Terms of Reference

1. In implementation of section II/2 of its basic work programme\(^1\), the Committee met from 5 to 9 June to examine in detail, as agreed at its meeting held from 21 to 28 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.

(Trade and Payments Aspects of the Third Five-Year Plan of India)

Opening Statement by the representative of India

3. In his opening statement, the representative of India explained that de facto the Third Five-Year Plan had entered into effect as from April 1961. It was soon to be finalized and the final version published after careful examination and review by the National Development Council. The Plan covered the period April 1961 to March 1966. The representative of India expressed the hope that the experience gained in the examination of the Indian Third Five-Year Plan would be of assistance to other less-developed countries in channelling investments.

\(^1\)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". Spec(61)194/Rev.1
4. The representative of India expected that although the final version had not yet been published, the broad outlines of the Plan, as contained in the Draft Outline, would not undergo a fundamental change. He said that the data, particularly in regard to the volume of total investment, resources and export targets would be revised in the finalized Plan. Nevertheless the information available to the Committee was indicative of trends and quantities sufficiently near the final expected picture to permit a meaningful examination to be carried out.

5. The representative of India informed the Committee that the major change would be an increase of 3 to 4 per cent in the overall target of investment of Rs.102,000 million¹ 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 investment in capital equipment, as also to allow for improvement in certain new directions. On the resources side, expectations would be somewhat lower also, especially because of a drastic reduction in earnings under the heading "Invisibles" for Rs.12,000 million to nil. This would be because of additional repayment and servicing obligations on loans, a decline in earnings of interest on balances held abroad and increased payments on account of freight for a larger volume of imports. Export targets for certain items, particularly those for which sufficient foreign demand could be forecast have been increased in order to cover the larger gap between investment and resources. He pointed out in this context that despite the proposed increase in overall investment and the increase in foreign exchange requirements for maintenance and developmental imports, 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 Five-Year Plan. The Indian Government and people would make every effort to increase the range and quantity of goods available for export and thus earn additional foreign exchange. The revised export targets envisaged total export earnings to reach a minimum of Rs.37,000 million for the five-year period as compared to the earlier export target of Rs.34,500 million. No allowance has been made in these estimates for any increases in import prices which might occur during the five-year period.

¹ Rs. 4,76,190 = US$1,00.
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, the Federal Republic of 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 - notably, the USSR - the representative of India stressed that a very considerable increase in export earnings would be required for India/service these loans and evolve quickly into a self-sustaining and developing economy. 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 a greater awareness by contracting parties of the difficulties faced by less-developed countries in channelling investment into directions leading to the most efficient production and of the measures taken by these countries to overcome those 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 noted that additional assistance would be made available to India under the agreement with the Aid to India Consortium. Also, the Committee noted in this context that the communiqué 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 foreign aid 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 India and by other contracting parties, for eliminating obstacles to an expansion of India's export earnings. It was noted that
the Government of India had expressed its determination and readiness to take measures to provide a progressively larger surplus for export.

Export Promotion Measures

8. The Committee recognized that in market economy countries governments could not direct goods to be imported from particular sources and agreed with the representative of India on the importance of trade promotion. The Committee 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. The Committee recognized that there was little point in trade promotion in importing countries on those items which might be severely restricted. In other instances, however, where markets were open, market research and trade promotion should lead to considerable trade gains, particularly in respect to some of the newer export lines. In this connexion some members of the Committee mentioned that there existed in their countries facilities of which Indian exporters might avail themselves, often at no or only nominal charges, for assistance in the marketing of their products. The representative of India stated that his country would continue to give close attention to measures of export promotion and to expand such measures to the extent possible.

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 cautious realism 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 relatively modest 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 difficulties in developing larger export surpluses, were based on the existence of various restrictions and other measures in force in a number of important markets which had the effect of limiting export possibilities for several major items of interest to India. 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, there is already installed capacity which is not fully utilized. The Indian representative 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.

Obstacles facing Indian exports

10. 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 these and such other important commodities as leather goods and footwear, coir manufactures, carpets, coffee, vegetable oils, fruits and vegetable products, fish and fish products, and tobacco, about two thirds of India's export trade was faced with obstacles in importing countries. With respect to some of the newer export items also, such as sewing machines and bicycles, India found export opportunities limited because of the imposition by certain countries of quantitative restrictions and high tariffs.