products could make to the country's foreign exchange earning capacity, and also with respect to the opportunities which such exports would provide for the establishment and expansion of processing industries.

18. In this connexion the representative of India pointed out that it was to be regretted that tariff and licensing policies continued to be in force in many industrialized countries which, by providing more favourable
import treatment for raw materials than for processed products, were a factor in retarding the development of processing industries in less-developed countries. Examples of products which suffered from this differentiation in import treatment and of export interest to India were vegetable oils, leather goods and footwear, woollen manufactures and rugs and carpets. It had to be realized that whatever justification might have existed for this differentiation in import treatment when these measures had first been introduced, the effect of their continued operation was primarily to discriminate against imports from less-developed countries which were dependent on exports of raw materials and the simpler processed products. He expressed the hope that this matter would find the serious and sympathetic consideration by governments it deserved in order to find measures which would be of assistance to less-developed countries in developing and expanding processing industries and in increasing their foreign exchange earning capacity. He also pointed out that with respect to other commodities which less-developed countries like India were in a position to export, such as fruits and vegetables, tobacco, fish and fish products, it had to be noted that these products in many important markets were subject to restrictions imposed in connexion with the implementation of the various aims of national agricultural policies. Moreover, such items as tobacco, for which there existed State trading and monopoly procurement in a number of countries, were handicapped by the purchasing policies which often did not take full account of commercial considerations. In those circumstances it was difficult for a country like India which had not previously participated to any large extent in the supply of tobacco to such areas as Western Europe, to obtain a share in that market.

Non-traditional exports

19. In discussion with the representative of India concerning export prospects for the newer lines of exports such as the products of the engineering, chemical and pharmaceutical industries, members of the Committee noted the very great efforts and the remarkable progress which had been made by India, particularly in recent years, in expanding both production and exports of these items. The Committee recognized, however, that although trade in these items constituted one of the most dynamic
elements in India's export trade, a reasonably rapid expansion of overall export earnings could not be expected to result from increased exports of these items alone as long as such exports accounted for only a small part of total export trade, as at present. While exports of items such as agricultural implements, machinery, builders' hardware, electric motors, pumps, etc., were on the whole not subject to quantitative restrictions in markets of industrialized countries, exports of other items such as sewing machines and bicycles which were among the potentially more important foreign exchange earners in this category of exports, remained subject to restrictions in a number of countries, including industrialized countries in Western Europe. Moreover, many of these products were subject to high customs duties. While it was realized by India that an expansion of exports of machinery, diesel engines, electric fans and appliances and other industrial products required, in the first instance, trade promotion and the provision of adequate sales and servicing facilities in order to permit the product to become established in the market, tariffs and quantitative restrictions also constituted real obstacles in many markets to an expansion of exports of these items. The representative of India urged therefore that contracting parties, bearing in mind the not inconsiderable difficulties experienced by less-developed countries in establishing their products in new markets, give sympathetic consideration to the elimination and reduction of tariff barriers affecting exports from less-developed countries. Members of the Committee noted that the fact that the principal benefit from the removal of tariff and non-tariff measures on manufactured items might accrue to industrialized countries, should not prevent contracting parties from giving sympathetic consideration to ways and means of removing obstacles to the trade of less-developed countries.

Prospects for increasing regional trade

20. In discussing prospects for an expansion of exports to other developing countries in the region, members of the Committee pointed out that many of the products of India's industries would appear to be particularly suited to the market requirements of other developing countries. They felt that the more limited nature of many of these markets and the less sophisticated requirements with respect to frequent changes
in design and with respect to the degree of finish might be factors favourable to an expansion of exports from India to these markets. They also pointed out that countries in the region might find it useful to specialize on certain lines of production in order to avoid duplication of effort and the establishment of industries which might be viable only if they were to be granted continuing protection.

21. The representative of India agreed that desirable as specialization was, possibilities for useful specialization in the field of production and trade between different countries of the region were limited by the very low level of average per capita income prevailing at present in these countries. As economic development in these countries progressed new trading opportunities were likely to arise and specialization could be expected to increase, as could be seen from the experience of industrial countries. India was aware of the desirability of increasing trade with other countries in the region and considerable efforts for expanding this trade were being made. Many of the metal and engineering products exported from India, such as machine tools, cotton textile machinery, transport equipment, electric fans, bicycles, etc., went to other countries in South-East Asia.

22. In commenting on the observation made by one member of the Committee concerning possibilities for increasing exports of manufactured products to other less-developed countries, the representative of India explained that although many of the products exported by India were particularly suitable to other developing countries which had requirements similar to India, consumer preference in less-developed countries was most often for products which had a long standing in the market. Thus, experience had shown that exports of certain items such as sewing machines, bicycles, semi-manufactures for industrial use including those produced to standard specifications, etc., were often easier to sell in the more sophisticated markets of industrialized countries. The representative of India pointed out, however, that special efforts were being made in the production and design of items destined for export to take account of the special requirements of different markets.

23. The Committee welcomed the efforts made by India in producing goods for export to take account of the characteristics and requirements of particular markets. The Committee expressed the hope that India would
further expand its efforts in the field of trade promotion, and there appeared to exist possibilities for further increasing exports of many items, including to markets to which India had not previously exported these items. They expressed the hope also that it would be possible for India to avail itself of the market opportunities which had been pointed out by some members of the Committee in regard to their respective countries. The Committee noted in this context that one country represented in the Committee had prepared a projection of import opportunities in its national market for some major products of interest to India for the period of the next five years. The Committee felt that indications of this kind, with all their natural limitations, could be of assistance to less-developed countries in the planning of their development and export trade and invited other contracting parties to submit similar indications at the forthcoming meeting of the Committee in September.

Future Work of the Committee in Studying Development Plans

24. The Committee instructed the secretariat to collect information and to prepare the necessary background data for the Committee concerning the trade-and-payments aspects of development plans which other less-developed countries might wish to see examined by the Committee at subsequent meetings.

Conclusion

25. The Committee considered that the exchange of views had been very useful and the experience gained would be of assistance in subsequent examinations of the trade-and-payments aspects of other plans for development.

26. The Committee recognized the magnitude of the task before the Government of India in increasing per capita incomes and the standard of living of the Indian people. In order to achieve these ends a great deal of foreign exchange would be required both for continuing investments and for servicing current loans. India would, therefore, have to increase her 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 on development leading to increased levels of trade and a rational division of labour. Similar considerations would apply to the development of other less-developed countries also. The Committee noted that a large share of all Indian exports continued to be subject to high tariff and non-tariff
barriers to trade which effectively limited the possibilities open to India for substantially increasing her foreign exchange earnings. By reason of the availability of raw material, manpower and skills, actual or potential, India would be able to expand several industries if those barriers were relaxed and ultimately quickly removed. Such action would also lead to the channelling of investment in directions of expanding existing industries or developing new industries with a view to securing efficient allocation of resources and maximum expansion of trade.