VII BALANCE OF PAYMENTS AND FOREIGN AID

150. The overall balance of payments during 1970-71 showed a sharp reversal from the favourable position in 1969-70. In contrast with the sizeable increase of Rs. 149·7 crores in foreign exchange reserves in 1969-70, there was a decline of as much as Rs. 163·9 crores in the year under review. This decline was, however, matched by substantial further repurchases of outstanding short-term obligations to the International Monetary Fund and the payment of the gold portion of the increase in India's quota in the Fund. At the end of December 1967, the country's outstanding short-term indebtedness to the I.M.F. amounted to Rs. 380·6 crores ($507·5 million). Because of the improvement in her payments position, India had repurchased Rs. 226.9 crores ($ 302·5 million) by the end of 1969-70; and the balance of Rs. 153·8 crores ($205 million) was repurchased in 1970-71. Thus, for the first time since the Second Plan, there are no outstanding drawings on the I.M.F.

151. In 1970 India's quota in the Fund was raised by $ 190 million; one-fourth of this amount, or $ 47·5 million (Rs. 35·6 crores), was payable in gold. The payment of this gold portion was effected through the purchase of $ 30 million worth of gold from the U.S.A. and through the use of newly mined as well as confiscated gold available with the Government. In all, repurchases from the I.M.F. and the gold quota payment involved an outgo of foreign exchange worth Rs. 176·3 crores ($ 235 million) during 1970-71.

Foreign Exchange Reserves

152. Foreign exchange reserves (excluding fresh accrual of Special Drawing Rights) during the year were drawn down by Rs. 163·9 crores. If, however, the accrual of SDR's in January 1971 worth Rs. 75.4 crores is taken into account, the decline in reserves would have been of the order of Rs. 88·5 crores.

TABLE XII

Foreign Exchange Reserves

(Rs. crores)

Year	Gold, foreign exchange and SDRs*	Variations in reserves	Accrual of SDRs	Variations in reserves excluding accruals of SDRs (3—4)	Net drawings on (+)/ repayments (—) to IMF	Variations in reserves gross of transactions with IMF (5—6)
1	2	3	4	5	6	7
1967-68 . .	538·6	60·2	..	60·2	+24·4	35·8
1968-69 . .	576·7	38·1	..	38·1	—58·5	96·6
1969-70 . .	820·9	244·2	94·5	149·7	—125·4	275·1
1970-71 . .	732·4	—88·5	75·4	—163·9	—176·3**	12·4

*Year-end figures. Provisional figures for 1970-71.
**Includes purchase of gold abroad for gold quota payment to the IMF.

153. The substantial repurchases of rupees from the IMF have been an important factor in bringing about the decline in foreign exchange reserves. This decline during 1970-71 contrasts sharply with the rise in foreign exchange reserves in the preceding year. Foreign exchange reserves, including SDR's went up by Rs. 244·2 crores in 1969-70; excluding the accrual of Rs. 94·5 crores worth of SDR's in January 1970, the increase in reserves would have been Rs. 149·7 crores. This sizeable rise in reserves occurred despite the repurchase of Rs. 125·4 crores from the IMF. If allowance is made for this repurchase, the improvement in reserves (excluding SDR's) was as high as Rs. 275·1 crores. For the year 1970-71, the improvement in reserves on a comparable basis was, however, extremely small.

154. The creation of additional international liquidity through the SDR Scheme helped supplement India's reserve resources. So far, SDR's worth Rs. 170·0 crores ($ 226·6 million) have been allocated to India; out of these, Rs. 88·9 crores ($ 118·5 million) have been utilised for repurchase and interest payments to the IMF. During the past year, India was designated by the IMF for the acceptance of SDR's in exchange for convertible currencies. A limit of $ 14 million each was allocated for the last two quarters of 1970 and of $ 48 million for the first quarter of 1971. Until the end of March 1971, SDR's worth Rs. 30·6 crores ($ 40·8 million) had been acquired against convertible currencies. Thus, the net use of SDR's by India in meeting external obligations has, during the last two years, amounted to Rs. 58·3 crores.

TABLE XIII

*India's Balance of Payments**

(Rs. crores)

	1967-68	1968-69	1969-70	April-September 1969	April-September 1970
1. Imports	2042·8	1740·5	1582·3	783·5	848·9
2. Exports	1254·6	1367·4	1403·9	695·6	671·6
3. Trade Balance (2—1)	—788·2	—373·1	—178·4	—87.9	—177·3
4. Invisibles (net)	—160·1	—134·4	—149·1	—60·3	—70·2
5. Current Account (net)	—948·3	—507·5	—327·5	—148·2	—247·5
6. External Assistance (gross)	1123·5	851·5	782·9	420·9	374·0
7. Other Capital Transactions including drawings on and repayments to IMF (net)	—18·8	—192·2	—297·6	—134·4	—138·6
8. Errors and Omissions	—85·6	—113·7	—14·5	—47·3	+1·6
9. SDRs.	..	..	94·5	..	..
10. Movements in foreign Exchange Reserves (Increase + Decrease (—)	+70·8**	+38·1	+237·8**	+91·0	—10·5

*The balance of payments data on imports and exports are based on exchange control records and other sources, and differ slightly from the data published by the Director General of Commercial Intelligence and Statistics.

**Exclude changes in reserves arising from devaluation of the pound sterling in November, 1967 and revaluation of the DM in October, 1969 ; the figures in the earlier table on foreign exchange reserves include these.

Balance of Payments 1969-70

155. A further reduction in the trade deficit was one of the factors leading to the overall improvement in India's balance of payments during 1969-70. Payments for imports amounted to Rs. 1,582·3 crores and were lower by Rs. 158·2 crores as compared to the payments made in 1968-69. At the same time, export receipts went up by Rs. 36·5 crores to Rs. 1,403·9 crores. As a result, the deficit on merchandise account was reduced to Rs. 178·4 crores from Rs. 373.1 crores in 1968-69. During 1969-70, there was a much larger reduction in imports financed through free foreign exchange; unlike in 1968-69, the fall in imports was not accompanied by a near-commensurate decline in aid utilisation. Import payments during 1969-70 fell largely as a result of lower payments for food and equipment imports; payments for all other commodities, consisting predominantly of industrial materials and intermediates, were higher because of rising industrial output. The decline in import payments, thus reflected, in the main, the growth of agricultural production, the progress of import substitution and the sluggish demand for new industrial capacity. Export receipts in 1969-70 rose by just above 2·6 per cent owing to lower earnings from major traditional commodities, such as tea, jute manufactures, oil cakes and cashew kernels. Fortunately, non-traditional exports, recorded a substantial increase so that aggregate export receipts were higher despite the setback to traditional exports.

156. The deficit on account of invisibles, unlike the merchandise deficit, widened during 1969-70, the net outflow of Rs. 149·1 crores being Rs. 14·7 crores higher than in the preceding year. A larger net outflow on account of investment income was partly responsible for the higher deficit on the invisibles account.

157. The deficit in the current account amounted to Rs. 327·5 crores. The net outflow on account of unidentified transactions—or errors and omissions—was of the order of Rs. 14·5 crores. Current account transactions, adjusted for errors and omissions, thus recorded a deficit of Rs. 342 crores, which was a little over half of the comparable deficit of Rs. 621·2 crores in 1968-69.

158. There was an outflow of Rs. 297·6 crores because of other capital transactions including amortisation and repurchase of rupees from the IMF. Since utilization of external assistance amounted to Rs. 782·9 crores and SDR's worth Rs. 94·5 crores were allocated, an overall surplus of Rs. 237·8 crores emerged.

Balance of Payments 1970-71

159. Comparable data on balance of payments are available only for the first half of 1970-71. During April-September 1970, there was a relative weakening in India's balance of payments, and foreign exchange reserves showed a decline of Rs. 10·5 crores, in contrast to an increase of Rs. 91 crores recorded in the same period in 1969. All the main elements of the balance of payments weakened in this period. There was an increase in imports, a decrease in exports and a fall in aid disbursements. The impact on the country's external

reserves consequent to the rise in import payments was larger during the period, as the phenomenon was accompanied by both a fall in export earnings and a decline in aid disbursements. With the decline recorded in April-September 1970, India's foreign exchange reserves stood at a level of Rs. 810·5 crores at the end of September 1970 as compared to Rs. 820·9 crores at the beginning of the year.

160. Total payments for imports during April-September 1970 were Rs. 65.4 crores more than in the same period in 1969, in spite of a decline of Rs. 32·0 crores in commodity imports covered by PL 480 Title I. There was thus an increase of Rs. 97·4 crores in the imports of other items. Exports over the same period dropped by Rs. 24 crores to Rs. 671·6 crores. As a combined result of the increase in imports and the decline in exports, the trade deficit at Rs. 177·3 crores, was double the level in April-September 1969.

161. The invisibles account of India's balance of payments also showed a deterioration of Rs. 9·9 crores in April-September, 1970.

162. Receipts of external assistance during April-September 1970 amounted to Rs. 374·0 crores, showing a decline of Rs. 46·9 crores from April-September, 1969. Utilisation of assistance under PL 480 Title I indicated a fall of Rs. 32·0 crores. The disbursements from loans also showed a drop of Rs. 34·1 crores, at Rs. 268·1 crores. Grants were, however, larger by Rs. 19·2 crores. While the lower utilisation of imports under commodity assistance under PL 480 Title I reflects an improvement in domestic food supplies, the lower utilisation of other loans was the result of a decline in aid availability.

163. The larger trade deficit and the deterioration in invisibles led to a deficit in the current account to the extent of Rs. 247·5 crores in April-September 1970 as compared to Rs. 148·2 crores in Aprli—September, 1969. Taking into account, the unidentified flows shown under "errors and omissions" which turned, during April-September 1970, to an inflow of Rs. 1·6 crores as compared to an outflow of Rs. 47·3 crores in the same period in the previous year, the deterioration in the current account deficit was Rs. 50·4 crores. In April—September 1969, the net inflow in the capital account including external assistance (Rs. 286·5 crores) had exceeded the current account deficit (Rs. 195·5 crores) by Rs. 91·0 crores, which had accrued as an addition to reserves. In contrast, during April-September 1970, the net inflow in the capital account (Rs. 235·4 crores) fell short of the current account deficit of Rs. 245·9 crores by the amount of Rs. 10·5 crores, which had therefore to be drawn from the reserves.

Imports

164. The value of import arrivals as recorded by the D.G.C.I.S., during 1969-70 fell by about 18 per cent from the previous year's level. There was a further reduction in imports of foodgrains by Rs. 75·6 crores, or by about 22·5 per cent, almost entirely due to a sharp fall in imports of wheat. The value of non-food imports declined by about 17 per cent, because of improved availability of certain agricultural materials, import substitution and slower growth of demand for new industrial capacity.

165. Imports of cotton declined sizeably due to lack of demand for textiles during the year. While jute imports fell to a low level because of greater internal availability, imports of vegetable oils increased for the opposite reason. Greater domestic production also reduced the import of non-ferrous metals and aluminium. On the other hand, imports of intermediates and materials such as paper and paper board, petroleum, oils and lubricants and raw wool increased slightly.

TABLE XIV

Imports : Broad Commodity Groups

(Rs. crores)

Commodity	1967-68	1968-69	1969-70	April 1969 to October 1969	April 1970 to October 1970
1. Food	518·2	336·6	261·0	175·9	124·9
2. Cotton	83·0	90·2	82·8	54·1	70·1
3. Jute	1·8	9·3	1·1	1·1	0·1
4. Animal and Vegetable oils and fats	34·4	19·3	29·6	21·5	27·1
5. Fertilizers and fertilizers materials	209·5	198·2	107·4	65·5	51·5
6. Petroleum products	74·8	133·2	137·9	79·3	74·7
7. Metals	195·2	175·2	155·6	99·9	141·3
8. Machinery and Transport Equipment	503·1	513·9	392·7	230·5	217·1
9. Others	387·6	470·3	441·0	211·1	255·6
TOTAL	2007·6	1908·6	1567·5	938·9	932·4

Source : Monthly Statistics of Foreign Trade of India, DGCI & S.

166. Equipment imports during the year fell even faster than imports of foodgrains. The value of imported industrial machinery and transport equipment declined by nearly 24 per cent owing to the slow growth of investment outlays in the recent past and a fairly rapid rise in the output of machine-building industries.

167. As a result of rising industrial output, higher levels of public investment, and improved outlook for private investment the demand for imports picked up again in 1970-71. Shortages of certain raw materials and intermediates such as cotton and metals added further to the demand for imports. During the first eleven months of 1970-71 aggregate imports, for the first time since the devaluation

of the rupee in 1966, exceeded the preceding year's level. Total imports during April 1970—February 1971 were 4·6 per cent higher than in the corresponding period of 1969-70.

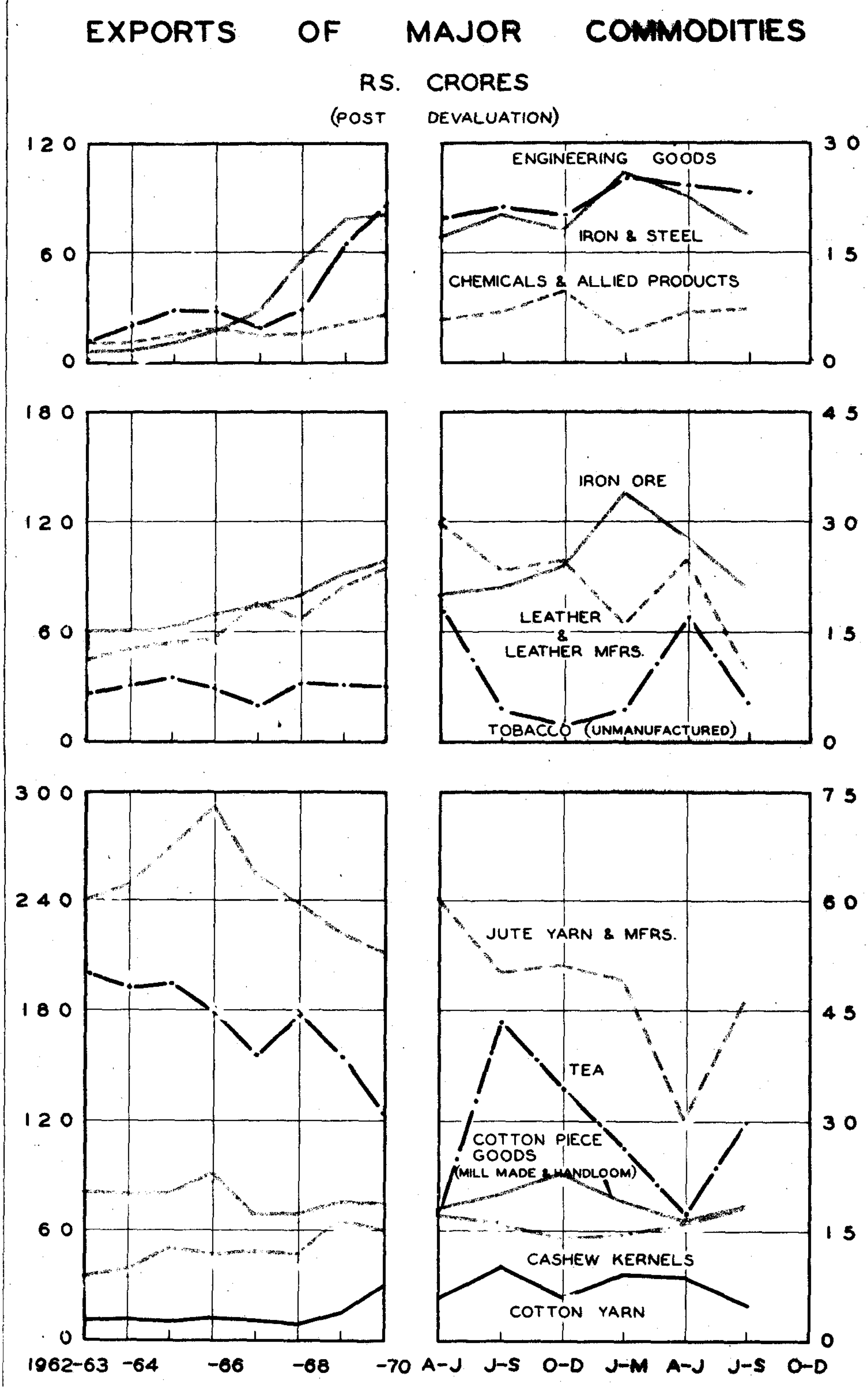
168. Commodity-wise details of imports are available only till the month of October 1970. Food imports fell during April—October 1970 by Rs. 51 crores as compared to the same period in 1969; raw jute imports were reduced to a trickle. Raw cotton imports, however, rose by nearly 30 per cent owing to the shortfall in domestic production. Imports of oils and fats, too, were higher by Rs. 5·6 crores than in April—October 1969. Larger imports of oils and fats reflect the decision to stabilise internal prices by supplementing internal availability with adequate imports.

169. Metal imports during April—October 1970 went up sharply to Rs. 141·3 crores from Rs. 99·9 crores over the same period in the preceding year. Substantially higher output of engineering goods and the unsatisfactory position of domestic steel output during 1970 led to large volume of steel imports. Although aluminium output expanded fast in 1970 as well as in 1971, the rise in production was inadequate to meet a sharp increase in demand, particularly on account of the rural electrification programme. The demand for copper too went up with a steep increase in the production of electric motors, transformers, switch gear and cables and wires. The rate of decline in equipment imports considerably slowed down during April—October 1970; this reversal of the trend is expected to persist.

170. The demand for imports is expected to go up substantially in 1971-72. The factors mentioned above continue to operate even more strongly on the demand for steel and non-ferrous metals. The shortage of cotton, necessitating large imports in 1970-71, may persist because of the need to raise the output of medium quality cloth for meeting both the demand from lower income groups and the fibre requirements for exports. Along with the growing demand for cotton, the demand for synthetic substitutes, especially staple and polyster fibres, is also likely to rise further. Among other major commodities, imports of crude petroleum are expected to increase because of rising through-put of refineries in the country; besides, the import bill for petroleum products may rise in case increases in international oil prices are agreed to. Current import licensing trends also point towards a fairly generalised increase in the demand for imports: the overall value of imports licensed during 1970-71 was 35·6 per cent higher than in 1969-70.

Exports 1969-70

171. The growth of exports slowed down considerably during 1969-70. The rate of growth of exports (as recorded by the Director General of Commercial Intelligence and Statistics) fell to just around 4·0 per cent from the exceptionally high rate of 13·3 per cent in 1968-69 and was well below the annual Plan target rate of seven per cent. An exceptional combination of unfavourable factors brought about this marked slowdown in the pace of expansion of exports: unfavourable world market conditions for major traditional



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exports; growing pressure of domestic demand; and the scarcity of certain key raw materials like steel and non-ferrous metals.

172. Export proceeds from the traditional group of commodities actually fell during 1969-70 by 3 per cent. Exports of jute manufactures fell slightly, due to the slow growth of demand, increasing competition from Pakistan and the emergence of synthetic substitutes. Exports of tea declined by Rs. 32 crores because the average realised price fell by as much as 8 per cent due to weak world demand. In an attempt to stem the fall in international prices, tea producing countries, including India, entered into an agreement to reduce the amount of tea placed on the world market by 90 million pounds during 1970.

173. Exports of mill-made cotton piece-goods fell by Rs. 3.1 crores in 1969-70. International market conditions rather than domestic factors caused this decline. However, because of a doubling of exports of cotton yarn, exports of mill-made cotton textiles, including yarn and apparel, rose by about 14 per cent. There was a rise in yarn exports to the U.A.R., Eastern Europe and Burma. Burma, in fact, replaced the U.K. as the single largest outlet for Indian cotton yarn.

174. Exports of cashew kernels fell by Rs. 3·5 crores as a consequence of weaker export demand and growing international competition. The value of exports of raw tobacco fell slightly because of lower average export prices and stagnant production of Virginia leaf. Inadequate domestic production held up the growth of oilcake exports which fell by Rs. 8 crores. But the exports of spices went up by Rs. 9 crores. Among other traditional commodities, there was a rise in export earnings from coffee, raw cotton and handloom cloth, while manganese ore exports recorded a substantial fall, owing, in part, to lower export prices.

175. Exports of the non-traditional group of commodities expanded by 13·5 per cent during 1969-70. Although exports of engineering goods increased by nearly a third, the rate of growth slackened considerably due mainly to rising internal demand and the scarcity of steel. For the same reason, exports of iron and steel rose only marginally. Exports of iron ore, however, rose significantly because of the rising world output of steel and the consequent growth in the demand for iron ore. The value of exports of fish and allied products increased by nearly forty per cent due to higher output and an expanding world market. Exports of both chemical products and leather goods also recorded a significant rise during 1969-70. There was, however, a slight decline in the exports of gems and jewellery.

Exports 1970-71

176. The same forces which inhibited the growth of exports in 1969-70 continued to operate, sometimes with greater intensity, during the first half of 1970-71. World demand for tea and jute goods weakened further; steel, aluminium and other non-ferrous

metals continued to be in short supply; a raw cotton shortage emerged: the pressure of domestic demand on exportables continued to build up. Furthermore, exports were severely hit by the bargemen's strike at the Calcutta port during June and July 1970. Consequently, export earnings during the first half of 1970-71 fell by about 0·6 per cent as compared to the first half of 1969-70. From October 1970 onwards, however, exports recovered smartly owing to the easing of the abnormal situation prevailing earlier, measures taken to generate adequate export supplies and liberalisation of the requirements of imported raw materials, particularly steel, for export industries. Provisional data on exports for the period April 1969—February 1970 reveal that exports during this period recorded an increase of 8·6 per cent as compared to the corresponding period of 1969-70. On present indications, the growth rate during the entire year 1970-71 is expected to be 8—8·5 per cent, which would exceed the 7 per cent annual growth target set for exports in the Fourth Plan. This highly satisfactory growth of exports during 1970-71 was made possible by a rise in export earnings from a wide range of commodities, traditional as well as non-traditional. Increases in export earnings were especially substantial in the latter half of the year in the case of commodities such as iron ore, engineering goods, oil cakes, tea, sugar and spices.

177. Commodity-wise export statistics are, at this stage, available only upto the end of November 1970. In jute manufactures, the port strike combined with adverse conditions in the world market brought about a sharp decline in export earnings. During April—October 1970, export earnings from jute manufactures were nearly 15 per cent lower than during the same months in 1969. The decline was due mainly to a steep fall in carpet backing exports owing to the slow-down of house construction in the U.S.A. as well as developing competition from synthetics and, to a smaller extent, from Pakistan. Output and exports of jute goods were hit further by the strike of dock labour in November followed by a strike in the jute mills during December.

178. The declining trend in the value and volume of exports of tea was arrested during the year. Exports during April—November 1970 were higher by over 10 per cent than in the same period in 1969, as a result of both of an increase in the quantum of exports and a higher unit price realisation. The regulation of export supplies by producing countries during 1970 thus appears to have had a significant effect in halting the downward trend in prices. With the extension of the agreement to exports in 1971 and the drawing down of stocks in London, tea exports from India are expected to fare considerably better this year.

179. Exports of mill-made cotton textiles, particularly of mill made piece goods, registered a significant increase during April—October 1970 over the corresponding period of the preceding year, but the value of yarn exports fell by about a sixth despite a sharp rise in the export unit value. Exports of handloom fabrics rose only marginally. Among other traditional items, export earnings from vegetable oils, oil cakes, coffee, manganese ore and spices were higher

during the first eight months of 1970-71; however, because of the steep fall in exports of jute manufactures, traditional exports, as a whole, showed only a small increase of 2 per cent. The value of cashew exports declined a little, in spite of a higher export price fetched, largely because of the fall in the volume of exports on account of competition from Brazil and East Africa. The value of oil cake exports was more than forty per cent higher than in April—November 1969, because of both better export prices and a sharp rise in the quantum of exports following higher oilseeds production in 1969-70. In view of a still better groundnut crop in 1970-71, oil cake exports are expected to pick up further. The value of tobacco exports increased only slightly despite an appreciable increase in export prices. Although the volume of pepper exports fell by about 20 per cent, the value of exports recorded a significant increase because of a substantial rise in international prices. Again, due to buoyant export demand, manganese ore exports rose by nearly 22 per cent notwithstanding a shift in the export mix towards cheaper, low manganese content ores.

180. Exports of non-traditional commodities continued to rise at a faster pace; during the first eight months of 1970-71 exports of this group of commodities were about 15 per cent higher than in April—November 1969. Iron ore exports rose by about 40 per cent in April-November 1970 as compared to the same period in 1969; the rate of growth for the whole of 1969-70 was only 7 per cent. Thanks to the rising output of steel all over the world, and especially in Japan, prospects for exports of ore are particularly bright; and the ore may, within the foreseeable future, replace tea as the second most important foreign exchange earner. Exports of iron and steel manufactures showed an increase of about 20 per cent during April-November, 1970, as against an increase of about 4 per cent during the full year 1969-70. There was a marked increase in the exports of many other non-traditional items as well, such as sugar, footwear, ferro-manganese and alloys, mineral fuels and lubricants, chemicals and plastic products, and rubber manufactures. The value of engineering exports rose over the eight-month period by about 19 per cent compared to a rise of roughly 33 per cent in 1969-70. Owing partly to the shortage of metals and partly to rising internal demand, the rate of growth of engineering exports slackened considerably in the case of industrial machinery and metal manufactures; exports of electrical machinery remained stagnant; exports of transport equipment alone recorded a sharp increase in the rate of growth. In order to maintain the growth of exports, steel requirements for export production were met by pre-empting internal supplies or through bulk imports; and, domestically produced aluminium, which is cheaper, was allocated for export production.

181. In the case of each of these non-traditional commodities however, there has been a dramatic improvement in export performance in the latter half of the fiscal year, and the rate of growth in this period is estimated to have substantially exceeded the rate that obtained in the corresponding period of 1969-70.

182. Exports of both marine products and leather goods, which had risen appreciably in 1969-70 were lower during the first eight months

of 1970. Export supplies of marine products are now beginning to be limited by inadequate capacity. The growth of exports in the future, by and large, would depend on the rapidity with which further investment in fishing vessels, particularly deep sea fishing trawlers, materialises.

183. Exports druing 1971-72 are expected to rise as much as in 1970-71. As a result, the average annual increase in exports during the first three years of the Fourth Five Year Plan is likely to maintain the targeted rate of growth. Given an assured supply of steel and other scarce inputs for export production, exports of engineering goods are expected to expand satisfactorily. Significant increases in exports of other non-traditional commodities are also likely to occur. Iron ore exports, in particular, may be considerably higher owing to the continued expansion in world steel output. Traditional commodities are likely to fare better partly as a result of better export demand and partly because of improvement in availability. However, the need to strive for an even faster expansion of exports cannot be over-emphasised; this is the only way in which a healthy payments position can be maintained in the face of rising import requirements and debt service payments.

Trade Policy

184. A number of new policy measures were taken during 1970-71 with the aim of facilitating faster growth of exports and of restraining the rising demand for imports. Besides, in keeping with the major objective of according a progressively increasnig role to State trading in the field of foreign trade, import trade in the case of a number of commodities was taken over by public trading organisations. The Export Policy Resolution, which was laid before Parliament on July 30, 1970, stressed the need for a rapid growth of exports and outlined a number of measures for the achievement of this aim. These include, among others, promotion of investment in the more promising sectors of the economy, identification of products with long-term export potential, facilitating expansion of export-oriented units, special encouragement to exporters of equipment and consumer durables and strengthening the existing financial facilities for exporters.

185. Substantial fiscal relief was extended during 1970-71 to tea and jute manufactures. The export duty on tea was taken off, and the excise duty on internal sales was raised in order to increase the comparative attractiveness of export sales. The export duty on jute canvas, webbings, and tarpaulin cloth was slashed from Rs. 500 to Rs. 200 per tonne. The duty on coir fibre was removed. The scales of compensatory support to specific non-traditional commodities were rationalised while the penalty for poor export performance, in the form of cuts in import licences, was extended to three more industries.

186. A series of policy innovations were introduced to stimulate the creation of industrial capacity destined for export production. These include licensing of additional capacity for industrial units recording good performance in the export field, approvals for imports

of equipment, or for foreign investment for the creation of new capacity for export production, and more favourable consideration of foreign collaboration proposals pertaining to export-oriented manufacturing activity. Industrial firms exporting at least a tenth of their output were accorded access to preferred sources of supply for meeting their requirements of imported inputs. Units in the large-scale sector exporting a quarter or more of their output were enabled to avail of even larger allocations for imports from preferred sources, while those in the small-scale sector were permitted to use free foreign exchange for meeting all their requirements of imported materials. Moreover, export assistance measures were extended to exports effected by Merchandise Houses.

187. Exports, unlike sales in the domestic market, often require a sustained marketing and promotional effort. In order to strengthen marketing and promotional activity, assistance to recognised export houses for promotion and market research was liberalised in 1970-71. Also, a Trade Development Authority was set up to provide a comprehensive range of service, covering marketing, finance and product adaptation, to exporters, particularly those in the small-scale sector.

188. With the aim of encouraging import substitution, imports of a number of commodities were prohibited, or permitted on a restricted basis during 1970-71. Besides, higher duty rates were imposed on machinery, motor vehicle parts, pharmaceuticals and chemicals, non-electrical instruments and appliances, specific types of plastic materials and electric wires, etc.

189. During 1970-71, the role of public trading organisations expanded considerably. Imports of several new commmodities, including, among others, certain industrial raw materials, specific types of drugs, pharmaceuticals and other chemicals and powdered milk were canalised through the S.T.C. and MMTC and other state trading organisation. An Industrial Raw Materials Assistance Centre was set up by the S. T. C. for undertaking sales to actual users or registered exporters of specific industrial raw materials imported in bulk by it. The import of raw cashewnut was taken over by the Cashew Corporation of India, a subsidiary of the S. T. C. Raw cotton imports were canalised through the Cotton Corporation of India. While Hindustan Steel was entrusted with the imports of iron and steel products intended for exporters of engineering goods, raw silk imports were canalised through the Central Silk Board and milk powder imports through the Indian Dairy Corporation. A further extension of the operation of public trading organisations in the field of foreign trade is envisaged, and a number of specialised Corporations are proposed to be established for this purpose. A Jute Corporation is being set up for conducting price support and buffer stock operations for raw jute; the Corporation would also be entrusted with the imports of the fibre. A Projects and Equipments Corporation, which is to be a subsidiary of the S.T.C., will take over the growing responsibility of exports of railway equipment and other engineering goods; it will also undertake the execution of turn-key projects abroad. Another Corporation is to be set up for marketing packaged tea as well as for undertaking promotion and publicity campaigns.

190. The import policy for 1971-72, announced on May 1, 1971 makes further advance on measures announced earlier for promoting the Government's broad economic objectives. The role of the public sector agencies in imports has been further expanded, the accent being on bulk imports of industrial raw materials for sale to manufacturers. Additional facilities have been provided for exporting units, including Export Houses; up to a point, exporters have been permitted to import banned or restricted items with a view to improving the quality and competitiveness of export production. At the same time, for increasing self-reliance, imports of items in respect of which indigenous production has been developed have been further reduced. Small-scale industries have been offered greater liberal facilities for import of raw materials. Technical and professional people as well as hospitals, medical institutions and research bodies have been given extended facilities for import of equipment and other essential goods. Special provision has been made for assistance to closed engineering units. Procedures of licensing have also been streamlined by providing for annual licensing and 'repeat' licensing for certain categories of actual users.

External Assistance

191. The volume of external assistance available continued to decline in 1970-71. Fresh aid commitments, including debt relief and unutilised aid commitments of earlier years, together amounted to Rs. 2,484 crores, Rs. 257 crores less than in 1969-70. New commitments, which had risen to Rs. 831 crores in 1969-70, after declining in the two previous years, amounted to only Rs. 612 crores in 1970-71. The availability of external credit has been affected adversely over the past few years because fresh commitments have lagged behind even the declining levels of utilisation of assistance. Thus, against a utilisation of Rs. 1,196 crores, Rs. 903 crores and Rs. 866 crores in 1967-68, 1968-69 and 1969-70 respectively, commitments in these years amounted to Rs. 795 crores, Rs. 756 crores and Rs. 831 crores respectively.

192. As a result the quantum of unutilised aid has been shrinking steadily. Aid in the pipeline, which at the beginning of 1967-68 amounted to Rs. 2,451 crores was reduced to only Rs. 1,872 crores at the beginning of 1970-71; during 1970-71 it fell further, by Rs. 157 crores, to Rs. 1,715 crores owing to the decline in fresh aid commitments for the year. Project and non-project credit in the pipeline taken together, which stood at Rs. 1,694 crores at the beginning of 1970-71, diminished further during the year to Rs. 1,637 crores, almost entirely as a consequence of the drawing down of non-project credit. Outstanding unutilised non-project credit, which at the beginning of 1970-71 amounted to Rs. 510 crores, fell to Rs. 462 crores by the end of the year, largely because commitments for 1970-71 are expected to amount to only Rs. 342 crores as compared to Rs. 394 crores for the preceding year. The overall availability of PL 480 assistance, which had improved a little during 1969-70 was substantially reduced during 1970-71 as there were no fresh aid agreements. Consequently, the PL 480 pipeline, which amounted to Rs. 149 crores at the beginning of the year, tapered off to Rs. 54 crores by the end

of it. However, a fresh PL 480 agreement between India and the USA for Rs. 112·5 crores was signed on April 1, 1971; the amount covered by the agreement was increased by Rs. 5·6 crores in May, 1971 to accommodate additional supply of soyabean oil.

193. Credit utilisation, like credit availability, continued to decline in 1970-71. Moreover, the decline in aid utilisation was much larger than what had taken place in 1969-70. Disbursements of foreign aid, which had fallen by Rs. 37 crores in 1969-70, dropped by Rs. 97 crores during 1970-71. This fall in aid utilisation was brought about largely by a decline in aid-financed food imports and in the disbursement of non-project credit. The inflow of aid-financed food imports dropped from Rs. 155 crores in 1969-70 to Rs. 99 crores in 1970-71, while the disbursement of non-project credit shrank from Rs. 448 crores to Rs. 390 crores. The utilisation of project credit is estimated to be marginally higher in 1970-71. However, this slight rise has not been able to reverse the declining trend in the utilisation of non-project assistance as its availability is falling. Also, though commitments of project credit have been rising somewhat, the level has not kept pace with the rate of utilisation.

TABLE XV

Inflow of Foreign Assistance : Gross and Net

(Rs. crores)

Items	1967-68	1968-69	1969-70	1970-71 (provisional)
1	2	3	4	5
I. Gross aid disbursement	1196	903	866	769
of which :				
(a) PL 480 food aid*	285	131	136	63
(b) PL 480 Non-food aid*	57	27	33	32
(c) Other food aid	45	55	19	36
II. Gross Aid excluding food aid	866	717	711	670
III. Total debt servicing	333	375	412	435
of which :				
(a) Amortisation payments	211	236	268	283
(b) Interest payments	122	139	144	152
IV. Net aid flow (I—III)	863	528	454	334
V. Net aid flow exclusive of food aid. (II—III)	533	342	299	235

*Include assistance by way of imports under rupee payment terms and under convertible currency credits.

Gross aid disbursements take into account debt relief inclusive of debt rescheduling/postponement, etc. Debt service payments relate to those involving foreign exchange.

194. During recent years, the net inflow of foreign credit has been falling even faster than the utilisation of external assistance; for, along with lower rates of credit utilisation, debt service payments have been steadily increasing. Interest payments on, and amortisation of, external debt, which together amounted to only Rs. 143 crores (in post-devaluation rupees) during 1961-62, had more than doubled by 1967-68. Debt service charges have continued to rise; from Rs. 333 crores in 1967-68, they rose to Rs. 435 crores by 1970-71. Consequently, the net inflow of foreign assistance, which amounted to Rs 863 crores in 1967-68, was reduced to only Rs. 334 crores in 1970-71. No doubt lower levels of external assistance, both gross and net of debt servicing reflect, in part, the reduced dependence on food aid following improvements in agricultural output. Even so, the decline in other types of external credits, net of debt service payments, has also been steep. The net inflow of such credits declined from Rs. 533 crores in 1967-68 to Rs. 235 crores in 1970-71. The actual contribution of external assistance to the financing of development is, thus, steadily going down and is tending to become only a marginal adjunct to the domestic savings effort. During the Second and Third Plan periods, the net inflow of external resources financed about one-fifth of the investment outlays. But, by 1969-70, the share of net external financing in investment had fallen to only 13 per cent; and, during the Fourth Plan period, the net inflow of external resources is estimated to meet only 8 per cent of aggregate investment expenditures in the economy.

195. In the coming years, debt servicing will continue to absorb substantial foreign exchange resources. During 1971-72, debt service charges are estimated to reach the high level of Rs. 458 crores ($610 million); for many years to come, the annual outgo of foreign exchange on account of servicing of debt already incurred will continue to be well over the level of 1970-71, that is Rs. 435 crores ($ 580 million). This substantial burden is largely attributable to the comparatively harder terms, both as regards interest rates and maturity periods, attaching to a considerable part of the foreign debt contracted during the Second Plan and the early years of the Third Plan. Already debt servicing absorbs nearly 30 per cent of India's export earnings. During the entire Fourth Plan period debt serviceing, it is estimated, will claim 27·5 per cent of export proceeds; this proportion may turn out to be even larger in the event of exports falling short of the Plan target. Thus, the need for debt relief and the softening of aid terms cannot be over-emphasised.

196. Recognising the need for debt relief, the Aid-India Consortium had fixed a target of Rs. 225 crores ($ 300 million) for debt re-scheduling or re-financing for the three-year period ending in 1970-71. For 1970-71, Rs. 85·5 crores ($114 million) were pledged as debt relief by the Consortium members, bringing the total debt relief extended since 1968-69 to Rs. 241·5 crores ($322 million). Apart from debt relief granted by the donor countries and institutions, there has also been in recent years some softening of aid terms. Consequently, there has been a slight rise in the average maturity of outstanding debts as well as a marginal fall in the average rate of interest on such debts. PL 480 aid, however, has been an important exception to this trend towards softer terms, as there has been a

progressive increase in the portion of the loans required to be repaid in dollars. In the April, 1971 agreement, the latter forms 80 per cent of the total value of the loan.

197. Most of the foreign credit at present has to be utilised for imports from the particular lending countries. The disadvantages to the recipient country of credit tying by donor countries have been generally recognised and efforts are being made to find ways of untying assistance for development. A step in the direction of untying of aid was recently taken by the U.S.A. which decided to relax partially the country-tying of loans offered by the Agency for International Development; AID loans to developing countries can henceforth be utilised for purchases not only from the USA but also from the specified developing countries. This concession may enable India to meet some of her requirements of industrial materials and inputs from other developing countries as well as to bid for AID-financed export orders from them. However, untying, if it is to bring about a general improvement in the quality of aid, will have to be extended further so as to cover a major portion of external assistance.

198. Ultimately the usefulness of foreign credits is governed as much, if not more, by the forms under which it is extended as by the terms and conditions attaching to it. The extent to which a country may need different types of external assistance is closely related to the nature of the structural changes that have already taken place in its economy as a result of development efforts in the past. During the last twenty years, there has been a steady growth and diversification of industrial capacity in India. This has endowed the economy with a capability to produce a comprehensive range of industrial products, including a wide variety of machinery and equipment. There has, accordingly, been a shift in import requirements towards raw materials, components and spares. Much larger imports of such inputs have now become essential not only for a fuller utilisation of the existing industrial capacity, but also for subjecting the industrial sector to a greater degree of competition. Therefore, external assistance at this stage would be most effective in promoting growth and development if an increasing portion of it were forthcoming in the form of non-project assistance. Although project assistance would still be needed, the composition of foreign aid would be more optimal if the share of non-project lending in it were rising. Yet, fresh non-project lending has been on the decline, while new project credit authorisations, although still at a relatively low level, are slowly rising. There is an urgent need to have a balance between the two.