GENERAL AGREEMENT ON
TARIFFS AND TRADE

Committee on Balance-of-Payments
Restrictions

DRAFT REPORT ON INDIAN REGULATORY DUTY

1. In April this year the Government of India notified the CONTRACTING PARTIES that, in view of the sharp decline in its foreign exchange reserves, it had imposed a regulatory duty of 10 per cent ad valorem on all imports into India with certain specific exceptions (GATT/AIR/457).

2. The Committee has, on the instructions of the Council (C/M/27) examined the balance-of-payments aspects of the levy. The Committee had before it the text of the statement made by the representative of India at the Council meeting on 12 July 1964 (L/2458/Rev.1) and background material supplied by the representative of India (L/2447 and BOP/55), as well as the documentation provided by the International Monetary Fund as noted in paragraph 4 below.

3. The Committee met on 5 November 1965. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the position of India. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision 1 and background material from the last consultation with India under Article XIV of the Fund Agreement.

1Reproduced in Annex I.
"The Fund invites the attention of the CONTRACTING PARTIES to the background papers which it has provided. As indicated in those papers, India's reserves gradually strengthened from the end of 1962 to May 1964 but then declined sharply. On March 19, 1965 the Fund approved a stand-by arrangement under which India was authorized to draw from the Fund up to the equivalent of $200 million over the next 12 months. Of this amount, $175 million had been drawn by the end of September. Over-all, India's reserve position continues to be difficult. The general level of the various restrictive and regulatory duty measures being applied by India does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

Opening statement of the representative of India

5. In his opening statement, the full text of which is reproduced in Annex B, the representative of India recalled that the considerations leading to the imposition of the regulatory duty on imports had been set out in the Finance Minister's statement in the Indian Parliament on 17 February 1965 (circulated as L/2447). Information on subsequent economic trends and the policy measures adopted was contained in the documentation submitted to the Committee.

6. The representative of India recalled that the serious pressure on reserves which had led to the imposition of the regulatory duty had been the result of a rising debt service burden, larger imports of food and requirements for developments and an expansion of exports at an inadequate rate. The utilization of external assistance and the proportion available in non-project form had shown improvement but this had not sufficed to prevent the fall in reserves.

7. He said that the regulatory duty was one of a series of measures to deal with the balance-of-payments situation and explained the rationale behind the adoption of this measure. Other measures had since been taken in the budget for 1965-66 to strengthen the balance of payments. It had also become necessary to suspend the issue of fresh import licences, other than against assistance and private capital inflow, for a period during the first half of 1965, the full import control policy for the year subsequently being published on 15 July 1965. A scheme of advance
deposits was also enforced for a short time, being removed at the time of the presentation of the supplementary budget for 1965-66 in August 1965. In the supplementary budget the import tariff was rationalized, its structure being readjusted to suit the present stage of Indian development. Duties bound under the GATT were not raised above the bound levels.

8. The representative of India said that the balance-of-payments situation had become even more acute as a result of recent developments on India's borders and it was now considered essential to strengthen the balance of payments even more rapidly than had been visualized earlier. He referred to certain measures which had recently been announced to further this objective.

9. In conclusion the representative of India stated that the difficulties connected with the balance of payments were, however, likely to continue in view of the expected decline in production in certain crops during the current year which would have effects on both the import and export sides and in view of the growing import requirements for development purposes. It was, he said, against this background that the levy of the regulatory duty on imports must be viewed.

10. The members of the Committee expressed their thanks to the representative of India and to the representative of the International Monetary Fund for the full and informative documentation and statement which had been made available. There was also a general expression of sympathy and understanding for the difficult balance-of-payments situation of India. Hope was expressed that this situation might soon improve. In view of the statements presented by India and the International Monetary Fund, there was recognition that special measures were required to overcome the difficulties.

11. With respect to the development of the balance-of-payments situation as such, and prospects for the immediate future, the representative of India clarified in response to a question, that his Government hoped that no further decline in
reserves would occur during the current financial year 1965-66, although he emphasized that in view of the very low level of reserves at the beginning of the year even this achievement would present no solution to the problem. In the first half of the year (April-September) reserves had fallen from Rs.1,160 million by about Rs.50 million notwithstanding a drawing from the Fund of $75 million against the standby credit of $200 million ($100 million had already been drawn) and a rescheduling of a repurchase obligation on an earlier drawing from the Fund amounting to $25 million. For the second half of the year it was still hoped to avoid any decline in reserves for the year as a whole, although this would mean meeting a Fund repurchase obligation of $75 million next March. Furthermore in the succeeding half year, April-September 1966, it would be necessary to meet a Fund repurchase obligation of $50 million whereas in the comparable half year of 1965 there had been a net drawing from the Fund of a total of $75 million.

12. Interest was also expressed in knowing how India views results of its efforts to stimulate the inflow of private foreign capital. The representative of India explained that results appear to be quite encouraging, and that the terms on which aid is granted are gradually improving, even though no precise quantitative figures can be cited. In general, it appears that India's growing industrialization is creating a market sufficiently large to present interesting possibilities to foreign enterprises in such fields as petrochemicals and metals for which a substantial market is a prerequisite.

13. Commenting on the very wide range of measures taken by India to cope with her balance-of-payments difficulties and in particular on the new and relatively high tariff described by the representative of India, the question was asked whether it might not be possible to envisage a relaxation of some of the other controls. It was acknowledged that the 10 per cent surcharge imposed in 1963 had already been withdrawn but members of the Comité wondered whether other relaxations might not be possible. In reply, the representative of India emphasized that India is very interested in importing
just as much as can be financed by available earnings and foreign aid, in order to press ahead with development plans. The restraints which have been imposed are only those which are essential but the Government is on the alert to introduce more flexibility and simplification wherever possible. As an example he cited the fact that industrial licence holders may now use their licences to import any components and spare parts they may need without special endorsement of their licences. However, so long as exports do not rise sufficiently and foreign aid is insufficient to cover import needs restraints will be needed, even though the absolute level of imports should increase. In this connexion he noted that the Finance Minister's message of 19 August had specifically mentioned India's desire to move toward further liberalization, and he noted also that more liberal policies on the part of India's trading partners could make a significant contribution to improvement of India's export earnings.

Among other measures adopted by India recently to help overcome the balance-of-payments difficulties, special interest was expressed in the new tariff, which had come into effect on 19 August 1965. In general the rate structure which had been adopted was designed to adapt the tariff to India's changed economy, in that while it was formerly of great importance to facilitate the importation of capital equipment by low rates, much machinery is now available internally, so that India has thought it appropriate to approach the practice of most developed countries in making machinery dutiable at least as high as those imposed on raw materials. Consequently machinery had been given a permanent rate of 40 per cent, like raw materials, but the rate had temporarily been put five points lower in recognition of the difficulties which an abrupt increase to the full rate might cause, particularly to projects for which financing has already been arranged on other assumptions. With respect to the possibility that India may at a later time wish to renegotiate rates of duty bound in GATT, which for the time being remain at their old level, the representative of India assured the Committee that India would when the time came apply under the relevant procedures of the General Agreement in order to renegotiate these obligations before placing increased tariffs in effect. Obviously at that time the nullification of some concessions obtained by India would need to be taken into account.
15. With regard to the regulatory duty itself, the representative of India explained in answer to a question that its purpose was envisaged as three-fold: in restraining imports, it would help overcome the immediate balance-of-payments crisis, but beyond that it would also bring in needed revenue and would also help combat inflation by absorbing a certain amount of purchasing power. He confirmed that the regulatory duty is regarded as a temporary measure, but pointed out that it would be impossible to predict when it might be possible to remove the duty, since that would depend upon a number of other factors, including export trends and policies of trade partners. He nevertheless expressed the hope that it will be possible to remove the duty in due course.

16. Concerning the application of the regulatory duty, it was noted that it applies to most products, and the question was asked whether it also applied equally to imports from all sources. The representative of India confirmed that not only the regulatory duty but all Indian imports duties and other restrictions on imports are completely non-discriminatory so far as source of supply is concerned. India also has no intention of introducing any element of country discrimination into its import system. It was of course true that imports financed with tied aid had to be purchased in the country providing aid, but otherwise procurement in India is carried out strictly on commercial considerations. India is fully aware of the need to maximize resources by purchasing from the most competitive sources and does generally trade on a fully multilateral basis.

17. The Committee has carried out the examination of the balance-of-payments aspects of the levy, in accordance with the request of the Council. It noted the statement by the International Monetary Fund that the general level of the various restrictive and regulatory duty measures being applied by India does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves. There was recognition that special measures were required to overcome the difficult balance-of-payments situation of India, but the Committee was unable to judge to what extent the temporary regulatory duty could contribute to that end.