

5. Amstrong

GENERAL AGREEMENT ON **SECRET** TARIFFS AND TRADE

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WORKING PARTY "K" ON CONSULTATIONS UNDER ARTICLE XII: 4(b)

Statement made by Mr. K.C. Nair on behalf of the
Indian Delegation at the Twelfth Meeting of the
Working Party held on Monday 27th November at 3 p.m.

1. The circumstances which necessitated the imposition by Commonwealth countries of restrictions in respect of dollar imports have been fully set out in document SECRET/CP/11 circulated by the U.K. on behalf of all the Sterling Area Commonwealth countries, and also in the various statements so far made by representatives of other Commonwealth countries before the Working Party. These statements have also drawn attention to the common interest of all Sterling Area countries, including India, in safeguarding and building up a satisfactory level of central reserves for the Sterling Area. The bulk of our foreign trade is conducted through the medium of sterling and our foreign exchange reserves consist almost entirely of sterling balances and other sterling securities which also provide the necessary backing for our currency issue.

2. The background material prepared by the International Monetary Fund, based on information gathered from Government sources, sets out in great detail the problems relating to our balance of payments which have necessitated the continued maintenance of restrictions on all imports generally and on imports of dollar goods in particular. We shall therefore now attempt only to mention very briefly two cardinal points which have been brought out in that document, namely, the rapid decline of our reserves which has taken place in the last three years and the continuing adverse balance of our payments.

3. Apart from the current earnings from exports and invisibles, the Sterling balances constitute the only external resources available to India for financing a high level of essential imports which have become necessary in the post-war period. As members of the Working Party are aware, releases from these balances are regulated by agreements with the U.K. and depend to some extent on the ability of the U.K., consistent with the state of her own finances to provide the amounts required. As a high level of imports, particularly of capital goods, will continue to be necessary for India in the near future we are ourselves anxious that withdrawals from our reserves should not be at a rate which will liquidate them within a short period. In spite of these considerations it will be noticed from the following figures that these balances have been reduced by almost half within the last three years :-

£ Million

	<u>Total</u>	<u>Change</u>
1st Jan 1947	1,251	..
31st Dec 1947	1,165	- 86.
30th June 1948	1,155	- 10.
31st Dec 1948	771	- 384.
30th June 1949	615	- 156.
31st Dec 1949	619	+ 4.
30th June 1950	620	+ 1

4. Although this substantial decline has been due in part to the transfer to Pakistan and the settlement for the purchase of defence stores and pension annuities from the U.K., a significant part of the decline was due to releases that were required to finance current imports during the last two years. As a result of the import limitation policies pursued since the second half of last year this rapid decline in our reserves has somewhat been checked, and the Sterling assets of the Reserve Bank showed a slight improvement to £620 million as on 30th June 1950, but, nevertheless, the position of our reserves is far from satisfactory.

Balance of Payments

5. Before the war India always had a favourable balance on her current transactions but throughout the post-war period the balance of trade and payments has been adverse, touching an all-time record of about Rs. 3000 million during the period 1948 to 1949. The following figures will indicate the comparative position of our balance of trade, pre-war and now:

Millions of Rupees

	Average 37 - 38 38 - 39 (April - March)	48 - 49 (July - June)	49 - 50 (July - June) (provisional)
Imports	1631	7310	5571
Exports (incl- re-exports.)	1792	4410	5088
Balance	+ 162	- 2900	- 483

6. The figures for 1948 - 1949 are not strictly comparable with the 37/38 figures which relate to the sea-borne imports of pre-partition India, while the latter relate to post-partition India and also include imports from Pakistan and neighbouring countries. Also the 37/38 figures relate to the financial year April - March, while 48/49 and 49/50 figures relate to the period July to June. All the figures however cover a 12 monthly period and therefore serve to bring out the comparative annual position. It will be noticed that in spite of a three-fold increase in exports in the post-war years the over-all balance has always been a large deficit.

7. Excluding transactions with Pakistan (and on a calendar year basis) the over-all balance of payments position during the last two and a half years was as follows:-

Millions of Rupees

	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>
1948	5555	6652	- 997
1949	5652	7241	- 1589
1950 (half year Jan-June 1950)	3092	3001	91 @

@ errors and omissions
- 96.

The figures for Jan - June 1950 are provisional and the nominal surplus becomes a deficit of Rs. 5 million when errors and omissions are taken into account.

The improvements towards equilibrium indicated in the above tables has been the result of the import limitation policy followed particularly since the second half of last year and an unusually high level of receipts from exports; but the position is still far from satisfactory.

8. Throughout the post-war period, until devaluation the over-all adverse balance of payments also involved a substantial adverse balance with the dollar area. The following figures will indicate the position :-

<u>In Millions of U.S. Dollars</u>				
	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950 (1st Half)</u> @ Provisional
Imports (C.I.F.)	472	474	349	152
Other Payments	97	36	63	- 6
Total Payments	569	510	412	146
Exports (F.O.B.)	332	324	262	139
Other Receipts	35	37	49	32
Total Receipts	<u>367</u>	<u>361</u>	<u>311</u>	<u>171</u>
Deficit	-202	-149	-101	+ 25 @
I.M.F. Subscriptions	28	
I.M.F. Drawings		68	32	

@ Provisional figures. The balance was a small surplus in the first quarter and a deficit in the second quarter.

The heavy adverse balance on an over-all basis as also the deficit on the dollar account has been due on the one hand to the working of the wartime arrears of accumulated demand for capital goods for rehabilitation and replacement, and for new development programmes, and on the other to heavy imports of food, imports of essential raw materials to maintain the production of established industries, and of a limited quantity of essential consumer goods. Although the replacement needs of capital goods has to some extent been met in the past three years, the other factors which contribute to a high level of imports still exists.

9. In spite of the difficulties just mentioned particularly the rapid decline in reserves, and a continuing deficit, we have always sought to maintain as liberal an import policy as was possible in the circumstances. A detailed account of the recent changes in import control has been set out at pages 7 to 9 of the background material prepared by the IMF. It will be noticed that in the past whenever there was an improvement in the trend of receipts and the balance of payments we have always sought to liberalise her import policy even though this has often resulted in further balance of payments difficulties. Consistent with this objective of maintaining as high a level of imports as possible a liberalisation of imports from soft currency areas, including some relaxation in imports from dollar areas to permit certain items like machinery, spare parts, raw cotton was announced for the first half year of 1950 when the improvement in the rate of receipts

since the second half of 1949 under the stimulus of devaluation, made this possible. These relaxations have been substantially maintained in the import programme for the second half of 1950 and in addition an Open General Licence, No. XX, for the import of a broad class of goods from any part of the world and a few other items from soft currency areas was also announced in August 1950. It is too early to assess the effect of these relaxations with any amount of precision, but it is expected that they will result in a substantial increase in the debit side of our foreign exchange budget for the current year.

10. As a result of the import policies pursued during the last year, there has been some improvement as the figures I have just mentioned, both in the over-all trade balance and also in the balance with the hard currency countries; and in fact, there are hopeful signs of an emerging surplus in our trade with dollar areas at the present limited level of imports. All this improvement however is due to purely temporary factors such as the severe restriction of imports which existed last year, including the complete stoppage of issue of licences for dollar areas during July and August 1949, and the devaluation of the rupee which generally stimulated exports and discouraged imports. There are, also, many uncertainties in the situation. On the one hand, receipts from exports which have been running at a very high level in the immediate post-devaluation period are stabilising themselves at somewhat lower levels. The total value of monthly exports touched an all-time record of over five hundred million rupees in November - December 1949 but subsequently declined to about 300 to 350 hundred million rupees between April and July 1950 - a rate below the 48/49 level. It is also likely that the level of export of certain commodities, e.g. Manganese ore, which were exported to the dollar areas at unusually high rates in the immediate post-devaluation period may somewhat decline on account of the increasing home need and the needs for maintaining established channels of trade in those commodities with the other areas. The raw material difficulties of two of our major export industries, namely, cotton and jute textiles, is also another uncertain factor which may affect the receipt side. As regards imports, in spite of the improvement in the food production position, recent unfavourable developments like floods and earthquake have already necessitated a revision of the food import target for the current year from 1.5 million to 2 million tons. As sterling availability of food grains has somewhat diminished in recent months in view of the international situation, a comparatively higher proportion of our food imports may now have to be obtained from the dollar areas. For instance, while last year we were able to obtain the bulk of our food requirements from soft currency sources, the total value of food imports from the hard currency areas till September this year was 215 million rupees compared with imports worth 324 million rupees from the soft currency areas. As I mentioned earlier, the impact of the recent relaxations in imports including O.G.L. No. XX will make further additions to the payments. Taking all these factors into account it is not expected that during the current year 50 - 51 there will be any substantial improvement either in the over-all or the dollar balance. In fact, the over-all accounts are expected to show a deficit of between 1500 and 2000 million rupees and this may well be higher in view of the rising trend of world market prices for many of our essential imports.

11. The Government of India are anxious to allow the importation of a much larger volume of capital goods, essential for the execution of our development programmes, of raw materials for our industries, and also of consumer goods which will serve to curb the inflationary pressure in the country. The cushion for a high level of imports, so far provided by releases from our reserves is, however, running out, and our present endeavour is primarily directed to so regulating our import programme as to achieve a reasonable stability in our international accounts by relating the volume of imports more and more to current receipts from export and invisibles, and thus putting our economic position on a sound and lasting basis as envisaged in Article XII of the GATT.