OPENING STATEMENT BY THE REPRESENTATIVE OF INDIA

1. The Government of India is glad to have this opportunity of reviewing with the contracting parties the recent developments in the Indian balance of payments. The very useful paper prepared by the International Monetary Fund in connexion with the 1968 Article XIV consultations has already been circulated to members.

2. There has been a distinct and considerable improvement in the balance of payments of India in the past year. Indian exports increased during 1968-69 by 13.5 per cent over exports during the previous year. In the first six months of 1969-70, namely over April-September 1969, exports have continued to increase although the rate of increase has lately been somewhat lower than anticipated at the beginning of the year. As a result of the increase in exports, and a reduction in imports brought about largely by improved production of foodgrains and successful import substitution within the country, the foreign exchange reserves position has also improved. The price increase observed until 1967-68 has been definitely arrested, the index of wholesale prices at the end of October 1969 being marginally lower than the index of wholesale prices a year ago. This has been possible due to combination of increased food production within the country, increased industrial output, and a better balance between overall demand and supply. There was a record harvest in 1967-68 and in 1968-69, the economy consolidated this position. Industrial production which had been facing a recession in the two previous years increased by over 6 per cent in 1968-69. On the whole the economy has recovered from the traumatic experience of two successive years of drought and is ready to resume the trend of growth. The outlook today calls for a step up in the rate of investment in the economy in order to stimulate a high rate of long-term growth of the economy.

3. The immediate objective of budgetary policy is to resume growth which had been interrupted by the emergence of recession in the past few years. The budget for the current year therefore provides for various measures to stimulate savings and investment and encourage larger exports. The developmental outlays provided
in the central budget have been stepped up from $3.3 billion in 1968-69 to $3.5 billion in 1969-70. To keep inflationary pressures under check, reliance on deficit financing is, however, sought to be kept at a level which is consistent with the requirements of monetary stability. The overall budgetary deficit of the Central Government declined from $400 million in 1966-67 to $266 million in 1967-68. The estimates for 1968-69 as well as for 1969-70 indicate an overall budgetary deficit of the Government of India by some $330 million each year. Substantial additional taxes have been imposed by the Government of India and every effort made to curtail non-developmental expenditures.

4. The agricultural situation in the country has definitely improved. Food production, which increased to 95 million tons in 1967-68 due partly to the adoption of the new agricultural strategy remained more or less at the same level in 1968-69 because of failure of rain in many parts of the country. The prospects this year are much better and, according to current forecasts, food output will increase to 100 million tons in 1969-70. Although the cotton, jute and oilseeds crops had suffered a setback during 1968-69, there are indications of a substantial improvement in the production of commercial crops like cotton, jute and sugar during 1969-70.

5. The new agricultural strategy consists of the introduction of high-yielding varieties of seeds and the increased use of inputs like fertilizers, pesticides and water, and improved agricultural practices. The input of both fertilizers and pesticides has increased substantially. The consumption of nitrogenous fertilizers has risen from 840,000 tons (nitrogen) in 1966-67 to 1.2 million tons in 1968-69. Plant protection measures covered 54 million hectares in 1968-69 as compared to 24 million hectares in 1966-67. There has been increased emphasis on minor irrigation works and the additional irrigation potential created from major and medium irrigation projects was 0.8 million hectares and from minor irrigation works 1.45 million hectares. Government have been endeavouring to increase the production of agricultural machinery, particularly tractors within the country. There has been a marked improvement in yields of a number of crops as a result of the introduction of the new high-yielding varieties of seed. During 1968-69, 8.5 million hectares of land were under high-yielding varieties of seed as compared to 1.9 million hectares in 1966-67.

6. Industrial production also has shown definite signs of revival from the earlier period of stagnation. During 1968-69, the overall index of industrial production showed an increase of some 6.4 per cent as compared to a mere 1 per cent in the two years 1966-67 and 1967-68 taken together. Preliminary figures indicate that industrial output may increase by some 7 to 8 per cent this year. This increase in industrial production has been achieved in spite of a stagnation in the production of cotton textiles, and to an extent also of jute manufactures, and has been brought about by a significant rise in the output of newer industries, particularly of base metals and engineering industries. The sluggishness in the cotton textiles output has been due partly to a faltering domestic demand caused by a shift to synthetics and partly to the financial difficulties of some of the textile mills, which had been hit adversely during the recessionary years. There has also been a relatively slow rate of recovery in some of the machinery manufacturing industries like machine tools and electrical equipment, although there has been a steady growth in the production of a number of industrial machinery items including cement, sugar, paper and chemical machinery.
7. The accent of monetary policy has also been on aiding economic recovery, particularly in sectors affected by recession. During the last two years or so, the Reserve Bank has been according preferential credit treatment to the priority sectors, viz agriculture, exports and small-scale industries. This policy of concessional refinance to the priority sectors is being continued in the current busy season (November 1969 to April 1970). The commercial banks were particularly directed to earmark funds out of additional deposits for agriculture and small-scale industry. The process of channelling credit to priority sectors in conformity with social and economic commitments has received further impetus with the nationalization of fourteen major banks.

8. The resurgence of industrial production has led to a sharp increase in import licensing during the current year. During the six months of April-September 1969 the total value of import licences issued, at $770 million was 34 per cent higher than the level of licensing ($573 million) during the corresponding six months of 1968. Understandably, however, there has been a major shift in the pattern of imports, which in 1968-69 and also over the first few months of the current year reflects the success of the policies adopted by the Government over the past few years. During 1968-69, there was a sharp drop in food imports by $242 million.

9. While the decline in imports has been due mainly to a decline in requirements of food imports, the improvement in exports observed during 1968-69 as also during the current year have been largely the result of an improvement in exports of non-traditional items. Iron ore, iron and steel, engineering goods, leather manufactures, handicrafts, etc., have figured in the major increases, and although during the current year, exports of both iron ore and steel have declined, the improved performance of exports of engineering goods has continued.

10. During the past few years, Government policy on import has been geared to the need to provide the essential inputs for the development not only of agriculture but also of industry so that the momentum of growth can be continued. During the last consultation, reference was made by the Indian representative to the liberalization of import licensing policy, particularly for priority industries, adopted in 1966. This liberal licensing policy for the fifty-nine priority industries accounting for three quarters of industrial output has been continued on a need-based basis. Actual users in these industries are entitled to apply for replenishment of import licences on the basis of consumption during the previous period. Selective liberalization has also been introduced in regard to the requirements of small scale-industry for which some of the difficult items are now sought to be bulked for imports, so as to reduce both the import costs and transportation charges. A number of policy measures which had been taken to promote exports have been continued, provision being made for exporters to secure their full raw material import requirements from
sources of supply of their choice. The requirements of exporting units for imported capital equipment are given the highest priority. Marketing and other promotional efforts have been intensified and as a measure of introducing greater cost-consciousness as well as awareness of the export opportunities and avenues abroad, a number of industries have been required to export between 5 to 10 per cent of their output. This special feature of import policy for the current year, namely 1969-70, has helped to bring about increased cost-consciousness in industry, forcing entrepreneurs to pare down inventories, bring about improved efficiency of labour as well as of management, and to seek to shape their purchase policies with a view to securing maximum economy and efficiency. Fiscal policies have been geared to assist exporters, and export promotion schemes for reducing some of the disadvantages arising out of a multiplicity of indirect taxes that industry has to bear have been adopted. The 1969-70 budget provided for a reduction in the export duty on jute, tea and mica, resulting in a loss of $31 million to the exchequer.

11. While the overall trade and payments outlook as a result of the various fiscal and import liberalization measures has thus definitely improved, the outlook for the coming years continues to be one which calls for careful budgeting of resources and also highlights the need for continued assistance from friendly countries in order to help sustain the policies already adopted and to stimulate the rate of investment and growth of the economy in the coming years. Repayments of short-term borrowings from the International Monetary Fund due in 1970-71 amount to as much as $205 million. Other debt repayment liabilities over the coming year would be as much as $549 million. The aid for non-project imports promised at the Consortium meeting during the current year has yet to be translated into aid agreements and it seems that the total availability of resources may be less than anticipated. There has also been a noticeable slowing down of project aid, which has resulted in a slowing down of capital investments and to a decline in imports of capital goods. The greatest need of the economy is to raise the level of investments so that the growth of industrial production and of employment can be stepped up.

12. In the above context, the need is for increasing quantities of untied aid both in relation to the types of imports to be financed and to the sources from which the imports can be obtained. The effect of the total tied aid is to reduce significantly 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 and would help the Government of India to improve the competitive position of Indian industries.
13. While the tariff obstacles to India's exports have been reduced somewhat as a result of concessions negotiated in the Kennedy Round, some of the major items of India's exports continue to suffer from high tariffs in important developed countries. There has also been little progress in regard to relaxation or removal of quota restrictions on certain products of substantial export interest to India. Early removal of these restrictions would enable India to augment her foreign exchange earnings and this would ease the continued balance-of-payments difficulties which stand in the way of further liberalization. The Government of India, therefore, hope that on these matters early and favourable action would be taken by the developed countries.

14. To sum up, while the past two years have seen a distinct improvement in the Indian economy, the overall situation and the balance-of-payments prospects continue to be such as to call for careful planning of import and export policies. The requirements of long-term growth can no longer be ignored. A better balance has been brought about in the economy partly through an improvement in output but also largely through a very sharp paring down of inventories, and if there is not to be a hiatus in the development of the economy in the future, a significant increase in investment outlays would be necessary during the coming year. The trend of import licensing during the first half of the current fiscal year, to which reference has already been made, together with the debt repayments due, highlight the generally difficult foreign exchange position over the coming year. The situation, therefore, calls for a combination of trade and aid policies which may help the Government of India to overcome the balance-of-payments difficulties in the longer run. The Fourth Plan Draft has set a target for export by 1973-74 which is crucial for achieving the longer-term viability and growth of the Indian economy, and which is also necessary for sustaining the level of imports estimated for 1973-74. Brief reference has already been made to some of the restrictions imposed by some of the major trading partners on India's exports. While this is an issue which is essentially suitable for bilateral discussions, the Government of India would hope for the continued interest and assistance of friendly countries in a combination of trade and aid policies which may help India achieve the export targets envisaged, and also pay for the imports necessary for the sustained development of the Indian economy.