OPENING STATEMENT BY THE REPRESENTATIVE OF INDIA

1. The Government of India is glad to have this opportunity of reviewing with contracting parties taking part in this consultation the recent developments in the Indian economic situation with special reference to the restrictions on imports for balance-of-payments reasons. The very useful paper prepared by the International Monetary Fund in connexion with the 1966 Article XIV consultation has already been circulated to members, as also a Government of India paper describing the recent changes in the restrictive system.

2. The current economic situation in India is dominated by the effects of two successive droughts. Imports of foodgrains have been substantially increased, both against assistance provided by friendly countries and through use of India's foreign exchange earnings. Even so, the per capita availability of foodgrains has declined substantially and there has been considerable pressure on the price level. The major objective of fiscal and monetary policies has been to counter inflationary trends. There has been a reduction in the levels of public and probably also of private investment; and the effect of this reduction in investment levels and of a fall in demand for several consumer goods due to lower incomes has been to slow down the growth rate of industrial production. The rate of utilization of assistance available to purchase components and raw materials from abroad has been lower than visualized due to the stagnation in industrial activity. Export earnings have declined in spite of the stimulus provided by the change in the par value of the Indian rupee on 6 June 1966, as a result of the reduced availability of supplies of agricultural products and unfavourable demand conditions abroad. There has been pressure on India's foreign exchange reserves because of higher debt servicing charges, larger payments for foodgrains and other items that cannot be financed under aid, and lower export earnings. The overall situation is thus one in which production and investment in the Indian economy is held back due to a shortage of foodgrains, while at the same time assistance available to finance components and raw materials is being utilized at a relatively slow rate. The Government of India has been discussing with friendly institutions and countries the provision of additional assistance in the form of food or its equivalent, namely, cash or items which would otherwise have to be financed from the country's export earnings. To an extent, assistance of this type has already been provided; and it is the Government of India's hope that further progress in this direction will be possible in the near future. Internally, the objectives of policy have been to raise agricultural production quickly, to distribute equitably such food supplies as are available, to avoid deficit financing, to encourage foreign exchange earnings from exports and invisibles, to intensify the family planning programme, and to create a more competitive situation in Indian industry through relaxation of administrative controls.
3. In 1966-67 wide areas of the country were affected by drought for the second year in succession. Foodgrains output was only around 76 million tons as compared to 72 million tons in 1965-66 and 89 million tons in 1964-65. Crop failures were particularly serious in parts of Bihar, U.P., Madhya Pradesh, Rajasthan and Gujarat. Stocks in the country were already low as a result of the drought in the previous year and it was clear that unless substantial additional imports were arranged it would be impossible to avoid severe hardship. Imports of foodgrains rose from 6.7 million tons in 1964-65 to 8 million tons in 1965-66 and 10.4 million tons in 1966-67. For the calendar year 1967 imports of the order of 10 million tons are visualized. During the first half of the year, imports were of the order of 4 million tons, which included gifts from Australia, Canada and the USSR and Public Law 480 supplies from the United States. For the second half of the year, the requirements were thus 6 million tons valued at $380 million f.o.b. Of this the United States agreed to make available 3 million tons valued at $190 million and has provided half this quantity. Canada has provided grain worth $45 million (0.6 million tons) as a grant. It was recognized that additional financing to the extent of $145 million would be necessary to cover the f.o.b. cost of the balance of 2.4 million tons. I shall refer later to the progress made in this regard.

4. Even with the significantly higher level of food imports, the public distribution system has been under severe strain. The closure of the Suez Canal in recent weeks has been a contributory factor. So far, however, it has been possible to greatly extend the free supplies of grains to people whose incomes have been wiped out in the famine affected areas, to provide limited rations against payment in these areas, and also to extend the rationing in urban centres. Even so, the prices of foodgrains have shown a marked upward trend. Over the twelve months ending 1 July 1967 the wholesale price index for foodgrains rose by as much as 37.8 per cent and for all food articles by 29.7 per cent and this followed an increase of 24.5 per cent in each case over the previous two years. Dearness allowances of industrial workers have been adjusted upwards under wage agreements to compensate for the higher cost of living, resulting in an increase in industrial costs. While the rise in the price of manufactures has been only 2.9 per cent over the last year, the price line for manufactures can be held only if there is a reversal in the trend of foodgrain prices and more generally of prices of all food articles.

5. The production not only of foodgrains but of other agricultural items also has been affected by drought. The output of raw cotton, raw jute, oilseeds, sugar cane and tobacco, to mention the most important among the commercial crops, was at significantly lower levels in 1966-67 than in 1964-65, though with the exception of sugar cane the position was somewhat better than in 1965-66. Substantial quantities of raw jute had to be imported in order to sustain production of jute textiles for export. Shortage of raw cotton led to short time working in textile mills and had an impact on the prices of cotton textiles. It was not possible to export any vegetable oilc and the high prices inflated the cost of living. Similarly, sugar exports were lower and prices rose in the home market.
6. The highest priority has been attached to measures that will secure quick increases in agricultural output. The best strategy from the long-term and short-term points of view, is to concentrate on areas of high production potential, to increase inputs of fertilizers and pesticides to improve primarily minor irrigation facilities and to introduce high-yielding varieties on a large scale. Substantial foreign exchange outlays have been deployed on fertilizers in spite of the difficult balance-of-payments situation. As much as $270 million of foreign exchange has been provided for fertilizer import during 1967-68 as against only $98 million two years ago. An encouraging feature is that in spite of the considerably larger supplies, there is a shortage of fertilizers in relation to demand. Preliminary reports indicate that there have been marked improvements in yield as a result of the introduction of the new high-yielding varieties.

7. The population control programme is being vigorously pressed forward utilizing all standard methods and particularly the IUCD and sterilization.

8. The main objective of budgetary policy has been to counter inflationary trends by avoidance of deficit financing. The total Reserve Bank credits to Central and State Governments during 1966-67 was Rs 195 crores as compared to Rs 404 crores in the previous year. The Central Budget for the current year visualizes avoidance of recourse to Reserve Bank financing. It has been agreed with the State Governments that they will avoid unplanned overdrafts with the Reserve Bank of India. Substantial additional taxation was levied in the Central Budget presented recently, and many State Governments have levied additional taxes in order to finance development outlays.

9. The accent of the monetary policy has been on avoidance of excessive credit while meeting the genuine requirements for production, particularly in agriculture. The Reserve Bank has considerably extended its financing of the agricultural sector, through the co-operatives, and the commercial banks have also been asked to undertake the financing of agriculture more intensively than in the past. In the autumn of 1966 a relatively liberal credit policy was announced for the ensuing busy season in view of the expectation of better crops and larger imports under the liberalisation programme. A more restrictive attitude was adopted when it became apparent that agricultural output would be lower than anticipated and that the demand for industrial imports would also not be at the planned levels.

10. The rate of growth of industrial production declined, and the general index of industrial production rose by only 2.7 per cent during 1966-67 as compared to 3.9 per cent in 1965-66. Industries based on agricultural raw materials such as sugar and cotton textiles were hampered by lack of raw material supplies. The demand for some consumer goods like cotton textiles was reduced due to lower incomes. The fall in public and probably also private investment outlays affected the demand for capital equipment of various kinds. In the case of some capital and producer goods industries there was a significant fall in levels of production.
11. The pattern of imports during 1966–67 reflected the highest priority given to the requirements of agriculture and the slowing down of the growth rate of industrial output. While trade data indicate a fall in total imports between 1965–66 and 1966–67 from $2,963 million to $2,691 million, imports of fertilizers rose from $82 million to $117 million. Foodgrain imports increased from $676 million to $813 million and those of raw jute from $19 million to $27 million. On the other hand, there was a drop in imports of mineral oils from $144 million to $87 million reflecting the establishment of additional refining facilities. There were sharp declines in imports of steel, non-ferrous metals, machinery and transport equipment, imports of these items taken together declining from $1,404 million to $972 million.

12. Industry is being encouraged to utilize capacity more fully through larger exports. It is expected that exports of steel and of a number of engineering products like machine tools will rise substantially. Industrial units are also being encouraged to diversify production in order to utilize capacity to manufacture items which are in demand. Up to 25 per cent of the capacity of an industrial unit can be utilized to manufacture items other than those for which it holds an industrial licence without securing Government’s approval, if additional imported equipment is not required. A number of industries have been exempted from industrial licensing requirements. Distribution and price controls are kept under continual review and relaxed or removed whenever appropriate; for example, cement, steel and coal distribution and prices have been de-controlled. It has been announced that selective measures will be adopted consistent with the need to avoid inflationary financing, to promote demand for the products of specific capital and producer goods industries which are faced with specially acute problems.

13. The most notable liberalization has been with regard to import policy. Certain commodities of special importance for export production have been placed on open general licence; these include hides and skins, wattle barks and extracts and raw cashew nuts. A wide range of spare parts can be imported without licence from the United States against American assistance; and quotas for imports of spare parts against India’s export earnings have been substantially increased. The freer availability of spare parts is facilitating the more effective use of the considerable volume of industrial, mining, transport, power and other equipment in the country. The procedures for grant of licences to small-scale industries were considerably simplified. In the case of fifty-nine industries accounting for about three quarters of the industrial production index, licensing is now on a need-based basis. Industrial units can apply for further licences at any time, after showing evidence of utilization of the earlier licences. The evidence required is opening of letters of credit to the extent of 90 per cent of the value of the licence or import of goods to the extent of 60 per cent of the value of the licence. The assurance of availability of licences when required is making it possible for industry to avoid carrying unnecessary stocks and to programme production in an orderly manner. It is, however, necessary to direct importers to specific sources of supply in accordance with credit availabilities from time to time. The
established importer policy has been streamlined by grouping of items into a few categories; and there is provision that a licence granted against past imports of any one item in the group can be utilized at the importer's discretion for import of any item falling within the group.

14. Overall export performance has been disappointing. Total export earnings during 1966-67 amounted to $1,558 million as compared to $1,693 million in the previous year and $1,714 million in 1964-66. Reduced supplies of agricultural raw materials were an important factor. There was dislocation in trading arrangements in the weeks immediately following devaluation. Unit values declined for a number of export commodities, partly because of slack world trading conditions and partly as a psychological response to devaluation. Import restrictions on products such as cotton textiles continued to hamper Indian exports. Export earnings from a few items such as fish and hides and skins in which supplies were elastic and foreign demand was good grew substantially. Nevertheless, the overall picture was one of a deterioration in export performance.

15. A number of policy measures were taken to promote export earnings. Provision was made for exporters to secure their full imported raw material requirements from preferred sources of supply. It was indicated that the requirements of exporting units for imported capital equipment would receive the highest priority. Marketing and other promotional efforts were intensified. In the Central Budget for the current year significant tax concessions were announced for the hotel industry, in order to promote tourist earnings.

16. The effect of reduced export earnings and of higher payments from the country's foreign exchange resources on account of debt servicing, food imports, and imports of a variety of items which could not be covered against external assistance was serious pressure on the reserves, which could be met only by a substantial drawing of $187.5 million on the International Monetary Fund. Leaving out of account transactions with the IMF foreign exchange reserves increased marginally over 1966-67 but there has been a decline of $60 million up to 14 July 1967.

17. The Consortium has recognized that India needs non-project assistance of $1,300 million (including food) during the current year. It has also recognized that a substantial proportion of the new aid has to be in a form equivalent to cash. India is faced with a large gap between the payments for imports which she has to make in free foreign exchange and her earnings of such exchange. Because of a variety of procedural reasons, aid is not available to finance some of the most essential imports. Freight on food shipments covered by aid is an instance. So far it has been possible to arrange aid of this kind to the extent of less than $60 million. It is the Government of India's hope that the remaining amount sufficient to cover commitments of food imports already entered into by India will be forthcoming in the near future; and that the target of total non-project aid indicated at the Consortium will be soon fulfilled.
18. Aid available for the purchase of components and raw materials from abroad is often tied not only by country but also by commodity; and in certain instances individual financing negotiations between suppliers and Indian importers are required to utilize assistance. The effect of aid tying is to reduce the extent to which Indian importers can be given flexibility in taking decisions regarding imports on purely commercial grounds. Relaxation of the restrictions on use of such assistance would promote the emergence of competitive conditions in the Indian industrial structure.

19. The tariff obstacles to India's exports have been somewhat reduced as a result of concessions negotiated in the Kennedy Round. In regard to relaxation or removal of quota restrictions, to which some products of substantial export interest to India are subjected in some developed countries, there has, however, been no progress. Early removal of these restrictions and application of tariff concessions fully, without phasing, would enable India to augment her foreign exchange earnings and this would, to some extent, ease her present balance-of-payments difficulties. The Government of India, therefore, hope that on these matters, early action would be taken by the developed countries.

20. While the past two years have been very difficult ones for the Indian economy, there is good reason to hope that in view of the policy measures that have been adopted, there will be a significant rise in output if weather conditions are not unfavourable. The requirements of longer-term growth are, therefore, not being ignored. While current investment levels have been reduced, work on project preparation has continued. If there has not to be a hiatus in development a significant rise in investment outlays will be necessary next year. The external financing for the new projects that have been undertaken are being negotiated with the institutions and countries providing assistance.