1. In accordance with its terms of reference, the Committee has conducted the consultation with India. The Committee had before it a basic document for the consultation (BOP/37), a decision by the Executive Board of the International Monetary Fund dated 19 February 1964, and background material supplied by the Fund, as mentioned in paragraph 3 below.

2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 9 November 1964. The present report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. 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 this consultation with India. In accordance with the 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 Executive Board decision of February 19, 1964 taken at the conclusion of the last consultation with India under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation. The Fund has also prepared a supplementary paper dated October 14, 1964 to supply background information on recent developments."
"Pending the conclusion of its next consultation with India which it expects to conduct during 1965, the Fund sees no reason to alter the general view expressed in the decision taken at the conclusion of its last consultation with India and transmitted to the CONTRACTING PARTIES."

Opening statement by the Indian representative

4. In his statement, the full text of which is annexed to this report, the representative of India first referred to the successive five-year plans by which his country has been endeavouring, since 1951, to improve the living standards of the people of India. These plans, the third of which is now drawing to a close, have uniformly attempted, he said, to develop an expanding interchange of goods between India and other countries, and the import restrictions which have been necessary have been designed solely to keep imports within the limits of what India can afford to buy. The restrictions have been non-discriminatory in character and India has whenever possible liberalized imports.

5. Currently, India's balance-of-payments difficulties are accentuated not only by the development effort but also by a substantial defence effort. Price pressures have developed notably in foodstuffs, and measures to combat inflation have had to be taken, all the more so as agricultural shortages threatened to cause further disturbance. To combat inflation, deficit financing is to be reduced through a cut of Rs.750 million in Government expenditures in the current fiscal year. Interest rates have been increased and other steps have been taken to tighten credit. The Government has arranged to import substantial quantities of foodgrains to relieve pressure on food prices. Price controls were reviewed; also, certain further efforts have been made to promote savings. A part of the apparent increase in money supply was purely the result of a technical change in classification of savings
deposits; another source of added money was an improvement in foreign exchange reserves.

6. To promote agricultural production, which is one of the most urgent tasks facing the Government of India, a package programme of intensive cultivation has been taken up. Floor prices have been established for the more important cereals. It is hoped that these prices will encourage investments in, and improved methods of farming, which will increase crop yields so that, from now on, and for the duration of the Fourth Plan, agricultural output can be increased by 5 per cent annually. In the industrial sector, the twin objectives are to utilize installed capacity more fully by trying to obtain, and utilize effectively, greater amounts of long-term foreign aid on a non-project basis and proceeding with the investments envisaged in the Plan. Appropriate choice of industries to be fostered will enable India to make progress in import substitution which, however, should not mean smaller but rather larger imports, given the wide range of imported materials which India will require in this connexion.

7. An important part of India's increased production will, it is hoped, be exported, in order to achieve balance in India's external payments; export promotion has played an important part in Indian economic policy for some years. Recent export results have been encouraging, but the level of exports is a matter not altogether within India's control, and it is in part India's concern regarding barriers maintained by other countries which has led India to participate actively in efforts within the GATT and in the UN Conference on Trade and Development to find ways of overcoming impediments to trade development. Recent developments make it very difficult to forecast with any degree of precision export results for the year 1964-65. Domestic shortages will cut certain exports, and the surcharges recently announced by the United Kingdom will have an effect on others which cannot be forecast with assurance. The export target for the five years of the Third Plan is Rs37 billion, but India will be doing well to achieve this goal in the light of present difficulties.
8. In the Fourth Plan, now taking shape, investment is expected to total from Rs.215 to 225 billion, which it is hoped will enable national income to grow by more than 6 per cent per year. The export target for the five years of the Fourth Plan is Rs.51 billion. There is no prospect that India will be able to proceed to any wholesale liberalization of imports in the immediate future, but India's imports should continue to grow, as they have done, in proportion as her industries continue to develop; there should be no harm to India's trading partners in this process in the future any more than there has been in the past.

Balance-of-payments position and prospects

9. The Committee welcomed the clear statement by the representative of India, particularly concerning efforts to promote production of goods which might be suitable for export. In this connexion, further detail was elicited concerning the difficulties, now being overcome, in the way of a planned development of iron ore exports, which have included both the construction of a new railway and the building of new port facilities. Although the representative of India referred to a list of export promotion measures which have already been put into operation, he said that India would be alert to find and adopt additional measures. For the immediate future, he thought that measures to increase agricultural production and to utilize effectively the export potential of existing industries would be the measures to which highest priority would be given in the interest of achieving the target exports of Rs.51 billion for the Fourth Plan period, but achievement of that target would also require further export promotion measures. He did not believe that it would be possible to give a more precise figure on export prospects for the immediate future, even though estimates were being made for internal use in the preparation of the foreign-exchange budget for the current year. New forecasts were being worked out for the March meeting of the World Bank Consortium. The Committee welcomed these indications that India attaches great importance to development of exports and to export promotion.
10. A member of the Committee noted that the representative of India had referred in his statement to the importance of persuading lender countries to provide aid to India on a long-term basis at low interest rates; he enquired what success India had had in this effort. The representative of India replied that there had been a certain measure of success. Apart from the United States, the United Kingdom and Germany were making 25-year loans with seven years' initial grace period. Austria and Switzerland had latterly improved the terms of their loans somewhat. Japan's export credits had also a comparatively long maturity.

11. In answer to a further question about India's attitude towards private foreign investment, the representative of India stated that India welcomes private foreign investment in industry in accordance with the priorities established in the development plan; the authorization which has been given to a private company to participate in oil refining is entirely in conformity with this position. There are no restrictions on the transfer of dividends and profits on foreign capital, nor on the repatriation of the capital, although the Government, in permitting an investment, might require an assurance that the capital would not be withdrawn within a stated period, and India hopes very much to be able to continue to receive substantial private investment funds. In the Third Plan, foreign investments of Rs.3 billion (3,000 million) were planned for, and both the skills and the funds which foreign private companies can provide will be needed in the future as well.

12. In reply to a question concerning the governmental agency which had been mentioned as having been established recently to trade foodgrains, the representative of India stated that the State Foodgrain Trading Corporation was not concerned with international trade. It had been found recently that large wholesalers were taking advantage of consumers. This Corporation had been set up for better procurement and distribution of foodgrains. The agency would buy foodgrains from domestic producers at a guaranteed price and resell them at a fixed price for processing or retail trade; the object is to distribute supplies under fair conditions and to build up internal stocks.
Alternative measures to restore equilibrium

13. There was discussion of the various measures which the representative of India had mentioned as having been taken to control the level of prices. With respect to the encouragement of savings, one member of the Committee enquired as to the success of the recently established Unit Trust. The representative of India replied that it is too early to give a definitive opinion, as the institution is only about three months old, but that the first results seem to indicate that it will be more successful than was the previous prize bond system in attracting the savings of small depositors. The latter system would probably be eliminated. It was too early yet to judge the effectiveness of the higher interest rates in attracting long-term capital. Another member of the Committee called attention to information showing that one of the larger sources of inflationary pressure had been bank credits extended to the Government. The representative of India said that his Government was well aware of the dangers of undue monetary expansion and that this was one consideration underlying the decision to cut government spending by Rs. 750 million in the current year.

14. Questions were also put to the representative of India concerning the conditions that had given rise to some of the sharp commodity price increases that have taken place this year, particularly for groundnuts and jute. Groundnut oil, it was explained, has no great industrial importance except to some extent for the manufacture of Indian margarine. But, when the groundnut crop is short as happened this past year, and exports of groundnuts are permitted, its price rises sharply because groundnut oil is a staple source of fat for the Indian people. The 49 per cent increase in groundnut prices reflects, in other words, a shortage of an essential foodstuff. Happily this year’s jute crop is larger than the last, and India has also begun a programme to maintain a buffer stock of this commodity, so that this potential pressure on the price structure has been removed.
System and methods of restrictions

15. One member of the Committee, while recognizing India's need to limit imports and to limit especially imports of non-essential goods, noted that all imports other than essential commodities were either severely restricted or prohibited, and enquired whether India might not review its definitions of what is non-essential with a view to easing somewhat the severe limitations now in force. Not all consumer goods, he felt, were non-essential, and if there were categories which had to be severely limited, could India not at least establish a token import plan, as foreseen in the General Agreement. He also wished to know what proportion of India's foreign-exchange expenditure went for consumer goods. The representative of India agreed that consumer goods are not necessarily of a luxury nature but said that in India's situation it was important not to import a consumer good if it is available in some quantity from domestic sources; India regrets that these prohibitions for consumer goods may hurt the trade of other countries, but imports have to be limited in some way. He hoped other countries would remember that India's overall imports are growing, even if not all kinds benefit equally. In 1963-64, 40 per cent of India's total expenditures for trade were spent on consumer goods. So far India had not been able to afford a "token import" plan as even such small imports would constitute a luxury. Books were, he thought, the only exception so far made to that rule. He noted the suggestion, however, and promised to report it to his Government for their consideration.

16. The representative of India was also asked to explain the rôle of the State Trading Corporation mentioned in the basic document. This body, he said, had as its essential function to watch over trade with the centrally-planned countries. Licences to import from such countries may be issued to it or to private importers, but the Corporation's function is to see that the annual trade plan for each country is fulfilled and that agreed maxima are not exceeded; this function extends to exports as well as imports in trade with those countries. Individual importers register their import licences with the State Trading Corporation, and such licences are not issued in excess of the amount provided for in the respective trade plan.
17. A member of the Committee enquired whether India planned to extend the role of the State Trading Corporation. The representative of India said there was no plan at present to extend State trading into other commodities. Iron ore and manganese exports are handled through this mechanism at present as the iron trade in particular was not well organized in the past. Such organization was necessary as it had been planned to increase iron ore exports substantially.

18. The representative of India was also asked to comment on India's plans with respect to advice India has previously been given to reduce reliance on bilateral payments agreements; interest was expressed both in bilaterals with countries outside the GATT and IMF and in those with countries members of one or both organizations. The representative of India emphasized, in reply, that his country had repeatedly stated its faith in multilateral non-discriminatory trading and the Indian Finance Minister had reaffirmed this in his statement at the recent Bank/Fund Meeting in Tokyo. But, with the centrally-planned economies, which were also assisting India's developmental effort, bilateral trade and payments arrangements had to be entered into as these countries traded on this basis. It had also to be noted that under these arrangements even development aid was paid back in the form of exports from India. Bilateral payments arrangements with other countries were very few and covered in some cases only part of the trade with the country in question. One agreement, with Afghanistan, mainly concerns dried fruits, a luxury India could not afford to buy for convertible currency. Yugoslavia is a country with which a bilateral agreement is maintained for essentially the same reasons as with centrally-planned economies. A bilateral payments arrangement with the United Arab Republic is a holdover of an old arrangement which enables India to obtain cotton and supply tea and so maintain a traditional trade. The representative of India added that in the GATT, as well as in other forums, the view had been expressed that developing countries should be encouraged to liberalize trade as between themselves. The small bilaterals with Afghanistan and the United Arab Republic belonged to this category. Members of the Committee welcomed the assurances of India's continued attachment to the policy of non-discrimination.
General

19. The Committee noted the difficult internal situation confronting the Government of India and hoped that the Government would be successful in curbing inflation which might otherwise threaten the good progress which has been made in increasing exports and in promoting investment and development. It hoped that trade development would continue and that India would find ways to ease restrictions as appropriate and to move towards fuller application of the principles of non-discrimination. They thanked the representative of India for the information which he had provided and for his co-operation in responding to the Committee's enquiries.