STATEMENT BY SHRI D.S. JOSHI, SPECIAL SECRETARY, MINISTRY OF COMMERCE AND INDUSTRY OF INDIA, AT THE OPENING OF THE 1962 CONSULTATION WITH INDIA

1. At the outset, I should like to express the gratitude of the Indian delegation to the CONTRACTING PARTIES for having agreed to the postponement of these consultations to a date convenient to India. We should like also to express our gratitude, which will be shared by all other delegations here, to the International Monetary Fund and the GATT secretariat for the careful and complete documentation provided.

2. This is the first consultation undertaken by India with the CONTRACTING PARTIES after the launching of the Third Five-Year Plan on 1 April 1961. Contracting parties are already familiar with the broad outlines of the Plan, as a result of the excellent report prepared by Committee III. That report was based on the draft outline of the Plan. In the final version, the export target for the five years, 1961-66, has been raised to $7,773 million, which may be compared with actual earnings of $6,414 million during the Second Plan period and the target of $7,248 million in the draft outline. Studies subsequent to the publication of the draft outline had indicated that a higher level of export earnings was essential if the pattern of development was to be rational and not unduly biased in the direction of import saving.

3. The other main features of the Plan may be briefly recapitulated. The objective is to achieve self-sustained growth after about fifteen years. Over the five years of the Plan, national income is planned to rise by around 30 per cent, while population is expected to increase by about 12 per cent. Contrary to a commonly held impression, the Plan provides for a substantial increase of 30 per cent in agricultural output, to be achieved through extension of irrigation, intensive application of fertilizers and pesticides, and the introduction of improved seeds and implements. Industrial production is expected to expand by about two thirds, with an emphasis on greater production of fertilizers, steel and transport and industrial equipment. Requirements of imported materials and components would remain broadly unchanged but would sustain a much higher volume of production. In order to finance the investment programme, savings will need to rise from 8.5 per cent of the national income in 1960-61 to about 11.5 per cent in 1965-66, and tax revenues from 8.9 per cent to 11.4 per cent of the national income over the same years.

4. The Plan envisages project imports over the five years of $3,992 million, component imports for the raising of production of capital goods of $420 million, and other non-project imports of $7,668 million. Debt repayments would amount to $1,155 million, and there would be a net balance on invisibles. The external assistance required has been estimated at $5,462 million, of which not more than $3,992 million can be to finance equipment for projects. Further, as export earnings can be built up only gradually, the requirements of assistance for non-project purposes is higher in the initial years of the Plan.
5. It should be remembered that a substantial part of non-project imports enters directly into capital formation. India is perhaps in this respect somewhat different from many of the other underdeveloped countries, because it has already an industrial structure capable of producing investment goods on a substantial scale. Steel, non-ferrous metals and components of industrial and transport equipment can be converted at home into capital goods for manufacturing and transport industries and public utilities. Specific mention may be made of the substantial capacity that has been established, in many instances with foreign investment and collaboration, for the manufacture of cement, sugar, paper, cotton textile, jute textile, road transport and electrical generation, distribution and transmission equipment, as also of numerous items of equipment needed for chemical plants, steel plants, coal washeries, etc. The output of industrial, transport and electrical equipment last year was about $500 million and substantial expansion is envisaged over the Third Plan period.

6. In the first year of the Third Plan, climatic conditions have been unfavourable in many parts of the country. Agricultural output as a whole showed little improvement, and there was a sharp drop in raw cotton production. Industrial production increased only by 6 to 7 per cent, largely because of restricted raw material supplies. The rise in the national income was hence only of the order of 2.2 per cent. Increase of more than 25 per cent in the output of steel and in electricity generated, however, helped to relieve serious bottlenecks in the economy. The general price level remained virtually unchanged. The increase in money supply was not disproportionate to the rise in output and activity, and the central budget for 1961-62 imposed substantial additional taxation to finance the Third Plan.

7. Export earnings during 1961-62 reached the level of $1,401 million projected in the Plan document. Assistance actually utilized, was however substantially lower than anticipated. This was due partly to negotiation of project assistance and the arrival of equipment taking longer than anticipated, and total imports (other than against United States Public Law 480) amounted only to $1,874 million against the Plan estimate of $2,376 million. In addition, however, the availability of assistance for non-project purposes was less than expected. Also, the drawal of some non-project assistance has involved payment for imports in the first place from reserves and the securing of reimbursement later. Hence, though non-project imports were somewhat below the level projected in the Plan, there was a decline in the sterling balances of $13 million, even after utilizing a net drawal of $122 million from the International Monetary Fund.

8. An important event in 1961-62 was the promise by members of the Aid India Club of assistance for the first two years of the Third Five-Year Plan. Taking into account the carry-forward of assistance from the Second Plan and assistance offered by other countries, the funds available for commitment in the first two years amount to $3,150 million for project imports and $840 million for non-project requirements.
9. The import policy for 1962-63 was issued on an annual basis. It provided that, apart from licences against assistance, licences would, as a rule, be issued on an annual basis, with the proviso that ordering for the second six-months' requirements would be subject to confirmation and possible amendment of value. The policy was broadly the same as in the preceding period: it was reasoned that in spite of higher receipts against assistance and exports, a larger quantum of imports would not be feasible in view of debt repayments and a deterioration in earnings from invisibles. Small reductions were effected in the quotas for established importers in respect of about sixty-five products and only marginal reductions were proposed to be made in the licensing to actual users. The objective was to maintain the reserves at an unchanged level.

10. The sterling balances declined steeply, falling during April and May 1962 by $57 million. This was partly because receipts from non-project assistance and exports were lower than anticipated. A stand-by credit of $100 million had to be secured from the International Monetary Fund, and further import restrictions had to be imposed. These took the form of a cut of 50 per cent in the individual quotas of established importers, and of a reduction of 15 per cent on average in licences (other than against foreign assistance) to actual users.

11. Since June there has been little decline in the reserves, apart from use of a drawal of $25 million from the IMF, as a result of the cuts in foreign exchange expenditure and somewhat improved export performance. On 12 October the sterling balances amounted to $195 million. It will be necessary to raise the reserves to a higher level during the winter months, in order to meet the seasonal requirements during the summer. This entails a reduction in allocations for imports to be paid for in cash. Announcements regarding licensing during the six months October 1962 to March 1963 are proposed to be made shortly. It is expected that, apart from unforeseen circumstances, the reduction in import allocations will not exceed 8 per cent. The CONTRACTING PARTIES will, of course, be advised as soon as announcements are made.

12. Contracting parties are aware that appropriate fiscal and monetary measures have also been adopted. Further taxation was imposed in the central and State budgets for 1962-63, and a substantial part of the additional tax resources provided for in the Third Plan is now assured. The process of raising interest rates has been carried further; the new lending rate structure introduced by the Reserve Bank effective from 2 July 1962 meant a raising of the average lending rate of the Bank by \( \frac{1}{2} \) per cent or more. The terms of the new Central Government loans announced on 2 July were also fixed so as to raise their yields above the existing yields on securities of comparable maturity. Institutional lenders such as the Industrial Finance Corporation of India have raised lending rates by \( \frac{1}{2} \) per cent.
13. While reduced import allocations must inevitably have their impact on industrial production, these will not extend to all industries. Due to larger domestic availability of raw jute, the jute textile industry is operating at full capacity. It is hoped that adequate cotton will be available from domestic output, supplies under Public Law 480 and other imports already committed to at least sustain the level of production of last year. Many important industries such as sugar, cement, paper, and steel require no imported materials. There is, therefore, likely to be a rise in industrial production as a whole in 1962-63 of about the same order as in 1961-62, though the output of some industries will suffer a setback due to raw material shortages.

14. While the availability of foreign exchange for project imports has been substantial, the growth of different industries needs to be phased to secure balanced development. After careful review of the additional capacity already licensed for the import of equipment in different industries, in relation to the Plan targets, it has been decided to give priority at the present time to twenty-one groups of industries for licensing of capital goods against assistance. The list is not intended to be rigid and will be reviewed from time to time. The non-project imports required to sustain any new project are a major consideration when scrutinizing applications for licences.

15. In conclusion, I should like to reiterate the critical importance of an increase in export earnings for the success of India's development effort. Export promotion is being given the highest priority within India, and a number of organizational steps have already been taken. Abolition of a large number of export restrictions, increased excise duties on possible export items, additional credit facilities for exporters, and assured supplies of imported raw materials are among the measures adopted. Additional exports would be facilitated if other contracting parties provide larger access for the entry of Indian goods. In the report of the last consultations, it was noted that many Indian exports are handicapped by tariff and non-tariff barriers, some of which contravenes the General Agreement. There has been no significant improvement since then. It is noted with regret that Committee III has now considered it appropriate to advise contracting parties of the gap still existing between intent and performance in the task of progressive reduction and elimination of barriers to exports of less-developed countries. The Indian delegation earnestly hopes that, in the course of this session, contracting parties will be able to report significant progress in eliminating these barriers.