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LETTER DATED 19 DECEMBER 1990 FROM THE CHARGE D'AFFAIRES OF THE PERMANENT MISSION OF INDIA TO THE UNITED NATIONS ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to forward herewith a memorandum on the economic, commercial and financial impact on India resulting from restrictions on economic relations with Iraq and Kuwait. This memorandum was earlier addressed, on 5 November 1990, to the Chairman of the Working Group of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait.

I would be grateful if the memorandum could be circulated as a document of the Security Council.

(*Signed*) Prabhakar MENON
Acting Permanent Representative

Annex

Letter dated 5 November 1990 from the Deputy Permanent Representative of India to the United Nations addressed to the Chairman of the Working Group of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

In continuation of the letter dated 5 September 1990 from the Permanent Representative of India to the United Nations addressed to the President of the Security Council on the special economic problems India faces in implementing Security Council resolution 661 (1990), I have the honour to forward herewith an updated memorandum on the economic, commercial and financial impact on India resulting from restrictions on economic relations with Iraq and Kuwait.

(*Signed*) Prabhakar MENON
Ambassador, Deputy
Permanent Representative

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Enclosure

Memorandum on the economic, commercial and financial impact on India resulting from restrictions on economic relations with Iraq and Kuwait

The present crisis in the Gulf has had both an immediate dislocating impact on, and longer-term adverse impacts for, India's economy. The impact is most severely felt on India's balance of payments, coming at a time when India was already under strain as a result of ongoing debt repayments.

Whatever growth achievements India was able to record during the 1980s, and was working towards and anticipating for the 1990s, are today in danger of being jeopardized as a result of the developments in the Gulf. The implications for a low per capita income country like India are greater than for developed or developing countries with higher per capita incomes.

The implementation of United Nations Security Council resolution 661 (1990) has affected vital sectors of India's economy. The following are the areas most affected:

(a) The non-availability of oil and its impact on industry and agriculture;

(b) The additional demand for foreign exchange to meet the rise in oil prices, affecting the balance of payments;

(c) The loss of revenue resulting from a sharp drop in exports;

(d) A significant drop in remittances from Indian expatriates;

(e) The costs of repatriation and rehabilitation of Indian expatriates displaced from Kuwait and Iraq;

(f) Social costs, with their impact on unemployment as a result of the above.

A. Availability of oil

India's domestic production of crude oil and petroleum, oil and lubricants (POL) is required to be supplemented by regular imports to meet the demands of its growing economy. With rapid industrial and agricultural growth taking place in India, consumption levels are progressively rising.

India's annual import requirement of crude oil and products for 1990-1991 is 24.28 million tons, supplies for which had been tied up for the year on the basis of an average price of $US 17 per barrel. Of this amount, 8.75 million tons of oil and 1.2 million tons of superior kerosene oil were expected to be supplied from Iraq and Kuwait. India has been trying to identify alternative sources of supply for crude oil of specific grades and of appropriate quality compatible with Indian refineries. The uncertainty of supply is affecting industrial activities and agricultural production. This would also lead to a speculative rise in overall prices apart from the medium- and long-range trend towards an increase in oil prices. There are also likely to be additional costs related to obtaining the petroleum, oil and lubricants required, if crude of appropriate quality is not available.

B. Rise in price of oil

India has also been affected by the sharp rise in oil prices that has already taken place. Should this price increase further, the adverse impact would be cumulative. For 1990-1991, India has budgeted for the import of 24.28 million tons at a cost of $US 3,555 million on the basis of $US 17 a barrel. It has been estimated that for every dollar increase in oil prices above the $17 per barrel, India's import bill would increase by $US 222 million. If the price level of $US 28 per barrel is projected for the year, the increase in India's import bill would amount to an additional approximate $US 2.4 billion. This would place an almost unbearable strain on its fragile foreign exchange reserve position.

C. Loss in export earnings

Iraq and Kuwait have been major trading partners for India. Commodity exports to both countries during the past year were around $US 180 million. In addition, exports were showing a significant increase in recent years. Over the past few years, projected exports to Iraq accounted for over 60 per cent of India's total projected exports, valued at $US 2.7 billion. India is also to receive over $400 million as dues from Iraq, of which $85 million was due in 1990 alone. As a result of the crisis, there will not only be a total loss of $265 million during the current year to the Exchequer, but the dislocation of business and the impact on manufacturers, growers and exporters will be considerable.

D. Drop in remittances

It is estimated that about 200,000 Indians were employed in different capacities in Iraq and Kuwait. These expatriates were responsible for remittances to India to the extent of approximately $US 389 million per annum. The imposition of restrictions on these countries resulted in an exodus of Indian workers. This has resulted in the complete stoppage of current remittances and the blocking of funds which would be used for remittances in the future and has drastically reduced prospects for future remittances even after and in the case of resumption of such remittances.

E. Repatriation and rehabilitation of stranded migrant workers

An estimated 200,000 Indian workers were stranded in Iraq and Kuwait. The Indian Government engaged in a mammoth exercise of repatriating its nationals. The cost of repatriating 130,000 nationals came to $US 200 million.

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It is estimated that the cost of rehabilitating 130,000 displaced nationals from the Gulf would be in the vicinity of $US 720 million, taking into account the fact that the returning migrants would have left behind considerable assets and would need to start totally anew.

F. The prolongation of the Gulf crisis

An assessment of the dimensions of the Gulf crisis on India's economy is subject to tremendous uncertainties with respect to how soon the Gulf crisis will be resolved and in what manner. If the crisis remains unresolved, the severity of the impact on India's economy will continue to make itself evident. Some assessment of the impact on the balance of payments is already possible.

Assuming that the average crude oil price in the next 12-month period is around $25 per barrel, as against a projected base price of $18 in the absence of the Gulf crisis, the direct additional cost of petroleum, oil and lubricants imports will come to about $US 2.4 billion; if the average cost during 1991 is around $US 28 per barrel, the total additional outflow on this account would be around $US 3.6 billion.

The loss in remittance flows for the next year, assuming no further growth, would remain at $US 200 million at least.

The loss in exports in goods and services for 1991 would be in the vicinity of at least $300 million if one calculates only the total loss of the Iraqi and Kuwaiti markets.

G. Conclusion

For the next year, therefore, and on the basis of very conservative estimates, the impact on India's balance of payments is likely to be in the region of $US 2.8 billion. These estimates must be viewed as tentative and subject to correction in the light of developments in the Gulf region. There would furthermore be various other economic, political and social costs, difficult to quantify at the moment, unless the shock to the balance of payments is reduced.

While the Indian economy has inherent reserves of strength owing to its size, sources of raw material, entrepreneurial skills, industrial infrastructure, etc., the Gulf crisis will have a major adverse impact on its industrial and agricultural growth, on price levels and on the Government's ability to implement the current trend towards economic liberalization. It is further to be noted that the major impact of the crisis has been on India's balance of payments owing to a sharp escalation in the price of oil.

India is seeking ways to deal with the situation. Without massive external assistance, however, India's developmental efforts will receive a severe setback. India cannot, by itself, find short-term solutions to counter this crisis.

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It is in this context that India seeks relief, particularly in the areas identified above, by means of an increase in the availability of oil and financial compensation. The international community can help low per capita income countries like India specifically by ensuring that the oil required by them is available at lower price levels.

Appendix I

Adverse economic impact of the Gulf crisis on India during the current year: 1990

(In millions of United States dollars)

Additional POL bill (at $US 24 per barrel)	1 660
Loss in remittances	200
Loss in export of goods and services	265
Repatriation of 130,000 persons	200
Rehabilitation (on the basis of demands from States) (over 2 years)	720
Total	3 045

Appendix II

Anticipated impact on balance of payments for 1991

(In millions of United States dollars)

Petroleum, oil and lubricants at $25 per barrel	2 360 a/
Loss in remittances	200
Loss in exports of goods and services	300
Total	2 860

a/ At the average rate of $US 28 per barrel, this figure is likely to be $US 3.6 billion.
