GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

Spec(83)29/Add.12
26 August 1983

Working Party on Structural Adjustment and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

India

(Spec(82)6/Add.2 and Suppl. 1)

1. The representative of India, introducing his country's contribution, began by reiterating the importance that his government attached to the work of the Working Party, which it hoped would facilitate progress towards the objectives set forth in Part IV of the General Agreement and in particular Article XXXVII:3(b). He added that, for a developing country like India, the process of structural adjustment did not lie so much in making a choice between sectors based on their competitiveness but more in the continuing process of development of all sectors. These and various other points that he made in his presentation were subsequently elaborated in the supplementary submission that his delegation later provided. The paragraphs that follow contain certain additional information and replies to questions put by members of the Working Party that he provided during the discussion on India's experience.

2. Referring to developments in Indian industry, he said that the entire philosophy of India's industrialisation was enshrined in the various Industrial Policy Resolutions of the government starting from the Industrial Policy Resolution of 1956. The crux of the philosophy had already been enunciated in India's preliminary submission. What was important was that the strategy of Indian industrialization had been in consonance with the overall objectives of self-sufficient growth and distributive justice - a philosophy which found its expression in the policy towards location of industry, monopoly control, promotion of small scale industry, full capacity utilization, and emphasis on research and development plus modernization. The improvement in industrial production had been widespread and peak levels of production had been achieved in a large number of industries - steel, crude oil and petroleum products, cement, aluminium, nitrogenous fertilizers, newsprint, transport equipment and sugar. These changes had taken place over the whole gamut of industry and reflected the diversity of the Indian industrial production base specially when compared with the industrial production structure in the 1950's. In the early years of planned economic development in India, great emphasis had been placed on infrastructural development, on communications, irrigation and on the heavy machinery sector. It was as a consequence of this basic strategy that India had today such a diverse production structure.

3. Turning to the agricultural sector, he said that if there was any aspect of economic development that stood out, it was the significant

break-through that had been achieved in agriculture, specially on the foodgrains front which had enabled India to feed its large population. The "Green Revolution" in India, which had commenced in the mid-1960s with the launching of the Intensive Agricultural Development Programme, had completely changed the agricultural scenario - production levels, agricultural technology, yields per acre, the acreage under different crops. It had made production more stable and less subject to the vicissitudes of the weather. Foodgrain production had increased from 97 million tonnes in 1972-1973 to 133 million tonnes in 1981-1982. The production of oilseeds, sugar cane, cotton, jute and potatoes had also shown very significant gains. This growth had been realised primarily by a sustained growth in crop yields which had been attained by modern farming methods, the use of nitrogenous and phosphatic fertilizers plus the attendant improvement in irrigation and water availability.

4. He said that changes in all the dimensions of trade - value, volume, country and commodity composition - had moved hand in hand with other changes in the economy. These changes were partly a concommitant of the pattern of changes in the Indian economy and partly due to the pulls and pressures of national and international markets. During the period 1970-1971 to 1981-1982 India's imports had increased, especially imports of industrial raw materials and intermediate manufactures which had increased ten-fold and the import of capital investment goods which had increased more than five times. This was an indication of the increasing liberalization of India's import policy, which sought: (i) to provide to industries, especially in the small-scale sector, easier and more regular access to their requirements of inputs to maximize their output and to increase their productivity; (ii) to reduce or dispense with licensing formalities wherever possible and to streamline procedures; and (iii) extend support to the upgrading of technology with a view to achieving cost reductions, energy saving and output maximization.

5. He said that, though India's exports had increased, they had been faced by a host of protectionist barriers which had adversely affected India's export trade. In quantity terms, exports of jute and cotton fabrics had actually fallen between 1970-1971 and 1981-1982 while those of tea had increased only marginally. In terms of value, the most significant increase had been achieved in engineering goods and other non-traditional manufactures. The large proportion of manufactured products in India's export basket was an index of the new production structure of the economy. However, it was a matter of regret that India's exports in this sector had been particularly affected by countervailing and anti-dumping actions taken in a protectionist manner. He added that the story of textiles was too well known to be repeated since the entire sector stood as a major derogation from GATT.

6. He said that during the last decade India had faced severe trade deficits with its major trading partners. The overall trade deficit had increased five times in four years and at present stood at almost US$6 billion. An index of these problems was reflected in the ratios of India's exports to in relation to India's imports from certain major trading partners, which, according to provisional estimates in 1981-1982, were with the US almost 1:2, with Canada approximately 1:5, with the EEC 1:2, with Japan 1:1.5 and with Australia 1:2. The increase in India's trade deficit

had placed concomitant strains on its balance-of-payments position. India's international monetary reserves had, during this period, dwindled to just about US$4.5 billion covering only three months imports compared with a nine months cover less than two years ago.

7. Replying to a question about the percentage of total Indian GNP accounted for by international trade, the representative of India said that during the last three years this figure had hovered around 16.5 per cent (16.4% in 1979-80, 16.8% in 1980-81, and 16.3% in 1981-2). He added that this was a significant figure, which explained the importance his government attached to this exercise.

8. Questioned about how industries were selected as having "long-term export potential", he said that the statement in paragraph 5 of India's preliminary submission referred to certain decisions taken in 1975 when a selection of industries having long-term export potential had been made taking into account various factors, including variables like the demand position and the likely prospects in the international market, the availability of domestic infrastructure, shipping facilities and freight structure and other similar parameters which might have conferred a comparative dynamic advantage.

9. Asked what were the criteria used for the selective supports and complementary measures to indigenous efforts (Spec(82)6/Add.2, page 11), he said that the concerned government authority examined thoroughly all proposals for foreign collaborations, technical consultancy services etc., form the angles of: availability of indigenous know-how; its level of commercialization; feasibility of horizontal transfer of indigenous technology, if any; the need or otherwise of inducting foreign technology for the manufacture of the proposed items; competence of the proposed foreign collaborator; details of services rendered by them to the Indian company to receive and absorb the technology imported for the manufacturing process with the help of the R&D (Research & Development) facilities that were expected to be provided along with the project.

10. In response to a question about how companies have to demonstrate their ability to "absorb, adapt and disseminate modern technology" (Spec(82)6/Add.2, page 11), he said that the concerned government authority conducted exercises for the verification of indigenous technology and also on the absorption, assimilation and adaptation of technology in various industries. It encouraged the establishment of in-house R&D to enable units to develop their capability to absorb imported technology, adapt it to local conditions and make improvements to it. It also evaluated the in-house R&D set up in various industries. In response to a further question, he said that these governmental processes also guided policy towards the use of intermediate technology. Where an intermediate technology existed in India and it was judged to be horizontally transferable, preference would normally be accorded to the incorporation of that technology.

11. Asked what form of assistance was given to industrial process technologies (Spec(82)/Add.2, page 12, paragraph 10), he said that, with a view to promoting the conservation of energy and the utilisation of

alternative sources of energy, the Indian government had delicensed the setting up of units for the production of equipment for the exploitation of alternate sources of energy like solar insulation, wind power, bio-mass energy, geo-thermal energy, tidal power and sea power. Imports necessary for the development of technology which could help in energy conservation and in the reduction in material contents were met to the extent necessary.

12. Asked what form government support for higher technology inputs took, the representative of India said that for promoting technical upgradation and modernisation, imports up to a value of US$500,000 per unit were allowed. Import of samples, prototypes, technical designs and drawings had also been liberalised. In response to a supplementary question, he confirmed that this support was made available through the licensing of imports up this amount, and not through financial assistance of US$500,000. He said that the above information also served as an answer to a question put by another member as to whether technology imports in India were restricted.

13. Asked whether the system of "modernisation packages" included financing, he said that financial institutions gave financial assistance to industries with a view to increasing production.

14. In response to a request for more information on the setting up of 100 per cent export-orientated units, he said that, in order to bridge the increasing deficit in the balance of trade, the government had announced a scheme whereby a single point clearance with regard to industrial licensing, foreign collaboration, imports of capital goods and raw materials etc., would be given for 100 per cent export-orientated units. Such units would be eligible for duty-free imports of capital goods, raw materials and components. They would operate in-bond ordinarily for a period of 10 years. For indigenous supplies to these units there would be no excise duty charged. These units would have to have a minimum value-added of 20 per cent and for this purpose domestically procured raw materials would be treated as imports. After the stipulated period of the bond, the government would consider the question of debonding and take a decision, taking into account the industrial policy in force at that time and other factors such as equity participation, indigenous capacity and protection to small-scale industry. He added that these export-oriented units were not sector specific.

15. A member said that he would not agree with the Indian assertion that it was not relevant to talk of inter-sectoral shifts in developing countries. In his view, it was in the movement of resources from lower to higher productivity uses that the processes of adjustment and economic growth took place. In response, the representative of India said that he could agree that industrialization did involve shifts in the patterns of production, but in India the major thrust towards structural change had come from central planning, although certain other factors, both internal and external, had also played a role. Before the free play of market forces could act beneficially, developing countries such as India had to establish a basic infrastructure for the economic system.

16. This member noted that on page 10 the Indian submission talked of structural adjustment in the context of rapid and balanced

industrialization. He asked whether this implied continuing development and protection of inefficient sectors. The representative of India said that this was not the case. To encourage rapid and balanced industrialization, the Indian government had followed a pragmatic policy without perpetuating inefficiency. The member who had asked this question wondered how the Indian government decided that an industry being developed was, or was likely to become, inefficient and therefore should no longer benefit from government assistance and protection. In this connection, he further wondered whether the import policy was consciously used to promote efficiency by reducing the protection accorded to industries as they developed. In response, the representative of India said that in India import policy was primarily a function of balance-of-payments constraints. Given this basic parameter emphasis was placed on providing essential imports and meeting the development requirements of all sectors.

17. In response to a question about the use of import policy to strengthen the infrastructure, the representative of India said that industries, especially in the small-scale sector, were given easier and more regular access to inputs in order to maximize their output and improve their productivity. To encourage investment in industry and to enable entrepreneurs to implement their production schemes expeditiously, a large number of items of industrial machinery which were not being manufactured in India were allowed to be imported under Open General Licence. 100 per cent export-oriented units were allowed to import all their requirements under Open General Licence. Industrial undertakings in shipbuilding could import under Open General Licence any raw materials, components or consumables required by them, including consumable tools/spares for the manufacture/repair of ships. Imports for promoting technological upgradation and modernization were allowed up to a limit of US$500,000 per unit. To correct regional imbalances and to secure industrialization of backward areas, special facilities were given for establishing industrial undertakings in these areas. Import requirements necessary for the development of technology which could help in energy conservation and in the reduction of material content were met to the extent necessary.