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Annex VI to Report No. AS-80a

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INDIA'S THIRD FIVE-YEAR PLAN

REPORT OF BANK MISSION TO INDIA

Annex VI

OVERSEAS TRADE AND PAYMENTS

August 10, 1960

Department of Operations
South Asia and Middle East

CURRENCY EQUIVALENTS

1 Indian Rupee	=	U.S. $0.21
1 U.S. Dollar	=	Rs. 4.762
Rs. 1 billion	=	$210 million

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100 Naye Paise = One Rupee

WEIGHTS AND MEASURES

All tonnages in long tons unless otherwise stated.

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ANNEX VI. OVERSEAS TRADE AND PAYMENTS

(A) DEVELOPMENTS DURING THE SECOND PLAN

The Overall Balance

1. Pressure on India's foreign exchange reserves appeared almost from the time the Second Five-Year Plan was launched on April 1, 1956, reflecting primarily the unexpectedly rapid increase in imports of foodgrains, capital goods and industrial materials, combined with additional defence imports. Exports actually declined over the first three years of the Second Plan, from Rs. 6.41 billion in 1955/56 to Rs. 5.76 billion in 1958/59. Imports, which had amounted to Rs. 7.51 billion in the last year of the First Plan, rose to Rs. 11 billion in 1956/57 and to over Rs. 12 billion in 1957/58. An industrial boom, which coincided with the beginning of the Second Plan, caused private import requirements to rise much higher and come much earlier than expected. There was, in addition, increased expenditure on government imports because the foreign exchange costs of certain Plan projects, particularly the steel plants and major power and irrigation projects, had been seriously underestimated, and the requirements of raw materials, components and spares were greater than allowed for in the Plan. Moreover, external assistance was not made available as soon as expected. The result was that, as compared with an increase in exchange reserves over the last four years of the First Plan taken together, the reserves fell precipitately by Rs. 2.19 billion in 1956/57 and by Rs. 2.60 billion in 1957/58. Detailed figures are given in the Statistical Appendix, Tables 24 and 25.

2. The Government acted to deal with this situation through the progressive tightening up of import licences and the rephasing of certain parts of the investment program. In 1956 licences were being issued freely not only for capital goods, but also for industrial materials and components and even for some types of finished consumer goods. Extensive commitments were entered into by government departments and private importers during 1956, and although the first move to restrict imports was made before the end of that year, it was not until the summer of 1958 that the new policy took full effect. The problem was aggravated by substantial overseas purchases of defence equipment and by the imbalance between supply and demand for foodgrains which had not been anticipated. Had not the United States come to the rescue with aid under PL 480, the Second Plan might have sustained a grievous set-back.

3. Confidence factors almost certainly played a part in adding to the pressure on foreign resources, if only in the negative sense that foreigners were hesitant about putting money into India at a time when the future stability of the rupee seemed to be in doubt. Also in some measure relevant to the question of confidence was the increase in the smuggling of gold into

India during the early years of the Second Plan. Another factor which affected India's external balance of payments about this time was the rise of interest rates in London which led to a change in the borrowing habits of British banks in India. Overdrafts on their London offices used to be a significant source of funds; this is no longer true. Short-term capital movements are notoriously difficult to identify in balance of payments statistics, and it is impossible to assess their precise impact on India's foreign exchange position during the Second Plan. But there is sufficient evidence to indicate that they were a factor contributing to the balance of payments crisis in 1958.

4. The meeting of friendly Governments and institutions convened in Washington at the end of August 1958 to consider India's foreign exchange difficulties can fairly be regarded as a turning-point in the Second Plan. Action already taken by the Indian Government to stem the drain on reserves was reinforced by a joint agreement on additional aid for the rest of the Plan period, and the meeting was followed by a renewal of confidence in India's prospects, which was reflected both in the tone of business in India and in increased interest displayed by foreign firms in participating in Indian development. The fall in foreign exchange reserves was finally halted at the end of October 1958, and from then until the end of 1959 the position was held stable.

5. The reserves have been falling again since the beginning of this year and on July 1, 1960, touched a new low of Rs. 2.74 billion ($576 million). Exceptional factors help to explain why this has happened. There have been delays in negotiating the foreign credits on which the Government has been counting to cover the deficit during the final year of the Plan, and the use of existing credits has also been slower than expected. Further, India has repaid Rs. 345 million ($72.5 million) to the International Monetary Fund during the past six months. New credits have recently been negotiated, or are now under negotiation, including a $70 million railway loan from the I.B.R.D. and new loans from Germany, the United Kingdom and the United States. With additional help from these sources India should be able to make good part of the loss of reserves which has occurred since the beginning of 1960. The mission has assumed that the net deficit to be covered by the use of reserves during 1960/61 may be around Rs. 0.15 billion, which would imply that at the end of the Second Plan the Reserve Bank's holdings of gold and foreign exchange would stand at around Rs. 3.00 billion ($630 million). It should be stressed that this is in no sense a forecast. Much will depend on how successfully the obstacles to the more rapid disbursement of aid under existing agreements can be overcome. The aid foreshadowed at the meetings in August 1958 and March 1959 has not in fact been made available as fast as was then indicated.

Imports

6. Taking the Second Plan as a whole, it looks as if total imports, including PL 480 aid, will amount to around Rs. 54 billion, as against the Rs. 43.4 billion allowed for when the Plan was drawn up (see Main Report, Table 5). The published Indian import statistics are so incomplete that a detailed commodity analysis of actual imports is impossible. It would appear, however, that approximately half the excess of actual imports over the Second

Plan forecasts is attributable to foodgrains. The Plan allowed for expenditure of Rs. 2.40 billion on foodgrain imports, but this expenditure is now expected to exceed Rs. 7 billion, of which approximately two thirds will be covered by aid from the United States under PL 480 and by special grants and loans from Canada. Iron and steel possibly account for about one tenth of the excess and machinery and vehicles for another tenth - it is difficult to be more precise. The remaining 30 per cent must be attributable to defence equipment, industrial materials and intermediate goods. Imports of non-ferrous metals, raw cotton and jute all appear to have been kept within the original allowances, but the increases in imports of chemicals and pharmaceuticals, newsprint and paper have probably been larger than expected. Expenditure on imports of petroleum seems to have been more or less in line with forecast.

7. Figures given to the mission by the Planning Commission indicate that the direct foreign exchange cost of investment in the Second Plan might work out at around Rs. 20.6 billion, as against an original estimate of Rs. 18.7 billion. These figures cover imports of machinery, vehicles, iron and steel and other metals related to identifiable projects in the public and private sectors. If the estimates are accepted, and if account is taken of the upward trend in world prices of capital goods, the conclusion must be that actual imports of machinery and equipment have not been so very much larger than the Plan allowed for. The total has been kept down by the rephasing of the Plan and the postponement of certain projects in order to make way for other projects, notably the steel expansion program, the foreign exchange costs of which have greatly exceeded expectations. The power program has borne part of the cuts. Other projects in the public sector which have been delayed to save foreign exchange, or for other reasons, include major irrigation schemes, fertilizer plants, the heavy electrical plant and the Neyveli lignite project. Private industrial investment, which got off to a flying start at the beginning of the Plan, was severely restricted in 1957 and 1958, but is now picking up again with the help of foreign capital, which provides a means of financing imports of equipment.

8. Industrial production advanced very rapidly between 1955 and 1956; the rate of expansion slowed down perceptibly in 1957 and 1958, but in 1959 it picked up again. Imports shot up in 1956/57, rose further in 1957/58 and then were cut back sharply in the two following years (Statistical Appendix, Table 27). It is something of a paradox that in 1959, when imports of raw materials and intermediate goods were well below the levels of earlier years, the increase in industrial production (in absolute terms) was probably the largest on record. The paradox cannot be explained unless one assumes that private firms built up substantial inventories of raw materials and components in the earlier years of the Second Plan, when the going was good. Admittedly, development of import-saving production is helping to reduce the demand for certain types of imports, notably iron and steel, but not to this extent. If it is true that industry is now in some measure living off inventories, the demand for "maintenance imports" in future years may well be greater than the present level of imports would suggest.

Exports

9. Export earnings by main commodities during the first four years of the Second Plan are set out in the Statistical Appendix, Table 30. Taking the Plan as a whole, the out-turn (now put at around Rs. 30.75 billion) seems likely to be a little more favorable than the forecast (Rs. 29.65 billion). Annual average earnings from exports and re-exports during the five years will be upwards of Rs. 6 billion. There has been no consistent trend, however. Earnings actually declined in each of the first three years of the Plan, from Rs. 6.41 billion in 1955/56 to Rs. 5.76 billion in 1958/59. There was a distinct improvement in 1959/60 to Rs. 6.23 billion, and the present official expectation is that this will be maintained in 1960/61, when earnings are forecast at Rs. 6.46 billion.

10. These short-term fluctuations in India's exports are mainly a reflection of changes in world trading conditions rather than of internal conditions. However, exports of particular commodities have been affected by special factors governing the availability of supplies. In 1955/56, for example, following unusually good crops, substantial quantities of vegetable oils were marketed abroad; in most other years supplies have been barely sufficient to meet home demand, and in some years India has been a net importer. More recently, in 1959, poor jute and cotton crops, coinciding with a revival in world demand for jute and cotton manufactures, have held exports back. Fears have sometimes been expressed that rising consumption of tea in India would result in a shortage of supplies for export. There is no sign of this happening.

11. Neither the commodity nor the geographical pattern of Indian exports has undergone any marked change during the Second Plan. Tea, jute manufactures and cotton textiles continue between them to account for nearly 50 per cent of total export earnings. The United Kingdom remains much the largest single market, taking 25-30 per cent of the total, and the United States comes next in importance with about 15 per cent (Statistical Appendix, Table 32). Countries in South Asia and the Far East, including Japan, between them regularly account for 15-20 per cent of India's exports and countries in Africa and the Middle East for 10-15 per cent. The proportion going to O.E.E.C. countries in the past four years has averaged 11 per cent.

12. Two new trends in Indian exports are now beginning to emerge. The first is the development of engineering goods and other metal products as a significant export line. The totals are still small, but they are growing rapidly (see Table 1). The second is the growing importance of the Soviet Union and other countries in Eastern Europe as a market for Indian goods. In 1955/56 India's total exports to the Soviet Bloc amounted to Rs. 50 million. By 1959 they had risen to Rs. 436 million (Statistical Appendix, Table 32).

Table 1. Exports of Engineering Goods from India
(Rs. million)

	1956/57	1957/58	1958/59	1959/60 (April 1959-February 1960)
Batteries - dry cell	1.54	1.40	1.95	1.42
Bicycles (including parts)	0.26	0.16	0.22	1.05
Hardware (including locks and padlocks)	2.35	2.15	1.98	2.26
Cast iron products	0.66	1.30	0.70	1.36
Cutlery and E.P.N.S. ware	0.66	1.02	0.91	1.19
Electric fans and parts	1.20	2.16	2.62	3.94
Steel furniture	. .	1.68	1.59	1.95
Galvanized iron products	1.51	1.68	1.17	2.31
Sewing machines and parts	0.64	0.84	1.98	3.40
Steel trunks	3.56	2.83	2.36	2.44
Automobiles and parts	2.71	1.32	0.77	0.61
Diesel engines and parts	0.61	1.03	0.89	1.23
Machinery	3.03	4.08	2.90	4.11
Aluminium ware	. .	3.58	3.82	3.88
Total (including others)	. .	44.42	41.49	69.37

Terms of Trade

13. The Second Plan projections relating to the value of imports and exports were based upon the assumption that the terms of trade during the Second Plan period would remain, on an average, roughly the same as in the first nine months of 1955/56, i.e. an index of approximately 106 (1952/53 = 100)[1/]. In fact, the index declined from 106 in 1956 to 96 in 1957 and recovered to 101 in 1958 (Statistical Appendix, Table 26). It remained stable at 101 in 1959. The indices of import and export prices are highly unreliable and should at best be regarded as very rough indicators of orders of magnitude. There is no clear evidence to show that India's trade balance during the Second Plan, as compared with the original estimates, has been seriously affected by adverse shifts in the terms of trade. It must be recognised that international price trends during the Second Plan have in certain respects been unfavorable to India. While prices of her principal exports have remained steady or declined slightly, world prices of engineering goods, which India has been importing in increasing quantities, have tended to move upwards. The sharp fall in freight rates on the other hand has unquestionably been to India's advantage.

1/ The index numbers quoted here are those set out in Table 26 of the Statistical Appendix. A different series, giving significantly different relationships with earlier years, was used in the published version of the Second Five-Year Plan.

Invisible Earnings

14. India's gross receipts from invisible transactions, including private donations, but excluding official aid, are expected to amount during the Second Plan to approximately Rs. 9.50 billion or an average of Rs. 1.90 billion a year. Approximately 30 per cent of the total is made up of private donations, just over 15 per cent of receipts from shipping and air services, upwards of 10 per cent of investment income, including interest on sterling balances, and 7½ per cent of receipts from travel. The remainder covers receipts from a wide range of miscellaneous transactions including insurance, expenditures by diplomatic missions in India, sales of government stores and so forth. Gross invisible expenditure during the Second Plan is estimated at around Rs. 5.35 billion. Interest payments account for over 30 per cent of this total and private remittances for 15 per cent. The rest is made up of expenditures on foreign travel, insurance, upkeep of Indian missions abroad and miscellaneous government and private transactions. Transportation is only a small item because the freight costs of imports are shown as part of the merchandise account.

15. Net invisible receipts have declined sharply during the Second Plan from Rs. 0.85 billion in 1955/56 and Rs. 1.11 billion in 1956/57 to Rs. 0.65 billion in 1959/60 and an estimated Rs. 0.54 billion in 1960/61. The principal cause of this decline has been a rapid increase in payments of interest abroad on both public and private debt, coupled with a fall in receipts of interest on sterling balances.

External Assistance

16. External assistance utilized by India during the first four years of the Second Plan totaled Rs. 10.14 billion ($2,129 million), including Rs. 3.35 billion ($704 million) of assistance under PL 480. Utilization of assistance during 1960/61 is tentatively estimated by the mission at Rs. 4.25 billion ($892 million) after allowing for possible drawings on new credits recently negotiated or expected to be negotiated shortly 1/. This would bring total external assistance during the Plan period to Rs. 14.39 billion ($3,022 million). In addition, India's net drawings on the International Monetary Fund over the five years are expected to amount to Rs. 0.54 billion ($113 million). Aid was not forthcoming as rapidly as hoped for at the beginning of the Plan, but the amounts have built up very quickly in the past three years. The sources of aid committed as of the end of May 1960 are shown in Table 2.

1/ This includes Rs. 1.12 billion for assistance under PL 480, which is the amount still to be received under all the agreements except the most recent 17 million-ton foodgrain deal. Substantial shipments under this last agreement are expected to reach India during the current year, but no estimate is available of the likely amounts, and they are not included in any of the figures of aid given in this report.

Table 2

Utilization during Second Five-Year Plan of External Assistance Committed as of May 31, 1960 a/
(Rs.million)

	First Four Years ending March 31, 1960	Estimate for 1960/61	Total Five Years
Loans			
U.S.A.			
(a) Development Loan Fund	436	493	929
(b) Export-Import Bank	111	225	336
(c) Other U.S. Government	384	50	434
(d) Private U.S. banks	53	-	53
Total U.S.A. b/	984	768	1,752
U.S.S.R.	638	101	740
West Germany c/	726	351	1,078
United Kingdom	824	202	1,026
Canada	157	-	157
Japan	40	115	155
I.B.R.D.	1,860	422	2,282
Total loans	5,229	1,961	7,190
Grants			
U.S.A. b/			
U.S. Government	668	86	754
Ford Foundation	36	15	51
Total U.S.A. b/	704	101	805
Colombo Plan d/	532	165	697
Others	10	-	10
Total grants	1,246	266	1,512
Total Loans and Grants	6,475	2,227	8,702
U.S. PL 480 (Title I) Imports	3,350	1,119	4,469
U.S. PL 665 (Sec. 402) Imports	153	-	153
Total Foreign Aid	9,978	3,345	13,324
of which:			
Loans repayable in foreign currency	4,410	1,417	5,827

a/ The figures in this table, which has been compiled by the Ministry of Finance, differ in certain minor respects from those given in paragraph 16 which are based on Reserve Bank data. The main differences arise over the treatment of aid under PL 480, Titles II and III.

b/ Excluding assistance under PL 480 and PL 665, as well as third country currency assistance in exchange for rupees; the latter is expected to total Rs. 28.8 million during the Second Plan Period.

c/ Including new German $30 million credit signed in May 1960. d/ Largely Canada.

17. The total carry-over into the Third Plan of assistance under commitments existing as of May 31, 1960, is estimated at Rs. 1.57 billion ($330 million), of which roughly Rs. 1.47 billion is in the form of loans and Rs. 0.10 billion in the form of grants. In addition, the Indian Government has already arranged for additional credits for utilization during the Third Plan as follows:

	Rs. billion	U.S. $ million equivalent
U.S.S.R.	1.78	375
Czechoslovakia	0.24	50
Yugoslavia	0.19	40
Poland	0.14	30
Total	2.35	495

When account is taken also of the likely carry-over of credits negotiated since the end of May, it can be said that rather over Rs. 4 billion of aid is already assured for the Third Plan apart from aid under PL 480.

18. A significant portion of the external credits obtained by India during the last several years has been provided under short-term deferred payments arrangements with various suppliers of plant and equipment. The amount of suppliers' credits outstanding as of April 1, 1960, was approximately Rs. 1.35 billion, including Rs. 0.60 billion of suppliers' credits to public sector projects and Rs. 0.75 billion to the private sector. Such short-term credits add heavily to the strain on the balance of payments now and in the early years of the Third Plan. Principal and interest payments combined on suppliers' credits outstanding as of April 1, 1960, are expected to amount to Rs. 0.21 billion in 1960/61 and to rise to Rs. 0.28 billion in 1961/62 and to Rs. 0.31 billion in 1962/63. The Government of India is discouraging the further increase of such short-term credits and is seeking to find alternative medium and long-term financing. The Government's policy now is to sanction deferred payments arrangements only in those cases where it can be shown that the project will generate sufficient foreign exchange earnings or savings to cover entirely the external repayment obligation within the period for which the credit is extended. The Indian officials hope that such financing will account for a decreasing proportion of the external credits obtained.

(B) PROSPECTS FOR THE THIRD PLAN

The Overall Balance

19. India enters the Third Plan with virtually no cushion in the form of sterling balances to draw upon. Exports plus invisible earnings are expected barely to cover normal "maintenance imports", and all the imports of machinery and equipment, components and materials required for carrying out investment are shown as being dependent for finance on external assistance. The value of these imports is estimated at Rs. 21 billion ($4.4 billion). Moreover, net capital transactions, primarily reflecting repayments on external public borrowings, are estimated to show a deficit of roughly Rs. 5 billion, which must be covered by new borrowings or by postponement of debt repayments. Additionally,

external assistance - much of it already provided for under the latest PL 480 agreement - is required to cover imports of foodgrains and other agricultural commodities amounting to over Rs. 6 billion. Total stated requirements of external assistance thus amount to Rs. 32.00 billion ($6.7 billion) - more than double the amount of external assistance expected to be disbursed during the Second Plan. India's position is therefore vastly different from that at the beginning of the Second Plan, when export earnings were expected to cover at least a portion of the Plan requirements, when debt repayments were small, and the Government could look to a very substantial draw-down of its foreign exchange reserves as necessary.

20. The direct foreign exchange component of the proposed Third Plan investment of Rs. 102 billion is estimated at Rs. 19 billion, of which roughly Rs. 14.50 billion may be accounted for by investment in the public sector and Rs. 4.50 billion in the private sector. Until the details of the public sector Plan projects are worked out and further information is obtained on private sector intentions and capabilities in relation to the Plan targets, these figures must be considered highly tentative. An estimated breakdown of the foreign exchange component by field of activity is available only for both public and private sectors together. This is shown in Table 3.

Table 3. Foreign Exchange Component of the Plan
(Rs. billion)

	Total Investment	Foreign Exchange Requirements
Industries and minerals, including small industries	29.35	11.90
Power	9.75	2.70
Transport and communications	16.50	3.00
Agriculture, community development and irrigation	21.15	0.75
Social services (including construction)	17.25	0.80
Inventories	8.00	-
Total	102.00	19.15

21. In addition to the requirement of approximately Rs. 19 billion for imported capital goods and equipment for Plan projects, there is an estimated requirement of Rs. 2 billion for "special maintenance" imports, representing components, spares, raw materials, etc., needed to enable an increase in production of capital goods within the country. Imports of this type cannot be specifically related to individual projects in the Plan; they include certain components not manufactured in India and semi-processed and intermediate products required to expand the production of capital goods, particularly transport equipment. They are distinguished from "normal" maintenance imports as being essential not for the operation of the economy at the level reached by the end of 1960/61, nor for an increase in general production during the Third Plan period, but specifically for an increase in the level of capital goods production.

22. Apart from the foreign exchange requirements of the Plan, normal maintenance imports - imports of raw materials, intermediate products, capital goods for replacement, normal marketings of foodgrains, etc. - are expected to

amount to Rs. 35.70 billion over the five-year period. Against this, exports are estimated at Rs. 34.50 billion and net invisible earnings (excluding official donations) at Rs. 1.26 billion. Table 4 brings these figures together and shows how expected foreign exchange earnings fall well short of what is required even to pay for maintenance imports and to cover contractual debt obligations.

Table 4. Official Balance of Payments Projections for Third Plan
(Rs. billion)

	Estimates for Third Plan
Normal maintenance imports (excluding PL 480 imports)	-35.70
Exports and re-exports	+34.50
Invisibles net (excluding official donations)	+ 1.26
Capital transactions net (excluding external assistance) a/	- 5.06
Net surplus (+) or deficit (-) available to finance developmental imports	- 5.00
External assistance (excluding PL 480) b/	26.00
Drawdown of reserves	-
Total developmental imports c/	21.00

a/ Excluding net private capital inflow.
b/ Including net private capital inflow.
c/ Including Rs. 2 billion of "special maintenance" imports.

Import Requirements

23. The official estimates assume that project imports in the Third Plan can be held down to a lower level than in the Second. This would imply a reduction in the direct foreign exchange component of investment from 30 per cent in the Second Plan to 20 per cent in the Third. Striking savings are expected in the foreign exchange requirements of the railways, which are estimated at Rs. 1.30 billion in the Third Plan, as against Rs. 3.42 billion in the Second. This reflects the progress made in building up capacity in India for production of rails, sleepers, locomotives, coaches, wagons and other railway equipment. On the other hand, some increase is expected in imports of other types of transport equipment, including civil aircraft and ships. The foreign exchange component of the power program is assumed to be slightly lower in the Third Plan than in the Second, but in absolute terms imports of electrical equipment rise substantially from about Rs. 1.50 billion to Rs. 2.70 billion. In the industrial and mineral programs provision is made for large increases in imports of coal-mining machinery, petroleum equipment and equipment for heavy machinery, chemical and fertilizer plants. A detailed breakdown of the estimated import requirements for these programs is set out in Table 5.

Table 5

Foreign Exchange Components of Proposed Investments in Industry and Minerals

	Rs. million		U.S. $ million equivalent	
Metallurgical Industries				
Iron and steel including alloy, tool and special steels (finished)	2,800		588	
Iron castings and steel forgings	150		32	
Aluminium	300		63	
Other non-ferrous metals	91		19	
Total metallurgical		3,341		702
Mechanical Engineering Industries				
Industrial machinery	360		76	
Heavy machinery building (steel and chemical machinery), coal-mining machinery	815		171	
Heavy plate and vessel works and structural fabrication (including heavy structural shop)	170		36	
Railway rolling stock	13		3	
Automobile and auxiliary industries	350		73	
Earth-moving equipment and agricultural implements and machinery	80		17	
Shipbuilding (expansion of Hindustan shipyard, dry dock and second shipyard)	125		26	
Total mechanical engineering		1,913		402
Electrical Engineering Industries				
Heavy electrical goods in public sector	420		88	
Other electrical engineering industries	150		32	
Total electrical engineering		570		120
Chemical and Allied Industries				
Fertilizers (nitrogenous and phosphatic)	1,250		262	
Heavy chemicals	150		32	
Miscellaneous chemical products	50		10	
Dyestuffs	20		4	
Drugs and pharmaceuticals	225		47	
Plastics	100		21	
Raw films Cinematographic etc.	50		10	
Rubber manufactures	50		10	
Synthetic rubber	75		16	
Paper and newsprint	380		80	
Cement	100		21	
Refractories and electric porcelain	100		21	
Petroleum products	124		26	
Total chemicals and allied		2,674		560

Table 5 cont'd

	Foreign Exchange Component			
	Rs. million		U.S. $ million equivalent	
Textile Industries				
Cotton yarn and cloth	175		37	
Rayon and staple fibre	450		94	
Total textiles		625		132
Food Industries				
Sugar		75		16
Minerals				
Coal	1,234		259	
Other mineral schemes, including iron ore	235		49	
Oil exploration and distribution	600		126	
Total minerals		2,069		434
Miscellaneous Industries and Minerals a/		228		48
Small-Scale Industries		400		84
Grand Total		11,900		2,500

a/ Rough estimate.

24. The cost estimates of projects in the Third Plan appear to be based on a much more thorough study than that undertaken when the Second Plan was prepared. By no means all of these projects, however, have yet been worked out in detail, nor has their phasing been decided. The estimate of foreign exchange requirements for the five-year period apparently includes an allowance for the spill-over of payments in respect of projects started, but not completed during the Second Plan. It is not clear, however, whether all such payments have been included. Some of the projects to be begun in the Third Plan will in their turn spill over into the Fourth Plan, so that a proportion of the foreign exchange payments related to them will fall outside the five-year period now under consideration. On the other hand, a start will have to be made during the Third Plan on projects for the Fourth Plan which have not yet been conceived. A large measure of uncertainty thus inevitably surrounds any five-year forecast of project imports.

25. For reasons stated in the Main Report (Chapter 7) the mission is inclined to believe that the requirements have more likely been under-stated than over-stated, but we do not anticipate any repetition of the serious miscalculations made about the costs of the steel plants in the Second Plan. It should be

added that in certain sectors where the I.B.R.D. has direct experience of Indian projects (e.g. power, railways and ports) cost estimates have generally proved reliable. It is in the newly developing sectors of industry that the margin of error is liable to be greatest because of the paucity of past experience which can be used as a guide.

26. A breakdown of the estimates for normal maintenance imports is given in Table 6. The large gaps in the import statistics prevent a detailed item-by-item comparison with actual imports in past years. Lack of reliable information about what is happening to imports is a serious deficiency in the apparatus of Indian economic planning and financial control. When certain imports are only partially recorded in the trade returns, there is an obvious danger that future requirements may be underestimated.

27. Of the total maintenance imports assumed to be required during the Third Plan, nearly three fifths are accounted for by four main groups - petroleum and petroleum products (15 per cent), machinery and transport equipment (14 per cent), chemicals, including fertilizers, dyes and pharmaceuticals (14 per cent) and iron and steel and non-ferrous metals (14 per cent). Other important categories which can be identified are textile materials (9 per cent), normal marketings of cereals (5 per cent) and other food products (5 per cent).

28. The official estimates imply that maintenance imports during the Third Plan will be 24 per cent higher than in the Second, no significant change in prices being assumed. This increase may be compared with planned increases of around 80 per cent in industrial production, 27½ per cent in net national output and rather over 20 per cent in personal consumption.

29. The mission has explained in the Main Report some of its doubts relating to the import estimates. We recognize that the estimates are based on a careful study of the raw material inputs required for different types of production. We recognize that large import savings should be secured during the Third Plan as a result of the expansion of domestic production of iron and steel, aluminium, transport equipment, pharmaceuticals, dyestuffs, newsprint and paper and various other goods. We also accept the proposition that, during the next five years at any rate, very stringent restrictions can be maintained on imports of manufactured consumer goods. Our doubts center rather on three questions. The first is whether domestic production of basic commodities will grow as fast as the planners have assumed. The second is whether adequate allowance has been made for the new kinds of imports that will be required as the industrial structure grows and changes. The historical pattern of imports, which has to be used as the basis for future projections, may be a poor guide in a period of rapid modernization and technological advance. Finally, while we believe that it will be politically feasible to exclude all but token

Table 6. Estimated Requirements of Maintenance Imports for Third Plan
(Rs. billion)

	Actual 1958/59	Estimated 1965/66	Estimated Annual Average 3rd Plan	Third Plan Total
Cereals ("normal marketings")	0.29	0.36	0.36	1.80
Fruits, nuts and vegetables a/	0.17	0.20	0.20	1.00
Milk, fish, spices	0.12	0.12	0.14	0.69
Tobacco	0.02	0.01	0.01	0.06
Vegetable oils	0.03	0.03	0.03	0.18
Copra	0.11	0.10	0.10	0.52
Gums, lacs, resins	0.02	0.03	0.03	0.14
Hides and skins	0.01	0.02	0.02	0.10
Rubber	0.04	0.06	0.07	0.33
Wood and cork	0.03	0.06	0.05	0.27
Newsprint, paper and board	0.08	0.07	0.10	0.50
Textile yarn and thread	0.16	0.20	0.19	0.93
Raw cotton	0.28	0.20	0.29	1.45
Raw jute	0.03	neg.	0.01	0.04
Raw wool and wool tops	0.10	0.13	0.12	0.58
Fertilizers	0.11	0.37	0.40	2.00
Dyes and colors	0.09	0.08	0.10	0.50
Drugs and medicines	0.09	0.04	0.08	0.38
Other chemicals	0.31	0.38	0.42	2.10
Petroleum and products	0.72	1.08	1.08	5.39
Iron and steel	0.92	0.25	0.36	1.82
Non-ferrous metals	0.32	0.71	0.61	3.03
Machinery b/	. .	0.53	0.61	3.04
Transport equipment b/	. .	0.20	0.39	1.93
Other imports	1.33	1.41	1.39	6.92
Total	. .	6.65	7.14	35.70

a/ Including cashew nuts for re-export.

b/ These imports are additional to project imports and the special maintenance imports required for increasing production of capital goods. No corresponding breakdown of actual imports of machinery and transport equipment is available for 1958/59, and it is not therefore possible to give a total for maintenance imports in that year which would be comparable with the Third Plan projections.

imports of consumer goods as such, it will be more difficult to resist pressures for the establishment of new consumer goods industries not included in the Plan, which would result in additional demands for raw material imports. The proposal to set up a plant in the public sector for the manufacture of a "people's car" is an example of the kind of thing we have in mind.

30. The trend of agricultural production will, of course, be of critical importance for imports. So far as foodgrains are concerned, the fact that large supplies are already assured under PL 480 provides a safeguard which was not present when the Second Plan was launched. The provision for "normal commercial imports" includes 400,000 tons of wheat a year and assumes that a similar quantity of rice will be imported, mostly from Burma, with whom a new agreement is due to be negotiated in 1961. In the case of cash crops, the Third Plan relies on substantial savings in imports of raw cotton and jute, and the mission has some doubts as to whether these can be achieved. On the other hand, we believe that import-saving possibilities in other branches of agriculture and forestry may have been underestimated (see Main Report, Chapter 3).

31. As Table 6 indicates, maintenance imports are expected to decline towards the end of the Third Plan, the estimate for the final year being 7 per cent below the five-year average - and 9 per cent below the estimate for the first year. These estimates seem to us inherently improbable and should be re-examined.

Exports

32. Exports are forecast to rise gradually over the Plan period from Rs. 6.51 billion in 1961/62 to Rs. 7.37 billion in 1965/66, which would mean an annual average of Rs. 6.90 billion as compared with the presently estimated average of about Rs. 6.14 billion during the Second Plan. The detailed commodity projections given to the mission by the Ministry of Commerce and Industry are set out in Table. 7.

33. Barring an unforeseen recession in world demand, the export forecasts - with the possible exception of cotton textiles - seem in most cases possible of achievement and could well be exceeded in some items if certain favorable developments, not allowed for in the forecast, occur. Nevertheless, there appears no likelihood of a dramatic increase in India's major traditional exports - tea, jute goods and cotton textiles - which still account for almost half of India's total exports. The growth prospects appear to be in iron ore and in the new field of engineering and metal products. Certain agricultural exports also hold out distinct possibilities of growth. Oilcakes are one example. Fish and fish products may turn out to be another.

Table 7. Export Forecasts for the Third Plan
(Rs. billion)

	Expected Annual Average 2nd Plan	Forecast 1960/61	Expected Annual Average 3rd Plan	Forecast 1965/66	Third Plan Total
Fish and fish preparations	0.06	0.06	0.07	0.08	0.36
Cashew nuts	0.15	0.16	0.18	0.20	0.91
Other fruits and vegetables	0.05	0.06	0.06	0.06	0.30
Spices	0.10	0.10	0.11	0.11	0.53
Sugar	0.04	0.01	0.04	0.06	0.22
Coffee	0.07	0.06	0.07	0.09	0.37
Tea	1.30	1.31	1.35	1.39	6.75
Tobacco	0.15	0.14	0.15	0.17	0.77
Total food, drink and tobacco a/	1.92	1.90	2.03	2.16	10.21
Oilcakes	0.11	0.18	0.20	0.22	1.00
Vegetable oils b/	0.14	0.17	0.21	0.24	1.05
Hides and skins	0.08	0.06	0.06	0.06	0.30
Raw cotton and cotton waste	0.18	0.16	0.21	0.25	1.04
Raw wool and hair	0.11	0.11	0.10	0.10	0.52
Other textile fibres	0.04	0.03	0.03	0.03	0.15
Gums, resins and lac a/	0.08	0.08	0.08	0.07	0.39
Total other agricultural products	0.74	0.79	0.89	0.97	4.45
Mica	0.09	0.10	0.10	0.10	0.50
Iron ore	0.14	0.22	0.35	0.45	1.76
Manganese ore	0.17	0.14	0.13	0.12	0.65
Other ores and scrap	0.07	0.10	0.10	0.11	0.50
Coal and coke	0.06	0.07	0.07	0.08	0.37
Petroleum products	0.04	0.04	0.04	0.05	0.21
Total minerals a/	0.57	0.67	0.79	0.91	3.99
Leather and manufactures	0.23	0.24	0.22	0.21	1.10
Footwear	0.03	0.03	0.04	0.05	0.20
Yarns	0.11	0.11	0.12	0.13	0.61
Cotton fabrics	0.59	0.62	0.65	0.67	3.25
Art silk fabrics	0.04	0.05	0.06	0.06	0.27
Woollen manufactures	0.05	0.06	0.06	0.07	0.30
Jute manufactures	1.09	1.06	1.10	1.15	5.52
Coir manufactures	0.03	0.04	0.05	0.06	0.25
Total leather and fibre mfrs. a/	2.17	2.21	2.30	2.40	11.50
Iron and steel	0.02	0.10	0.01	-	0.04
Ferro-manganese	0.02	0.08	0.08	0.08	0.38
Metal manufactures	0.01	0.03	0.05	0.07	0.23
Machinery and transport equipment	0.02	0.04	0.07	0.10	0.36
Other exports	0.60	0.57	0.57	0.58	2.87
Re-exports	0.08	0.10	0.10	0.10	0.49
Total exports and re-exports	6.14	6.39	6.90	7.37	34.50

a/ Excluding certain items which are not separately identified and are lumped in with "other exports".

b/ Including "essential oils" - e.g. lemon grass oil and sandalwood oil.

34. Tea. Exports of tea, originally forecast at an annual average rate of 450 million lbs. during the Second Plan, appear likely to average more than 480 million lbs. The industry is holding its own fairly well against competition from other tea-producing countries, and the drift of foreign capital out of the industry, which was evident some years ago, now appears to have stopped. Movements in production, exports and apparent consumption of tea are illustrated in Table 8.

Table 8. Production, Exports and Consumption of Tea

	(million lbs.)			(Rs. billion)	(Rs. per lb.)
	Production	Exports	Apparent Consumption	Value of Exports	Unit Value of Exports
1951/55 average	632	437	195	1.05	2.40
1956	667	525	144	1.43	2.73
1957	678	443	235	1.23	2.78
1958	714	506	208	1.36	2.69
1959	722	472	250	1.26	2.67
1956/59 average	695	486	209	1.32	2.72

35. The figures suggest that both production and exports have been rising at an average rate of about 2 per cent a year, with domestic consumption increasing at a slightly higher rate. The increase in production has been achieved with very little expansion of acreage - from 783,000 acres in March 1951 to 810,000 acres in March 1959, or an increase of 3½ per cent in eight years. Improved methods of cultivation, more intensive picking, more extensive use of fertilizers and gradual replanting with higher yielding bushes (and with more bushes to the acre) have been mainly responsible for the increase in yields. The industry is confident that, given adequate financial resources and inducements, production can be expanded to meet any likely growth of demand. The average rate of replanting is estimated at around 1½ per cent a year; more progressive companies are replanting at two or three times this rate. More important in the short run, tea is extremely responsive to fertilizers, tests in Assam showing that, by raising the application of nitrogen from 40 lbs to 80 lbs an acre, yields can be increased from 980 lbs to 1,300 lbs an acre. The optimum application of nitrogen per acre at present prices is considered to be around 80-100 lbs, whereas the present average is only about half this amount. Some producers of quality teas are already using the optimum amount, while other producers may not be able to afford to buy all the fertilizers they need. But the main problem at the moment is a physical shortage of fertilizer supplies. A large increase in output potential can be expected if fertilizers become more freely available, as it is hoped they will during the Third Plan.

36. Though an export target has not been announced, the official forecasts assume that exports will reach a level of 510 million lbs in the final year of the Plan. However, the production target for 1965 has been set at the rather ambitious level of 850 million lbs; this would be consistent with exports of 550 million lbs and domestic consumption of 300 million lbs, neither of which appears likely of attainment. The present level of domestic consumption is difficult to gauge. The Tea Board puts it at 240 million lbs in 1958/59 and 260 million lbs in 1959/60, but this seems rather high. A more realistic estimate may be 225 million lbs, and if it increases during the Third Plan at the same rate as assumed for total consumers' expenditure (4 per cent a year), it could reach 270 million lbs by 1965. 1/

37. The rate of growth of demand for tea in the importing countries is variously estimated at between 1 per cent and 2 per cent a year. India is more dependent than other producing countries on the United Kingdom, which takes two thirds of all the Indian tea exported. Per capita consumption of tea in the United Kingdom ($9\frac{1}{2}$-10 lbs a year) is rather higher than pre-war and is not expected to increase significantly in view of the growing taste for coffee, consumption of which has trebled in the past 20 years; and the present rate of population growth in the United Kingdom is less than $\frac{1}{2}$ per cent a year. Heavy duties on tea are a continued deterrent to the growth of consumption in Continental Europe, where the market for Indian tea is small (under 10 million lbs a year). The Soviet Union is a much more important market, taking 25 million lbs in 1958 and 27 million lbs in 1959, and it appears to offer considerable scope for expansion, though the possibilities may be limited by the USSR's own production of Georgian leaf and by traditional commitments relating to Chinese tea. The other main area in which India's sales have been expanding is North Africa and the Middle East. The United Arab Republic (Egypt), Sudan, Iran and Turkey are the principal markets, and their combined purchases in the past four years have averaged 52 million lbs a year or almost exactly double the average for the years 1951 to 1955. A substantial market exists in this area for green tea, which the Indian industry has hitherto hesitated to exploit, but which could provide an opportunity for increased sales, estimated by some Indian officials at Rs. 60-70 million a year.

38. India has been increasing her share of trade in the Middle East at the expense of Ceylon, but in the United States the reverse has been true, and sales of Indian tea have been falling within a fairly stable market -

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1/ The amount of tea available for domestic consumption over the past nine years - i.e. recorded production less exports - would be consistent with the growth of consumption from about 175 million lbs in 1951 to only 225 million lbs in 1959; this represents a growth rate of about 3% a year. Some observers believe that the growth rate may have already risen in the last two or three years to more than 3 per cent per annum.

possibly in part because prices have been too high. There may be some prospect of expansion in the market for instant tea in the United States, but this would not necessarily result in larger total sales of tea. India's share of the market in the United Kingdom has also declined over the past ten years, principally because of the increase in production of plain teas in East Africa. Costs of production in India generally are a good deal higher than in East Africa, but probably about on a par with Ceylon and Indonesia. Labor costs in particular have risen substantially with successive awards of higher wages and more generous fringe benefits to estate workers. One of the most serious long term problems facing the industry is the rapid increase in the workers' families, for whom little alternative employment is available locally. Traditionally, the estates have provided work for all, but this is becoming more and more difficult. Efforts to get the younger people to enter other occupations have so far met with little success and have been strongly resisted by other sections of the community.

39. The tea industry in India has long complained of high taxation, which it claims has restricted the funds available for reinvestment and reduced the incentive to expansion. It has also complained of the multiplicity of different taxes levied by the Central and State Governments. The Central Government has recently undertaken to simplify the tax structure, but not to reduce the total levy. Export duty is at present levied at the rate of Rs. 0.24 per lb, there is an export less of Rs. 0.02 per lb (for the support of the Tea Board), and State taxes account for another Rs. 0.06 to Rs. 0.13 per lb (varying from State to State). The costs of transporting Northern Indian tea to the port of shipment are also very high, ranging from Rs. 0.09 per lb in Assam to Rs. 0.03 - Rs. 0.04 per lb in parts of West Bengal. Total costs incurred after the tea leaves the factory up to the point of shipment, including taxes, transport and warehousing charges, add up to just over Rs. 0.50 per lb for Assam teas and to just over Rs. 0.40 per lb for teas produced in other parts of India. Excise duties vary from Rs. 0.02 to Rs. 0.12 per lb. While high taxes are undoubtedly a problem in the industry, the export duty could always be reduced if the need arose, and this affords some assurance against India pricing herself out of the market.

40. The unit value of India's tea exports has been remarkably constant over the past four years at around Rs. 2.72 per lb. Prices could fall if world production were to outrun consumption, as a recent FAO study predicts. The FAO prediction is based on the assumption that exports from mainland China to the non-communist world will rise from their present level of 55-75 million lbs to double this amount in 1965. The Indian tea industry is concerned at the possibility of world prices falling and has suggested that the machinery of the International Tea Agreement should be revived against such a contingency, but it is not finding it easy to get other producers to go along with this idea.

41. The Indian Government has estimated export earnings from tea during the Third Plan at an average of Rs. 1.35 billion a year - just under

500 million lbs at an average unit value of Rs. 2.72 per lb. This seems a fairly conservative forecast. While prices might fall a little, the quantities exported could well be larger than the Government has assumed. Much will depend on trade relations with the Soviet Union and the United Arab Republic, with both of which India has special bilateral agreements. A really large increase in exports to the Soviet Union is by no means impossible, though the prospects both there and in the Middle East depend partly on developments in mainland China, a traditional supplier in both areas.

42. Jute Manufactures. Production of jute goods has been very stable over the past four years at around 1,050,000 tons a year (Statistical Appendix, Table 9). Production is about equally divided between hessian and sacking. Internal consumption has been rising fairly steadily and may now be in the region of 250,000 tons a year or nearly one quarter of total production. Exports declined from an average of 820,000 tons in 1955 and 1956 to 738,000 tons in 1957 and 655,000 tons in 1958, but recovered to 842,000 tons in 1959. Stocks with the mills rose during 1958 (when exports declined), but fell by 50,000 tons in 1959 (when exports recovered).

43. Limitations on production during the Second Plan have been imposed mainly by lack of demand, and for most of the time 12½ per cent of the mills have been sealed. When demand rose in 1959, 2½ per cent were unsealed, and a further 1 per cent were unsealed in May 1960. However, output has had to be curtailed in recent months because of the shortage of raw jute.

44. It has been a principal aim of government agricultural policy to achieve self-sufficiency in jute, and imports of raw jute were reduced from 247,000 tons (about 1.4 million bales of 400 lbs each) in 1955 to 74,000 tons (just over 400,000 bales) in 1958 and 37,000 tons in 1959. Domestic production of jute and mesta rose in the meantime from about 900,000 tons in 1954/55 to 1,200,000 tons in 1958/59. Progress was not, however, maintained in 1959/60, when the crop is tentatively estimated at only about 1,000,000 tons. The shortage has driven up prices which in the spring of 1960 were over 30 per cent higher than a year before. In order to ease the situation the Government, early in 1960, authorized the import of large quantities from Pakistan, and altogether during the fiscal year 1959/60 licenses were issued for the import of 86,000 tons. Delay in issuing import licenses meant that much higher prices had to be paid.

45. The sharp increase in exports in 1959 was mainly attributable to substantial Chinese purchases of sacking and a high level of demand for burlap in the United States. Total exports to China during the year were about 50,000 tons valued at just under Rs. 50 million. Taking the world market for jute manufactures as a whole, the steady growth of consumption in Asian countries and the development of new uses for jute (tufted carpets, upholstery, special types of industrial packing, etc.) are tending to offset the effects of bulk handling and other packaging materials replacing jute elsewhere. Important markets now largely lost to the jute

industry include Cuba, Hawaii, Puerto Rico, Egypt, Burma and Queensland. Imports of jute goods into Europe are subject to severe quota restrictions and the market is small. The industry, however, looks for some increase in exports to Japan.

46. The general conclusion reached in recent studies made by the Bank's Economic Staff is that world trade in jute manufactures may go on expanding gradually, say by 2 per cent a year. So long as prices are held reasonably stable and competitive with substitutes, the mission sees no reason to dispute this conclusion. On the other hand, the kind of sharp price increases in raw jute which have occurred in recent months encourage substitution, and ground once lost cannot easily be regained.

47. Measures to secure greater stability of raw jute prices both in India and Pakistan call for urgent attention. The Indian Government has been trying to persuade the jute industry to operate a buffer stock scheme, with prices of raw jute announced in advance of each season. Representatives of the industry told the mission that they were ready to introduce such a scheme, and it appears to have much to commend it.

48. The relative competitive power of the Indian and Pakistan jute industries is difficult to assess. Pakistan has the advantage of more modern equipment and substantially cheaper and better raw jute. She is also able to make much more intensive use of her equipment with all her 7,000 mills working on three shifts, as compared with 68,000 in India operating on one shift. Wage costs per unit of output in the two countries are probably not very different. India's main advantages lie in her greater commercial experience and established market connections and in lower shipping costs.

49. Restrictions on imports of Pakistan jute into India tend to benefit the Pakistan industry by helping to keep down its raw material prices, particularly in the case of cuttings, which can be mixed with ordinary jute in limited proportions. Cuttings, which are a by-product of raw jute exports, are substantially cheaper than the ordinary raw jute, and India has none of her own. A strong case can be made out from the Indian point of view for removing all restrictions on imports of cuttings from Pakistan. This might cost India about Rs. 35 million a year, but if additional exports resulted, there could well be a net gain in foreign exchange. There may also be a case for licensing imports of high quality jute from Pakistan to the extent of, say, about Rs. 10 million a year. No allowance for such large imports has been made in the Third Plan import forecasts, which assume that total purchases from Pakistan can be kept down to less than Rs. 10 million a year.

50. The jute industry in India is being slowly rationalized through the closing down of less efficient mills and the consolidation of the remaining units. The process is delayed by difficulties in disposing of redundant labor, but the average daily numbers of workers employed by mills belonging to the Indian Jute Mills Association has already fallen from 278,000 in 1950 to 202,000 in 1959. There are signs too that the industry is becoming more go-ahead. About 60 per cent of its capacity is

now modernized in the spinning and preparing sections, and attention is being given to the possibility of introducing automatic looms, which would make it possible for one weaver to operate six looms in place of one. Experiments are being conducted by a foreign firm with a view to possible manufacture in India.

51. The two main limitations to modernization are the shortage of foreign exchange and the weak financial position of the industry. It is officially estimated that about Rs. 140 million will be invested by the industry during the Second Plan, of which Rs. 85 million will be in foreign exchange, and the expectations are that investment during the Third Plan will be on much the same scale, though with a slightly reduced foreign exchange content. The industry claims that it would invest more if it could obtain the import licenses, and this may well be true of the larger and more efficient firms. However, many of the mills are at present working at a loss, and the industry may need financial assistance from the Government in carrying out its re-equipment program. During the Second Plan government assistance through the National Industrial Development Corporation has been sanctioned to the extent of nearly Rs. 50 million, but very little of this has actually been used.

52. At the time of the mission's visit no discussions had taken place between the Government and the industry on the export target for the Third Plan. The official balance of payments forecasts assume that exports will average just under 850,000 tons a year with a value of Rs. 1.10 billion - roughly the same as the average for the Second Plan. The mission considers this a realistic estimate. Chinese purchases are the big unknown factor.

53. Existing manufacturing capacity is clearly adequate to supply all the exports that can be sold. Consumption of jute goods in India is likely to go on rising - probably by at least another 50,000 tons (20 per cent) by the end of the Third Plan. This would imply total production of rather about 1,150,000 tons a year - a modest increase as compared with the level of recent years.

54. Cotton Textiles. India's exports of cotton textiles have reflected changes in the level of world demand as well as increasingly keen foreign competition. Production has risen hardly at all between 1956 and 1959; this appears to reflect demand factors rather than supply problems, though it is true that export production was held back in 1959/60 by a shortage of raw cotton resulting from an exceptionally poor crop and a delay in increasing import quotas. This came at a time of an upsurge in world demand, and valuable export business was lost. In 1957 and 1958, however, the disappointing performance of cotton textile exports reflected the recession in demand in the United States and Western Europe at the same time that severe competition from Japan and mainland China was cutting into India's exports. Total exports in the Second Plan were originally forecast to rise progressively to 1,000 million yards by 1961; they are now expected to reach only 850 million yards. Table 9 illustrates the export performance of the mill and handloom sectors. In addition to piecegoods, exports of cotton yarn and thread brought in Rs. 33 million in 1957, Rs. 60 million in 1958 and Rs. 48 million in 1959.

Table 9. Exports of Cotton Textiles

	Mills		Handlooms		Total Piecegoods	
	Quantity (mn.yds)	Value (Rs.mn)	Quantity (mn.yds)	Value (Rs.mn)	Quantity (mn.yds)	Value (Rs.mn)
1951	732	720	44	104	776	824
1955	692	490	60	84	752	574
1956	684	480	59	87	743	567
1957	839	590	39	56	878	646
1958	581	400	36	52	617	452
1959	815	550	36	66	851	616
Target for 1960/61	-	-	-	-	850	680
Official forecast for 1965/66	(800)	(580)	(50)	(88)	850	669

55. The industry's continued competitiveness in the export market depends upon the solution of its three major problems of irregularity of raw material supplies, high and rising labor costs, and the generally poor condition of plant and equipment owing to inadequate provision for modernization and replacement in the past (see Annex III). Although the volume of world exports of cotton textiles has declined by about 25 per cent since immediately before the war, India has been exporting three or four times as much as she did in 1937/38, and her share of the total trade remained fairly constant from 1954 through 1957 at around 16-17 per cent. It dropped to 14 per cent in 1958, but has probably recovered again in 1959. Nearly all India's exports consist of coarse and medium qualities manufactured from Indian cotton, and the low cost of this cotton has been the main source of the industry's competitive strength, offsetting the disadvantages of high wage costs and out-of-date equipment. It is also significant that more than half of India's exports consist of grey cloth, much of which goes to the United Kingdom, the United States, Australia and Canada for finishing.

56. While some of India's traditional markets are contracting as the result of the establishment of local textile industries (e.g. in West and East Africa), others are opening up. The industry, for instance, expects to obtain a substantial rise in its sales to Indonesia where import restrictions have been eased; Indian exports of grey cloth to the United States have been expanding; and the prospect in Canada is considered promising. In the United Kingdom, which is much the largest single market for India's textile exports (it took one fifth of the total in 1959), the scheme for the reorganization of the cotton industry should not have any adverse effect on Indian sales of grey cloth. The Indian industry has agreed to limit the quantities sold for use in the United Kingdom, but there is no limit on quantities imported to be finished for re-export. Quantitative restrictions on imports have virtually excluded Indian textiles from some continental European markets and severely limited sales in others. If the restrictions were eased, India might look for a modest increase in her exports to these countries, although she might have difficulty in satisfying the fairly exacting quality requirements. In Australia, which is another important market for Indian textiles, quantitative restrictions

have now been removed, but imports run into a high protective tariff, which has recently been raised further. There appears to be some scope for an increase in exports of yarn to Africa.

57. The mission was impressed by the fact that the cotton industry has become increasingly export-conscious during the past two or three years. There is a vigorous export promotion council, and trade missions have been sent to a large number of countries. Much of the credit for this change in attitude is due to the Government, which has constantly reiterated the importance of foreign exchange earnings and has introduced a special export incentive scheme allowing a firm to spend up to 10 per cent of the proceeds of its exports on certain types of imported machinery and materials (e.g. dyestuffs). Efforts to promote exports of handloom products have proved less successful. Progress can still be made in this direction, but quality control and marketing raise difficult problems, and the handloom industry is not yet organized to cope with large orders. Ground has been lost to Japanese and Chinese competition (e.g. in West Africa and the Sudan), and machine-made artificial silk and even silk fabrics are tending to displace handloom cotton products in some markets.

58. The Government has done a good deal specifically to encourage cotton textile exports, but some of its general policies also have the unintentional effect of discouraging them. There have recently been signs of a more pragmatic approach to the industry's problems, particularly those of modernization and replacement, and it may be hoped that some of the present obstacles to greater efficiency can be removed or at least reduced. If this is done, the mission sees no reason why India should not retain roughly its present share of world trade in cotton textiles, notwithstanding keen competition from other Asiatic countries, including China. On the assumption of a continued slow decline in total world trade, India's exports of cotton piecegoods during the Third Plan period might average between 750 and 800 million yards a year. At present prices this would yield annual foreign exchange earnings of around Rs. 550-600 million, with perhaps a further Rs. 60 million from exports of yarn. This would be Rs. 50-100 million a year less than has been assumed in the official forecasts of export earnings during the Third Plan.

59. Iron Ore. India has extensive deposits of both high grade and low grade iron ores. Their location is shown in the map following page 28 of the Main Report. Reserves are estimated at 21,000 million tons; proved and indicated reserves amount to about 7,000 million tons. Ferrous content of the high grade ores is commonly around 60-65 per cent ranging down to 55 per cent or thereabouts.

60. Exports have risen from 1.36 million tons in 1955/56 to 3.05 million tons in 1959/60. Unit values have remained constant at around Rs. 50 per ton. A target of 9 million tons valued at Rs. 450 million has been set for the last year of the Third Plan, as against an estimated 4 million tons valued at Rs. 200 million in the last year of the Second Plan. The Third Plan target includes the export of 2 million tons of ore a year, starting in 1964, from the Kiriburu deposits in Orissa under a 10-year contract with the Japanese

steel industry. The projected increase in earnings of Rs. 250 million a year between 1960/61 and 1965/66 accounts for nearly 30 per cent of the projected increase in total export earnings during the Third Plan. Large additional exports are expected from the end of 1966 onwards, when a 15-year contract with Japan provides for the start of shipment of 4 million tons a year from the deposits at Bailadilla in Andhra Pradesh.

61. The pattern of exports during the Second Plan is shown in the following table.

Table 10. Exports of Iron Ore
(thousand tons: fiscal years)

Destination	1956/57	1957/58	1958/59	1959/60	1960/61 Estimated
Japan	1,035	1,480	1,328	1,838	2,300
Czechoslovakia	431	514	554	746	900
Poland	164	86	57	64	100
East Germany	6	12	26	86	200
Rumania	-	-	-	26	50
Hungary	11	28	-	42	50
Yugoslavia	26	75	70	146	200
Italy	64	101	92	99	150
West European countries other than Italy	52	5	2	2	50
Others	3	11	-	-	-
	1,792	2,312	2,129	3,049	4,000
Value (Rs. million)	93	115	105	152	200

62. The principal buyers of Indian ore can be grouped into three main categories: the Japanese steel industry; East European countries; and buyers in Western Europe, particularly in Italy. The Japanese steel mills buy their raw materials through a consortium, and they have indicated their readiness to look to India as their principal source of supply so long as Indian prices are competitive and port and railway capacities are adequate to ensure a high rate of loading at the ports. The long-term contracts made with the Indian Government for supplies from Kiriburu and Bailadilla (both being developed in the public sector) stipulate that purchases from these mines will be additional to normal purchases, which are currently running at 2-2½ million tons a year. At present Japan is importing 11-12 million tons of iron ore a year, of which India is supplying about one fifth, and import requirements have been forecast as rising to over 24 million tons in 1965, excluding imports from Kiriburu. On this basis the Indian Government reckons that exports to Japan from private mines in India might rise to 4½ million tons in 1965/66 provided that the necessary transport can be arranged.

63. Iron ore is one of the principal items on the shopping lists presented to India by the East European countries with whom she has bilateral agreements for expanding trade on a balanced basis. Czechoslovakia is now buying nearly 1 million tons of Indian ore a year, and Yugoslavia, East Germany, Poland, Rumania and Hungary have all been stepping up their purchases. All these countries are expanding their steel industries, and the Indian Government believes that they will be ready to increase their imports of Indian ore to at least 3½ million tons by 1965. Czechoslovakia, East Germany and Poland have raised the possibility of long-term contracts, but the Indians are reluctant to enter into further commitments at this stage.

64. Italy is the only Western European country which is currently a major buyer of Indian ore, though small shipments are made to West Germany and one or two other countries. Generally speaking, Austria, Belgium, France, West Germany and the United Kingdom can obtain their ore more cheaply from Sweden, Canada, Spain, North Africa and Brazil. The cost of transport through the Suez Canal is a major obstacle to increasing Indian shipments to Western Europe. Italian buyers have nevertheless indicated that they might be interested in entering into a long-term contract with India for larger supplies (possibly over 1 million tons a year) if satisfactory arrangements could be made to receive large ore carriers of at least 34-38 foot draft, preferably on the west coast, and if a rate of loading of 1,000 tons per hour could be guaranteed. The Italians have expressed particular interest in taking more of the lower grade ores in place of the high grades they are buying at present.

65. The main limitations on exports at the moment lie on the side of supply rather than of demand. A large increase in production is needed to meet domestic requirements, and the target for output in 1965/66 is 32 million tons, as against estimated output of 12 million tons in 1960/61. The greater part of the increase in production is to come from newly developed mines in the public sector, and a major effort will be required to achieve such a rapid expansion. Transport is likely to be a bottleneck both in respect of the movement of ores to the coast and handling facilities at the ports. Sources of supply are widely scattered over the country, and the ore is at present being shipped in penny packets from as many as fifteen different ports, as shown in Table 11.

66. The present intention is that Vishakhapatnam should be reserved for the shipment of the 6 million tons of ore provided for under the Kiriburu and Bailadilla contracts with Japan (possibly rising to 8 million tons a year later on). The entrance to the port is to be deepened to 32 feet, and the possibility of dredging a new channel to a depth of 38 feet is under examination. Mechanical loading facilities are being installed with a rated capacity of 2,000 tons of ore per hour, and railway facilities are to be developed for the delivery of 20,000 tons per day.

Table 11. Shipments of Iron Ore by Ports

(tons: fiscal years)

	1958/59	1959/60
Calcutta	597,984	708,918
Bombay	231,531	285,925
Madras	353,498	505,074
Kandla	90,668	160,057
Kakinada	90,055	91,021
Masulipatam	128,439	155,832
Paradip	23,163	32,250
Vishakhapatnam	82,718	108,347
Mangalore	28,919	141,453
Karwar	97,617	146,604
Redi	222,150	337,011
Cuddalore	95,995	236,350
Belikheri	47,582	100,972
Cochin	38,746	30,978
Pondicherry	-	7,939
	2,129,065	3,048,731

67. Two new lines are being built to move the Kiriburu ore at an estimated cost of about Rs. 200 million, the first of 20 miles near the mines, the second of 110 miles from Sambalpur to Titlagar (see railway map in Annex V). The opening up of the Bailadilla deposits will call for investment of Rs. 550 million in a 250-mile line over difficult country, which is still being surveyed. Ores from both mines will be moved in special 90-ton wagons hauled by diesel locomotives. Provision for the necessary investment in new lines and rolling stock has been included in the railway program for the Third Plan. Loans to cover the foreign exchange costs of both projects, including works at the port, have been provided by Japan and the United States. The mines themselves are being developed by the National Minerals Development Corporation with the help of Japanese technical consultants. The initial investment at Kiriburu is estimated at Rs. 94 million (including Rs. 8 million for a new township) and at Bailadilla at Rs. 170 million (including Rs. 12 million for the township).

68. No attempt has been made to work out costs of the ore to be supplied under the two contracts. The prices are to be subject to negotiation and will be related to f.o.b. prices of Indian ore shipped to all destinations. The Indian Government expects the f.o.b. costs of the ore to be higher than that of ores at present exported, but is apparently satisfied that this will still leave a satisfactory margin of profit. Something will be seriously wrong if it does not.

69. If total ore exports are to reach the Third Plan target of 9 million tons (including 2 million tons from Kiriburu, but excluding Bailadilla), exports from the private mines will have to be increased from 3-4 million tons at present to 7 million tons by 1965/66. This trade is organized through the State Trading Corporation. The mining itself is not considered to present serious problems, but the choice of mines to be developed has to be linked with decisions about the ports through which shipments should be made.

70. The Government's present plans envisage a large increase in exports of Mysore ores through Madras (up to 2 million tons by 1965/66) together with the expansion of a number of minor ports, combined in some cases with investment in additional road or rail facilities. Mangalore, Karwar and Redi on the west coast and Paradip, Masulipatam and Cuddalore on the east coast are all scheduled for development during the Third Plan (see map in Main Report), but unless Mangalore is turned into a deep-water port, the projected increases in port capacity will fall some way short of the estimated requirements. Cuddalore is intended for the shipment of special high grade ores required by the Japanese steel mills. No expansion is envisaged in exports from Calcutta. In fact, the Railway Board is pressing for a reduction in the quantity shipped through this port from 750,000 tons to 500,000 tons a year because of traffic congestion in the area. Bombay is unsuitable for the export of ores because it is a long way from the mines; even so, shipments through this port are planned to rise slightly during the Third Plan.

71. The mission has not studied the problem in detail. We wonder, however, whether it would not make more sense to concentrate the production and shipment of additional exports on a few mines and ports rather than dispersing it so widely. On the face of it, it should be possible to raise production at Kiriburu, Bailadilla and neighboring mines above the levels required to fulfil the Japanese contracts, so that other demands could also be met from these sources. If Vishakhapatnam is specially equipped as the country's main port for the export of iron ore, it should be capable of expansion beyond the 6-8 million tons at present envisaged.

72. In the case of the Mysore ores, some are to be shipped from the east coast, some from the west. The increase of shipments through Madras to 2 million tons, for which provision is made on the present port expansion scheme, may call for construction of a new broad-gauge line from Guntakal to Hospet, a distance of 70 miles, while development of Mangalore as a port of shipment on the west coast would require construction of 125 miles of new meter-gauge line. There may be a case for developing Mangalore as well as Madras (see Annex V), but this will depend in part on the prospects for sales to Europe, and on whether a long-term market can be guaranteed. If Mangalore is developed as a major port, the aim should be to divert to it ores at present shipped from Karwar and other ports further north. Exports through Kandla in the north-west of India should be discontinued as soon as adequate capacity is available elsewhere. Kandla is 550 miles from the mines in Rajasthan, and costs of rail transport from the mines to the port actually exceed the f.o.b. sale price, so that exports are currently being sold at a loss.

73. The mission attaches the greatest importance to the maximum expansion of iron ore exports, since this is one of the few commodities with really good market prospects in the near future, as well as in the long run. The aim should be to speed up development of mining and transport so that the Third Plan target can be exceeded. Greater concentration of operations may be necessary if costs are to be kept down, and the further investigations required to establish the most economical pattern of production and shipment should be pressed forward with the utmost vigor. Costs will be a vital factor governing the development of exports to Western Europe. The fact that Goa is able to sell substantial quantities of ore in the European market suggests that India might be able to do the same if the efficiency of mining and transport operations could be improved.

74. Other Traditional Exports. With regard to the other traditional exports, vegetable oils have turned in a disappointing performance. The Second Plan estimates - presumably optimistically affected by the 1955 record level of exports - projected a five-year total value of Rs. 1.1 billion for exports of oils; the actual total is now expected to be some Rs. 0.60 billion for non-essential oils and Rs. 0.12 billion for essential oils. At the same time the value of oilcake exports has expanded many fold, from less than Rs. 0.02 billion in 1956/57 to approximately Rs. 0.11 billion in 1957/58. They are expected to double again in 1959/60. There appears to be some possibility of expansion of oilcake exports to Europe in view of the increasing use of oilcake for cattle feed with the spread of scientific cattle growing in Europe; Poland and the United Kingdom are two substantial importers. Cattle feed manufacturers in Europe appear reluctant, however, to enter into long-term commitments to buy from any particular source of supply. On the other hand, it is difficult to get domestic producers in India to invest without some assurance of a reasonably steady market. The Indian Government is exploring the possibilities for some mutually satisfactory arrangement.

75. Except for the dramatic increase expected in iron ore exports, the immediate outlook for exports of ores and metals is not very promising. Manganese exports, after a sharp expansion in 1957/58, have dropped back to the 1956/57 level; part of the explanation is the increasing competition in recent years from the USSR, Brazil and Ghana. Small quantities of pig iron were exported during the Second Plan as a result of temporary surpluses prior to development of local capacity to utilize the production of the new steel plants. These are expected to amount only to some 337,000 tons during the five years of the Second Plan with a value of about Rs. 0.09 billion. Exports of 150,000 tons are projected in 1961/62, but no more after that. On the other hand, it is estimated by the Indian authorities that India could easily sell, if available, 300,000 tons per year, of which perhaps 150,000 tons would go to neighboring countries. Coal is another commodity for which larger markets might be found in neighboring countries if the supplies could be made available. The recent trend of coal production in India has, however, been discouraging (see Annex IV).

76. New Exports. Reference has already been made to the development of new exports of engineering and metal products. Although these still account for only 1-2 per cent of India's exports, they represent a dynamic element and show probably the greatest potential for growth. The Second Plan target of Rs. 0.20 billion for exports of engineering goods appears certain to be exceeded. The available data indicate that exports of "manufactures of metals" and "machinery and transport equipment" increased from Rs. 15 million in 1956/57 to Rs. 31 million in 1958/59 and are expected to average more than Rs. 50 million in each of the last two years of the Plan. 1/ During the Third Plan period exports in these categories are officially forecast to rise from Rs. 80 million in 1961/62 to Rs. 170 million in 1965/66, giving a total of Rs. 595 million in the Third Plan as compared with an expected Rs. 197 in the Second Plan period. This would be an absolute increase larger than that expected to occur in any of the major traditional exports - tea, jute goods or cotton textiles.

77. The export forecast of Rs. 595 million in the Third Plan, though representing an increase of 300 per cent over the Second Plan export target, could even be exceeded if these exports "catch on" in certain markets. The relatively modest expansion in engineering goods exports to date reflects the fact that, while steel has been in such short supply, neither the Government nor the producers have been in a position to give to the development of steel-using exports the kind of attention and encouragement that will be possible when the steel supply situation eases. Again, there seems to be some basis for the Indian authorities' statement that shipping rates have been set by the shipping conferences with reference to an historical pattern of trade that did not take account of the intra-regional movement of items such as engineering goods. All these are lumped together under the "miscellaneous" category, for which freight rates are higher. Also, there is no allowance for short hauls within the region. The Indian Government is examining the use of smaller vessels for such trade which would be better suited to carry miscellaneous engineering goods, making short hauls and incurring less waiting time in ports because they would be able to enter shallower ports and waters for loading and unloading.

78. Moreover, Indian firms frequently do not quote competitive export prices, often because they are simply uninformed about competitive situations. This applies to public sector enterprises also; for example, exports of telephone equipment to the Middle East and elsewhere have been discouraged by the failure to quote a competitive price rather than the standard delivered price within India. This handicap is slowly being overcome as a result of the various trade promotion measures, market surveys and so forth undertaken under the Government's auspices as well as of the increasing external contacts of individual Indian businessmen.

79. It has been estimated that, if India were able to obtain one third of the market for engineering goods in South Asia and Africa, this alone would be worth perhaps Rs. 500-750 million a year. Railway stores and equipment represent another area of potential expansion of engineering goods exports from

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1/ These figures relate to somewhat different categories of goods from those listed in Table 1 above.

India. The railways in Ceylon, Burma and Iraq were built with the assistance of Indian engineers, and there is no fundamental reason why India could not share to an increasing extent in the supply of the growing replacement requirements of these railway systems.

80. Export Promotion Activities. The Government of India in the last few years has undertaken a broad and many-sided export promotion program. Promotional services include a trade promotion office in the country of each major trading partner. There are now some 18 show-rooms abroad in which exhibits are rotated; major trade centers with show-rooms have been established in Frankfurt, New York and Cairo. Export quotas have been liberalized for a number of commodities, and a large number of items have been freed from export control. Drawbacks and rebates on customs and excise duties on imported materials and components used in the manufacture of certain export products have been allowed. Specified quantities of sugar have been released for export, the export duties on vegetable oils and manganese ore have been removed, and the export duties on a number of other commodities reduced to a level where export duties no longer operate as a significant deterrent.

81. The establishment of "Export Promotion Councils" for specific export industries appears to be a promising development. Following the formation of a council for cotton textiles in October 1954, the Government has set up ten more - for silk and rayon, engineering goods, mica, shellac, tobacco, sports goods, chemicals, cashew nuts and pepper, leather and plastics. The Government through these councils is enlisting the cooperation of top Indian business leadership to devise and implement measures to promote exports. Some of the councils are already showing favorable results; it is difficult, and too early, to assess the effects of the councils upon exports, but their influence in increasing the "export-consciousness" of a portion at least of the Indian business community is unmistakable.

82. These councils have been given broad terms of reference, and their operations vary with the special problems of each industry. There are some activities, however - most of which have long needed doing - which are common to many of the councils. Nearly every council has sent one or more trade delegations to Asian and African countries and many of them to the European continent. They are participating increasingly in fairs and exhibitions and taking other steps to develop contacts between Indian exporters and potential importers. They are assisting in making arrangements for supply of raw materials to the domestic producers, carrying out market surveys abroad and examining the means of opening trade channels, including in some cases the recommendation of measures for reorganization of the domestic industry in a way to increase exports. Additionally, they are charged in some cases with recommendations on import licenses for certain items and with obtaining performance or pledges of performance regarding export targets.

83. The engineering export promotion council, for example, operates a scheme for the supply of raw materials, including iron and steel, imported and indigenous, to manufacturers of engineering goods who undertake to export their products to specified markets. The council has arranged for displays in show-rooms, exhibitions and fairs to publicize Indian engineering goods in potential markets. It has sent a trade delegation to the U.S.A., the West Indies and Latin American countries to explore the market for engineering goods, as well as "study teams" to several Asian and African countries to explore market prospects.

84. The council for chemicals and allied products is concerned with a field in which many of the main items were still being imported into India until recently, or are not allowed to be exported because of domestic requirements. The council's main responsibility is thus to determine those items in which there is an exportable surplus and to devise means of promoting such exports, including finding markets, mostly expected to be within the Asian-African region. The council for mica, on the other hand, is seeking to develop additional markets, particularly in the Soviet Bloc countries, in order to reduce the industry's dependence on the United States, which has been the largest purchaser, but whose imports are strongly affected by decisions relating to the stockpiling of strategic materials. In 1959 exports of unmanufactured mica in terms of both quantity and value reached the highest level of the last six years. The tobacco council, with the assistance of a tobacco expert from West Germany, has sponsored experiments to grow grades of tobacco most suitable for the West German market; the crop has been sent to West Germany, and the reaction of West German manufacturers is reported to be encouraging. The cashew council is implementing a promotion scheme under which exporters who undertake targets are given import licenses for imports of raw cashew nuts and assistance in procurement of packing materials. The cotton textiles council, one of the more active and successful of the councils, has opened an office in Baghdad and plans another office in the West Indies; it has held exhibitions in Teheran, Ceylon and Singapore, took part in the Floating Fair and has attached a textile expert to the Indian Trade Center at Frankfurt to seek to develop markets on the European continent.

85. The councils are coordinated by the Directorate of Export Promotion in the Ministry of Commerce and Industry and by the Directorate's divisions at Bombay, Calcutta and Madras, which also give direct assistance to exporters. An Export Promotion Advisory Council under the chairmanship of the Minister of Commerce and Industry, and with a membership including representatives of trade and allied interests, advises on general export policies and specific promotional measures.

86. In the long run, one of the more significant activities undertaken by the various export promotion councils may be the introduction of quality control schemes, as has been done in the case of mica, cashew nuts, pepper, and hides and skins. A voluntary inspection scheme is operated for cotton textiles and a similar scheme has been extended to silk fabrics. Certain commodities - tobacco, hemp, raw wool, lemon grass oil, etc. - are already subject to compulsory grading before export under the Agricultural Products Act of 1937. Indian Standards Institute specifications are being used in the manufacture of a large number of engineering goods. A great deal more, however, needs to be done in this area in order to establish an Indian reputation for products of standard quality. There would seem to be justification for a greater degree of compulsory inspection of many commodities, particularly the new engineering products now entering India's export trade; it is especially important that India acquire now a reputation for quality and reliability in these products. The Indian authorities are aware of this and often cite the example of Japan, which by a major effort in the post-war

period has managed to improve drastically its reputation for quality of exports. It is worth noting in this connection that the export promotion councils are evolving standard contract forms and codes of conduct to be followed by their members, designed to encourage sound practices on the part of the Indian exporters.

87. As a further means of assisting exports, export traffic from centers of production to the ports has been placed on priority schedules by the railways. In addition, since December 1958, a reduction in freights has been allowed for exports in the form of rebates at the rate of 50 per cent of the normal freight rate on some 29 commodities, mostly engineering goods. As regards marine shipping, a freight investigation bureau has been set up in Bombay under the Director General of Shipping to examine complaints relating to high shipping freights or disparities in freight rates. The bureau has taken up such problems with Shipping Conferences and has obtained a reduction in freights in respect of a number of commodities. New entrants into the export field are being given information regarding import regulations in various markets, although it is not clear to what extent this activity reaches the small potential exporter.

88. Trade Obstacles. A major concern of India's planners is the hampering effect upon the growth of India's exports of various restrictions imposed by her trading partners, particularly in Western Europe. These obstacles include high tariffs, quota restrictions, relatively high revenue duties and internal fiscal charges, restrictive state trading and other measures.

89. With regard to tariffs, duties in the Western European countries tend to be higher on manufactured and semi-manufactured items than on primary products, and this in itself hampers the expansion of India's exports in lines which will become of increasing importance as she industrializes. Relatively low duties, for example, are placed on raw jute, raw cotton, oilseeds and coir fiber and relatively high duties on manufactures of these commodities. India has sought through discussions within the General Agreement on Tariffs and Trade to obtain concessions from some Western European Governments on imports of several types of manufactured goods from India. India's own tariffs on items of machinery and industrial raw materials, which now form the bulk of her imports, are low and can hardly be further reduced or offered as compensation in future tariff negotiations. With this in view, India's authorities have also urged the industrialized countries to consider the feasibility of giving relief through unilateral action independently of the next round of multilateral negotiations under the G.A.T.T.

90. High internal fiscal duties are levied in Western European countries on certain products such as coffee and tea which are wholly imported. These internal taxes are primarily intended as revenue duties, but they have much the same effect as import duties and unquestionably operate to restrict imports. As the world's largest tea exporter, India is one of the countries whose trade is most seriously affected.

91. In addition, certain of the Western European countries apply quantitative restrictions in varying degrees. Discriminatory application of import restrictions appears to have been relatively severe with regard to goods that India exports - based largely on the grounds, in the case of cotton and jute textiles and wool carpets, for example, that "low-cost" imports from certain Asian countries will threaten Europe's domestic industries. India's exports to certain Western European countries are also inhibited by the protective activity of state agencies. The import of oilseeds, for example, is given preference over vegetable oils in some cases to satisfy local food laws. Elsewhere, imports from outside sources may be allowed only after total domestic production of the country and its overseas territories has been purchased at a minimum support price. Imports of jute manufactures into the United Kingdom are regulated by the state purchasing authority in such a way as to protect the domestic industry.

92. India has during the last decade given most favorable soft currency treatment to all the European countries; there is no discrimination, for example, between imports from the United Kingdom, on the one hand, and West Germany or France, on the other. From certain European countries India receives OEEC treatment in regard to liberalization measures, but in other countries the application of the measures discussed above results in giving India "residuary" treatment, since India does not fit into the OEEC, dollar or Eastern European groups.

93. An Indian trade delegation visited Europe in September-October 1959, and trade agreements were concluded with Italy, Switzerland, France and West Germany. The general pattern of the agreements and protocols provides for the setting up of a Mixed Commission in each country, composed of representatives of the two Governments, which will meet at periodical intervals and seek to develop solutions for difficulties hampering trade between the countries. The arrangements generally provide for closer economic and commercial cooperation, including cooperation in the development of closer relations between local firms and sales organizations on either side; they also provide for progressive relaxation of import restrictions and other measures to facilitate the development of imports from India into these countries. It appears that, even in those European countries which have traditionally followed liberal tariff and trade policies with few or no governmental restrictions on imports of Indian goods, the simple lack of contacts and knowledge of India's supply potential has been a major factor limiting India's exports.

94. For whatever reasons, India's exports have been largely by-passed in the spectacular expansion that has occurred in Western Europe's foreign trade over the last decade. In the case of Italy, France and Germany, for example, India's imports from, and exports to, these countries in 1959 were as follows:

	Rs. million		
	Imports	Exports	Balance of Trade
Italy	259	57	-202
France	191	83	-108
West Germany	1,187	196	-991

95. India's imports of raw materials, capital goods and equipment from the OEEC countries have risen dramatically. In 1952/53 imports from these countries amounted to Rs. 0.82 billion, while exports were Rs. 0.63 billion, resulting in a deficit of Rs. 0.19 billion. By 1957/58 imports had risen to Rs. 3.00 billion, while exports had declined to Rs. 0.58 billion, leaving a deficit of Rs. 2.42 billion. Despite India's imposition of drastic import restrictions in 1957/58, following the foreign exchange crisis, imports in 1958/59 from the OEEC countries were still Rs. 2.16 billion, while exports to them were Rs. 0.51 billion. West Germany has emerged during the last few years as the largest exporter of industrial goods and raw materials to India, after the United Kingdom and the United States, and India is now the major Asian market for Germany. Yet India's exports to West Germany have remained static, and in each of the past three years have covered less than one sixth of India's imports from her. The recent announcement by Germany that restrictions on imports of textiles and certain other goods from India will be gradually relaxed is to be welcomed as a step in the direction of encouraging Indian exports to Continental Europe.

Bilateral Trade and Payments Arrangements

96. A significant portion of India's foreign trade is embraced within the scope of bilateral trade and payments arrangements negotiated with Soviet Bloc countries, the United Arab Republic, Yugoslavia and mainland China. Bilateral payments agreements were first entered into in 1953/54; they provided for payment in either sterling or rupees, and thus represented no significant change in existing payment arrangements. They were the product primarily of a desire on the part of certain countries conducting state trading operations to expand their exports to India, and they led in fact to an imbalance of trade against India. The Indian Government was subsequently successful in obtaining an agreement that only the "Central Accounts" maintained by the bilateral agreement countries with the Reserve Bank of India would be convertible into sterling, and that their commercial banking accounts would be treated like ordinary resident accounts. This was done primarily as a control measure to enable the Government of India to stay informed regarding the extent of conversions into sterling.

97. The next stage was marked by the establishment of "development accounts" covering varying proportions of the trade carried on under the agreements. These accounts were to be balanced, and the precedent was thus set for balanced trade for at least a portion of the trade covered under the agreements. The Government of India subsequently negotiated protocols under which balances in the accounts would be convertible only six months after the end of the period covered by the trade agreement. This was, of course, difficult to negotiate with certain countries which had a traditionally favorable balance of trade with India. The final stage of the development of the agreements is the provision that the payment of any credit balance be in exports rather than convertible currency. This is now the general pattern. There are still two convertibility clauses in most of the agreements: (a) the balance of funds held by either country after the end of the period covered by the trade agreements is convertible into hard currency; and (b) if either

country is unable to deliver goods at "prevailing" world market prices, then the balance in the account becomes convertible.

98. The Indian authorities appear to have a genuine preference for free multilateral trading arrangements and the earning of free foreign exchange, but they feel that a number of factors make it advantageous to enter into such agreements with countries whose foreign trade operations are characterized by state trading. They claim, and with some justification apparently, that insistence on balanced trade under these agreements has resulted in substantial increases in exports in certain cases; export promotion is automatic in a sense and trade tends to be "balanced upwards" where India's imports from the country concerned are large. Indian officials are in fact now attempting to work out forecasts of the demands of the bilateral trade partners to determine whether special production may be necessary to meet requirements under the agreements. Secondly, the agreements appear to be useful in diversifying India's exports. Domestic manufacturers are often unwilling to expand capacity to meet special requirements of the export market unless some minimum volume is assured. Once such assurance is obtained under a bilateral agreement, India is then able to build up new export industries, as happened in the case of footwear, for example. The benefits thus may include eventual development of markets in other countries once the export production is established.

99. There have been a few instances of diversion of supplies from other markets where convertible currency might have been earned, but Indian officials claim that such problems have usually been overcome in a relatively short time either by increased production or by the Indian Government persuading the country concerned to reduce its purchases. India also has guarantees against pooling and against re-export by these countries to India's other markets. Both India and the other signatories to the agreements undertake to import from each other only for "domestic consumption".

100. The mission was assured that the review of applications for import licenses under these trade agreements, even though they provide for payment in rupees, is just as rigorous as in the case of other imports. The same concept of essentiality for the imports is adhered to. Even the concept of "available finance" must be satisfied, which is the case only if the balance in the accounts is considered not too heavily in favor of the foreign country.

101. Government officials estimate that Indian exports under these agreements in 1960/61 will amount to approximately Rs. 650 million. Imports under the agreements would equal roughly this amount less repayments of credits obtained from certain of these countries. Exports under these arrangements to the entire Soviet Bloc and Yugoslavia, but excluding the United Arab Republic, are estimated to increase by 50 per cent to about Rs. 1,000 million per year within the next three or four years. If this happens, such trade would amount to approximately one eighth of total Indian exports forecast in 1965/66. The Indian officials guess that 25 per cent of the exports under these arrangements will be "developmental" exports, i.e. the new engineering and metal goods, and this, it is considered, would be a good achievement.

Regional Trade

102. India has so far remained somewhat aloof from the various tentative moves that have been made, mostly within the framework of the Economic Commission for Asia and the Far East, toward greater freedom of trade and payments toward greater freedom of trade and payments within the South and South-East Asian region. Her trade with two of her most important trading partners in the region - Burma and Pakistan - is still governed by bilateral trade and payments agreements, although the Indian import licensing system does nothing to force trade into bilateral channels. In fact, trade with Burma has been "balanced downward" by a drastic reduction in Indian exports to Burma in recent years, despite Indian credits to Burma. These bilateral trade and payments agreements are intended to serve as instruments for mutual liberalization of trade. This could also be regarded as a weapon held in reserve in case it should be deemed desirable to try to force purchases of Indian goods on reluctant buyers as the price of continued Indian purchases in the respective countries. However, the Indian Government has not exhibited any tendency to utilize the agreements in this manner.

103. The mission did not go into the merits or demerits of schemes for greater regional "economic integration" with the Indian authorities during its stay in the country. It has been struck, however, while reviewing the medium and long-range prospects for Indian exports, with the number of cases in which development of a regional market is anticipated, particularly for the products now being manufactured for the first time in the general region by new Indian industries. It seems eminently sound that India, with a fair headstart over most of her immediate neighbors in a wide range of industries, with the only significant steel industry south of the Himalayas between Europe and Australia, and with well-established banking and mercantile connections throughout the region, should indeed become a supplier of products formerly imported from more distant places. To the extent that economic growth occurs in neighboring countries India should also obtain a share in the entirely new markets that will develop. She will, however, have stiff competition from Japan and, intermittently at least (judging by recent performance), from mainland China. Furthermore, as has been pointed out by the Economic Commission for Asia and the Far East, the economic plans of countries in the region, including India, contemplate less rather than more interregional trade so far as each country's principal imports from other countries in the region are concerned. The "natural" expansion of India's trade can only take place if trade policies of her neighbors permit it.

104. The mission's only comment on these matters is that it may be in India's interest to be somewhat more receptive to suggestions for improving trading relationships among the countries in the region by some sort of joint action. The advantages of retaining complete freedom of action need to be weighed against those of assuming the leadership of a movement for serious steps toward economic integration of a region with which, in any event, India's economic future is bound to be closely linked.

Private Foreign Investment

105. Firm data on foreign private investment in India are available only though 1958, although some preliminary information is available on trends in 1959. The assumption made in the Second Plan that net private capital inflow, including loans to the private sector from public international bodies, might amount to Rs. 1 billion has already been substantially exceeded. Net inflow into the private sector in the three calendar years 1956 through 1958 amounted to Rs. 1,126 million. However, almost half of this (Rs. 495 million) has come from IBRD loans rather than from ordinary private investment sources. The Reserve Bank of India estimates, on the basis of preliminary data for 1959, that the total for the four-year period 1956-59 amounted to Rs. 1,350 million, of which IBRD capital accounted for Rs. 720 million.

106. Net private capital inflow into India (excluding IBRD capital) of Rs. 27 million in 1958 was the lowest on record due to a large outflow of petroleum capital, and compares with a net inflow of Rs. 247 million in 1956 and Rs. 168 million in 1957. The gross inflow, however, slightly exceeded the 1957 level. The proportion of retained earnings within the total was sharply lower in both 1957 and 1958, and fresh capital receipts in each of those years were substantially higher than in preceding years. Of the total private capital outflow of Rs. 244 million in 1958, repatriation of petroleum investments accounted for Rs. 218 million. The foreign oil companies - the major sources of capital inflow in the post-war years - had, until 1958, steadily expanded their investments in India. The outflow occurred wholly in the marketing sector of the petroleum industry, mainly through a reduction in indebtedness to their head offices. Apart from the petroleum industry, capital repatriation in other industries was actually less in 1958 than in each of the preceding two years. Data on foreign capital inflow into the private sector are shown in Table 12.

Table 12. Inflow of Foreign Investments into the Private Sector a/
(Rs. million)

	1954/55 (Annual Average)	1956	1957	1958
Inflow of private foreign capital (net)	149	247	168	17
(a) Gross inflow	199	310	259	261
(i) Retained earnings	120	194	96	98
(ii) Cash inflow	15	31	49	48
(iii) Non-cash inflow	64	85	114	115
(b) Outflow	-50	-63	-91	-244
I.B.R.D. capital	14	121	321	253
Gross inflow into private sector	213	431	579	514
Net inflow into private sector	163	368	488	270

a/ Figures exclude foreign investment in the banking system.

107. The United States in 1958, as in the previous year, was the major source of private capital investment in India. The United Kingdom actually disinvested Rs. 30 million during 1958, as compared with net investment of Rs. 60 million in 1957. However, the United Kingdon still accounts for the bulk of total foreign investment outstanding in India, the value of such investments amounting at the end of 1958 to Rs. 3,980 million, while those of the United States amounted to slightly less than Rs. 600 million. Small amounts were accounted for by Switzerland, West Germany, Pakistan and other countries. Total foreign investment by country of origin is shown in Table 13.

Table 13. Foreign Business Investments by Country of Origin
(Rs. million)

	June 1948	As at the end of 1953	1955	1956	1957	1958
United Kingdom	1,060	3,264	3,768	3,925	3,988	3,980
United States	112	301	398	468	572	598
West Germany	1	1	25	28	35	38
Japan	2	1	2	2	6	6
Switzerland	53	60	66	82	67	67
Pakistan	84	41	43	42	42	42
I.B.R.D.	-	-	27	148	469	722
Other Countries	246	252	231	232	237	252
Total	2,558	3,920	4,560	4,928	5,417	5,706

108. On a gross basis the inflow from the United Kingdom in 1958 at Rs. 193 million exceeded capital inflow from the United States of Rs. 47 million, but much of the capital outflow, including primarily the large liquidation of indebtedness of foreign petroleum companies was concentrated in concerns controlled by British investors. This explains the disproportionate shifts in the position as between net and gross figures of capital inflow. The figures are shown in Table 14.

Table 14. Inflow of Private Capital by Country of Origin
(Rs. million)

	1956		1957		1958	
	Gross inflow	Net inflow	Gross inflow	Net inflow	Gross inflow	Net inflow
Private capital	310	247	259	168	261	17
U.K.	205	157	152	63	193	-28
U.S.A.	72	71	104	104	47	27
Others	33	19	3	1	21	18
I.B.R.D. loans	121	121	321	321	253	253
Total	431	368	579	488	514	270

109. Petroleum has been the largest single field into which foreign investment has flowed. However, manufacturing, particularly iron and steel, has accounted for an increasing proportion of the total. Out of the gross inflow in 1958 amounting to about Rs. 510 million, inclusive of I.B.R.D. capital, some Rs. 350 million went into manufacturing. Excluding I.B.R.D. capital, which went predominantly into iron and steel, the gross private investment in the manufacturing field amounted to Rs. 109 million in 1958, as compared with Rs. 84 million in 1957 and Rs. 98 million in 1956. More than half (Rs. 60 million) of this investment in 1958 was in industries producing medicines and pharmaceuticals, rubber goods, stationery and automobiles. Allowing for capital repatriation of about Rs. 13 million the manufacturing group showed a net inflow of Rs. 96 million in 1958. The detailed figures are shown in Table 15.

Table 15. Inflow of Private Capital by Field of Investment
(Rs. million)

	1956		1957		1958	
	Gross inflow	Net inflow	Gross inflow	Net inflow	Gross inflow	Net inflow
Petroleum	123	123	175	175	62	-156
Manufacturing	98	75	84	61	109	96
Others	89	49	-	-68	90	77
Total	310	247	259	168	261	17

110. Developments in 1959 regarding foreign investments in the private sector can be indicated only in broad terms. Data are not available on reinvested profits of foreign controlled companies, and very little information is available on new capital coming into branches of foreign companies. Some overall indications can be obtained, however, from the data on purchases of shares by non-residents in rupee companies and the Reserve Bank's exchange control data on capital repatriation. Issues of shares to non-residents in rupee companies were only about Rs. 50 million in 1959, as compared to about Rs. 75 million in each of the two preceding years. On the other hand, there was a reduction in capital repatriation; the petroleum group in particular lost much less capital than in 1958; and total repatriation for all groups taken together in 1959 is estimated at around Rs. 120 million, as compared with Rs. 244 million in 1958. The 1959 trends also suggest an increase in reinvested earnings or at least no reduction from the 1958 rate. The overall indication is that the net inflow of investment from private sources abroad is likely to show a marked increase.

111. It is the mission's view that net private capital inflow in the Third Plan will show a rising trend, barring any unfavorable developments on the international scene. The mission was struck by what appeared to be evidence of a real upsurge in foreign investor interest in India, particularly on the part of American investors. Some of this results from policies and initiatives

on the part of both the Indian Government and the private business community. The Government's virtual insistence that the foreign exchange costs of capital goods imports for approved undertakings be covered by foreign financing in some form has led Indian businessmen actively to seek foreign collaboration, with resultant benefits in inflow of both capital and technical know-how. The highly restrictive policy on imports adopted as a result of the foreign exchange shortage and the resultant creation of a highly protected market, coupled with the Government's policy of licensing new or expanded manufacturing capacity only to the level for which it is presumed that sufficient offtake will exist, has substantially increased the attractiveness to the foreign investor of producing in India. Although issuance of shares to non-residents, as indicated above, was lower in 1959 than in 1958, total foreign investment approvals given during 1959 amounted to Rs. 190 million, as compared with Rs. 130 million in each of the years 1957 and 1958.

112. The Government during the last year has also taken several significant steps to improve the investment climate. It has entered into double taxation avoidance agreements, not all of which are yet ratified, with the United States, West Germany, Japan and Norway, and negotiations for similar agreements with the United Kingdom, Denmark and France are under way. India has also signed an agreement with the U.S. Government extending the scope of insurance under the ICA guaranty program to cover risks of nationalization and expropriation, supplementing the 1957 agreement which provided for such guarantees in respect of transfer of profits and capital by American investors.

113. Some of the major deterrents to private investment in India which have operated in the past appear to be lessening in force. The simple lack of knoweldge about Indian conditions and opportunities on the part of potential investors is being overcome in part by the Government's trade and investment promotion activities and by the efforts of Indian businessmen. The new Indian Investment Center will be a focus of various activities related to bringing investment opportunities to the attention of potential investors and facilitating their appraisal of the Indian scene. The high level of general company taxation in India is offset for new firms by the fact that the tax laws allow to approved new undertakings a tax holiday on profits of up to 6 per cent on capital employed for a period of five years, while depreciation allowances and "development rebates" have the effect of enabling the private investor in many cases to amortize about three quarters or even more of his entire investment in no more than about five years (rates of depreciation allowed vary according to types of assets and numbers of shifts worked). Such concessions are available on equal terms to Indian and private capital, and there is no discrimination as regards foreign capital (see Appendix II to Annex VII).

114. Tax rates applicable to non-Indian companies are generally higher than those applicable to Indian companies. For instance, whereas many Indian companies now pay 45 per cent tax (20 per cent income tax plus 25 per cent supertax) on their business income, a foreign company operating through an Indian branch is liable to pay a total tax of 63 per cent (income tax 20 per cent and supertax 43 per cent) on its income from business in India. The

two cases are not quite comparable, since in the first case the Indian Government will levy dividend tax from dividend recipients on top of the 45 per cent paid by companies, whereas in the second case India receives no revenue from dividends. Nevertheless, from the point of view of the foreign company the tax paid is higher, and considerable dissatisfaction has been expressed by foreign business representatives on this account. It is, of course, true that the overall effective tax incidence will often be substantially lower than the rates quoted above because of the various tax allowances mentioned in the previous paragraph.

115. India's record of unrestricted remittances of dividends and repatriation of capital, maintained even during the 1957/58 exchange crisis, has done a great deal to increase investor confidence. Despite the continued pronouncements concerning a "socialist pattern of society", the typical foreign investor today tends to be less concerned with the likelihood of nationalization and more interested in the prospects for the expansion of the market.

116. The screening of foreign investment proposals is basically designed to ensure that the likely balance of payments effect of future dividend and other remittances is counteracted by specific advantages to the national economy. These advantages are most direct and obvious in industries which either save or earn foreign exchange, and the Government particularly welcomes investment in such industries. Investment is prohibited in purely trade, commercial, financial or banking enterprises on the grounds that there is sufficient Indian expertise in these fields, and no advantage would accrue to the Indian economy to counter-balance the remittance liability. Entirely new investment is likewise not permitted in the plantation industries, where large foreign investment already exists, and it is not particularly sought in consumer goods industries already established in India. For the rest, the field is open. There are no limitations as to the extent of equity which the foreign investor can hold. The Government prefers majority Indian ownership, but where an alternative arrangement is acceptable to the parties and the investment seems worthwhile on general grounds, sanction is given to foreign majority holdings.

117. By and large, and apart from oil (see Annex IV), the mission was impressed with the evident desire of the Indian Government to attract more private foreign capital, and we consider that it might be possible to get a gross contribution of about Rs. 1 billion ($210 million) from this source to the financing of investment in the Third Plan, over and above the reinvestment of retained earnings. To achieve this, however, it is not enough simply to remove obstacles to foreign investment; more positive steps must be taken to encourage it. We attach particular importance to the work of the new Indian Investment Center, which is being set up to smooth the way for the potential investor and assist him in his dealings with the various departments of government concerned.