CHAPTER 7

FOREIGN TRADE AND BALANCE OF PAYMENTS

Movements in Reserves and Balance of Payments

7.1 Balance of payments data currently are not available beyond June 1972. As a result, an accurate dis-aggregated analysis of latest developments in our international payments is not possible at this stage. However, it is possible to draw inferences about the main directions of the balance of payments from such data as movements in foreign exchange reserves, customs trade returns, aid flows and transactions in foreign exchange of authorised dealers.

7.2 Movements in foreign exchange reserves, which are a manifestation of the net outcome of external transactions, showed a decline of Rs. 2 crores in 1972-73. This is not, however, an exact measure of the balance of payments gap, as there was a fortuitous gain of Rs. 31 crores in reserves, on account of re-valuation of foreign assets held in currencies, which had appreciated following the floatation of major currencies. When allowance is made for this gain, the imbalance in external transactions, as measured by net draft on foreign exchange reserves, amounted to Rs. 33 crores in 1972-73. This contrasts with a gain of Rs. 116.4 crores in reserves in 1971-72. In 1971-72, the increase in reserves, to a large extent, reflected the allocation of SDRs worth Rs. 74.7 crores by the I.M.F. and a gain of Rs. 17.9 crores from re-valuation of foreign assets as a result of the appreciation of some of the major currencies.

7.3 It is interesting to note that India's reserves recorded a mild decline in 1972-73 in spite of a substantial surplus of Rs. 164.2 crores in trade balance as revealed by the DGCI&S data. This is partly explained by an adverse movement in disbursements of external assistance, which declined by Rs. 168 crores in that year. In addition, debt service payments by India rose by Rs. 28 crores in that year. Moreover, the surplus in trade balance in 1972-73 was partly accounted for by credit-financed exports to Bangladesh as well as a substantial increase in rupee exports to East European countries, which did not add to foreign exchange earnings. As a result of the operation of these factors, in 1972-73, payments in foreign exchange were somewhat larger than total receipts in foreign exchange, leading to a fall in reserves.

TABLE 7.1

India's Foreign Exchange Reserves

(Rs. crores)

End of Year/Month	Gold* & Foreign Exchange	SDRs*	Total reserves	Variations in reserves	Accruals of fresh SDRs	Variations in reserves excluding fresh accruals of SDRs (5—6)	Net Drawings from (+)/repayments (—) to IMF	Variation in reserves of gross transactions with IMF (7—8)
1	2	3	4	5	6	7	8	9
1967-68	538.6	—	538.6	60.2	—	60.2	24.4	35.8
1968-69	576.7	—	576.7	38.1	—	38.1	—58.5	96.6
1969-70	728.9	92.0	820.9	244.2	94.5	149.7	—125.4	275.1
1970-71	620.6	111.7	732.3	—88.6	75.4	—164.0	—176.3**	12.3
1971-72	662.9	185.8	848.7	116.4	74.7	41.7	—	41.7
1972-73	661.7	184.9	846.6	—2.1	—	—2.1	—	—2.1
Jan. 1974 . . .	592.6	183.9	776.5	—70.1	—	—70.1	—	—70.1

*Between 20th December 1971 and June 1972 the rupee equivalent of foreign currencies, other than the Canadian dollar, was derived from central rates. Canadian dollars were valued at the monthly average of spot buying and selling rates in New York. From July 1972 onwards sterling has been valued at the average of the spot buying and selling rates of the Reserve Bank of India; other foreign currency balances, including holdings of Canadian dollars, have been converted into rupees on the basis of cross rates based on monthly averages of spot buying and selling rates in London. Gold and SDRs, however, have been valued throughout at their pre-December 1971 rupee prices.

**Includes outlay for purchase of gold abroad for gold quota payments to the IMF

7.4 On the basis of some indirect evidence, it appears that the fall in reserves in 1972-73 might have been greater but for the improvement in the invisible account due to reduction in leakages of foreign exchange. The increase in international price of gold in the wake of continued uncertainty in the foreign exchange markets narrowed the margin between the domestic and international price of gold, resulting in a reduction in the demand for foreign exchange for financing illegal activities of gold smugglers.

7.5 Judging by the movement in reserves, India's international payments in 1973-74 suffered a considerable deterioration, despite continued good performance of exports. Foreign exchange reserves, which had shown an increase of Rs. 62 crores in the first 4 months, declined in the subsequent period so that over the first 10 months of the current year there was a draft on reserves of Rs. 70 crores. There are indications that the pressure on balance of payments arose from a substantial increase in payments for imports which were financed from India's foreign exchange resources. India had to import, in the wake of a shortfall in domestic production, substantial quantities of food-grains in 1973-74 which may cost over Rs. 350 crores. Similarly, foreign exchange outlay on imports of crude oil would go up drastically as a result of the recent price rise. It is likely that India may have to spend in the current year over Rs. 500 crores on imports of crude oil and oil products from abroad. There has also been a rise in international prices of some of the other important items of India's imports such as fertilizers, non-ferrous metals, steel etc. The loss of reserves during the current year would indicate that the increase in import payments in free foreign exchange could not have been met by a corresponding increase in either export earnings or from inflow of aid, despite the fact that receipts under the latter two heads may have shown some increase in the current year.

Balance of Trade

7.6 Although balance of payments data are not available after June 1972, customs data are available for exports and imports during 1972-73 as well as for the first eight months of 1973-74. According to DGCI&S data, the balance of trade position improved from a deficit of Rs. 216.3 crores in 1971-72 to a surplus of Rs. 164.16 crores in 1972-73, which represents a net improvement of Rs. 380.47 crores. A substantial part of the improvement in trade position was, however, due to credit financed and, in the long run, non-sustainable exports to Bangladesh. During the first eight months of 1973-74, for which customs data are available, the balance of trade showed a deficit of Rs. 70.99 crores as against a surplus of Rs. 156.07 crores during the corresponding period in the previous year. During this period while exports registered an increase of 20.8 per cent, imports went up by 45.0 per cent, due mainly to increase in food imports and higher international prices of our major imports.

Imports

7.7 Aggregate imports during 1972-73 amounted to Rs. 1796.7 crores as against Rs. 1824.5 crores in 1971-72, thereby recording a fall of Rs. 27.8 crores or 1.5 per cent. A major reason for the decline was the reduction in imports of foodgrains which fell by Rs. 50.4 crores or 38.4 per cent. Other commodities, the imports of which declined substantially during 1972-73 were raw cotton, animal and vegetable oils and fats, newsprint and iron and steel. On the other hand, there was an increase in imports of petroleum products, non-metallic mineral manufactures, chemicals, fertilizers and fertilizer materials and machinery and transport equipment. The variations in import value of other commodities as compared to the position in 1971-72 was relatively small.

7.8 The imports of major commodity groups since 1970-71 are shown in the table below:

TABLE 7.2

Commodity Composition of India's Imports

(Rs. crores)

	1970-71	1971-72	1972-73	April to July 1973-74	April to July 1972-73	Percentage change during Apr.-July 1973 over Apr.-July 1972
1. Food	213.0	131.2	80.8	77.3	10.3	650.5
2. Raw cotton	98.8	113.4	90.9	25.4	41.0	38.0
3. Raw jute	0.1	—	1.1	7.4	—	—
4. Animal & vegetable oils and fats	38.5	46.5	24.8	9.8	7.0	40.0
5. Fertilizer & fertilizer materials	99.9	111.3	139.2	40.7	25.8	57.8
6. Petroleum & petroleum products	135.9	194.1	204.0	93.9	62.8	49.5
7. Metals	266.4	340.0	318.7	104.6	109.9	—4.8
8. Machinery & transport equipment	394.7	470.6	496.1	193.2	157.5	22.7
9. Others	386.9	417.4	441.1	155.3	136.8	13.5
Total Imports	1,634.2	1,824.5	1,796.7	707.6	551.1	28.4

Source: DGCI&S.

7.9 Because of a comfortable foodgrains situation, arising on account of a bumper crop in 1970-71 and sizable stocks held by the public sector agencies, imports of foodgrains were stopped in the first half of 1972-73. However, following the failure of monsoons in 1972-73, which affected the kharif production, imports were resumed in the second half of the year. Against 1.7 million tonnes of import orders placed during December, 1972 to March, 1973, the actual imports during 1972-73 were 0.8 million tonnes valued at Rs. 81 crores compared to 2.1 million tonnes valued at Rs. 131 crores in 1971-72. The imports of fruits and vegetables increased by 41 per cent in 1972-73, due mainly to higher imports of cashewnuts required to meet the increased demand for export of processed cashewnuts and liberalisation of import policy.

7.10 Imports of raw cotton declined from 1.6 lakh tonnes in 1971-72 to 1.1 lakh tonnes in 1972-73; the carry over of stocks from the previous year and the rise in international prices seem to have had a restraining effect upon imports. Imports of raw wool declined from 17 million kgs. in 1971-72 to 10 million kgs. in 1972-73.

7.11 There was a small decline in imports of crude oil, but imports of petroleum products increased from Rs. 47 crores in 1971-72 to Rs. 59 crores in 1972-73. The import bill for mineral fuels and lubricants would have been higher but for the liquidation of stocks built up earlier.

7.12 Imports of animal and vegetable oils and fats declined by about Rs. 22 crores in 1972-73 as compared to 1971-72. Although output of major oilseeds, particularly of groundnuts, declined in 1972-73, the shortfall could not be made good by imports in 1972-73, as orders placed abroad partly spilled over to imports in 1973-74.

7.13 Imports of organic chemicals increased by Rs. 22.7 crores in 1972-73 but there was a decline in imports of inorganic chemicals by Rs. 5.7 crores. In regard to fertilizers, the tight international supply position, which started developing in the beginning of 1972, created difficulties in importing adequate quantities of fertilizers even at the higher prices. Nevertheless, imports of finished fertilizers increased from 9.97 lakh tonnes valued at Rs. 89.97 crores in 1971-72 to 11.94 lakh tonnes valued at Rs. 121.26 crores in 1972-73.

7.14 There was a decline in imports of paper-board by Rs. 4.2 crores (12 per cent) and of newsprint by Rs. 7.1 crores (26 per cent). Imports of steel declined by about 0.1 million tonnes or Rs. 20.5 crores in 1972-73 as compared to 1971-72. The value of imports of non-ferrous metals during 1972-73 was constant at a level of about Rs. 102 crores reached in 1971-72. The appreciable reduction in imports of aluminium was offset by increased imports of other non-ferrous metals.

7.15 The value of imports of machinery went up in 1972-73 to sustain the increased tempo of development. Imports in the case of electrical machinery recorded a sharp increase (18 per cent). The import value of non-electrical machinery increased by 5 per cent but there was a decline in the import of transport equipment by 8 per cent.

7.16 Prices of our imports rose substantially in 1972-73. Barring a few commodities, the unit value of a majority of our imports recorded a significant increase. For example, the percentage increase in unit value of imports was 50 per cent in the case of cereals and cereal preparations, 27 per cent in the case of raw wool, 13 per cent in the case of raw cotton, 12.5 per cent in the case of fertilizers and 23 per cent in the case of tubes, pipes and fittings of iron and steel. There was also a substantial increase in international prices of edible oils, and non-ferrous metals in the second half of 1972-73.

7.17 According to the DGCI&S data, available for the first eight months of 1973-74, imports recorded an increase of 45.0 per cent during this period over the corresponding period of the previous year. This increase was largely due to a step up in imports of foodgrains as well as a sharp rise in international prices of our principal imports. Commodity-wise details of imports are available only for the first four months, April to July, 1973. These show that except a few items like raw cotton, raw cashewnuts, pulp and waste paper and iron and steel, the value of imports of the remaining commodities increased during this period. Imports of foodgrains, petroleum, fertilizers, chemical elements and compounds, paper, oils and fats, non-metallic mineral manufactures, non-ferrous metals, raw jute and machinery went up substantially.

7.18 The rise in prices of imports witnessed in 1972-73 was accentuated in 1973-74. International prices of different varieties of prime steel recorded an increase of 60 to 120 per cent, between January and end November, 1973. During the same period, prices of copper increased by 104 per cent, zinc by 351 per cent, lead by 50 per cent, tin by 45 per cent, edible oils by 90 to 120 per cent, raw cotton by 80 to 100 per cent, pulp by 25 per cent and wheat by 120 per cent. On average, prices obtaining in international markets between April to November, 1973 were higher as compared to (average) prices in 1972-73 by 60 to 90 per cent in the case of sulphur, 40 to 70 per cent for rock phosphate, 100 to 200 per cent for chemicals and 30 to 45 per cent for newsprint. On top of these price increases, crude oil prices recorded an abrupt and steep increase in the later part of the year. Shipping freight rates on imports also went up. As a result, despite satisfactory export performance, there was a considerable erosion of our import capacity in volume terms.

7.19 With stagnation in domestic production of steel and fertilizers and increase in international prices, the value of imports is likely to show a substantial growth in the second half of 1973-74. The value of imports of petroleum and petroleum products is likely to increase by more than 100 per cent this year. Import licensing in April to October, 1973 was higher by 29 per cent as compared to the corresponding period in the previous year and this will be reflected, at least partly, in higher imports in the second half of the year. Against 4 million tonnes of foodgrains purchased from USA, Argentina and Canada from December, 1972 to September, 1973, only about 2 million tonnes had actually been imported till the end of September, 1973. The import of the remaining 2 million tonnes during the rest of the year is likely to inflate our import bill still further during 1973-74.

7.20 An interesting point about the behaviour of imports in the last few years is that there does not seem to be any obvious link between the level of economic activity in different sectors of the economy in a particular year and the level of imports. Thus, as mentioned elsewhere in the Survey, although the output of foodgrains declined in both 1971-72 and 1972-73, the total imports of food in both these years were lower than in 1970-71. Similarly, total non-food imports increased by about 19 per cent in 1971-72 although the growth in industrial production was only a little more than 3 per cent in that year and the level of public investment was no higher than in the previous year. As against this, non-food imports in 1972-73 were almost at the same level as in the previous year despite the fact that industrial production grew by over 5 per cent, and public sector outlay on investment is also believed to have accelerated significantly.

7.21 The lack of any precise correlation between imports and the level of economic activity in any particular year is not surprising in an economy with an extremely low import coefficient. Normally one would expect a closer relationship between the pace of industrial activity and non-food imports. However, since industries based on domestic agricultural raw materials account for a substantial share of industrial output in India, the relationship between the level of industrial activity and the behaviour of non-food imports gets blurred. In any case, since foreign exchange in our economy is a highly scarce input, the increased demand for imports leads to an actual increase in imports only if the required imports (or the industries in whose production these imports enter as vital inputs) are high on the list of national priorities. Even otherwise, in a regime of tight import controls, there are inevitable time lags of varying length between an identification of the need for import, the licensing of imports and the actual arrival of imports. International market conditions with respect to price and availability of a particular commodity, as also the amount and the nature of external assistance, also influence the volume and composition of imports during any particular year.

Import Licensing

7.22 The following table shows the trend of issue of import licences to principal categories of importers since 1969-70.

TABLE 7.3

Trend in Import Licensing

(Rs. crores)

	1969-70	1970-71	1971-72	1972-73	April to October 1972-73	April to October 1973-74
1. Established importers	43.8	41.8	40.8	55.3	33.1	14.3
2. Actual users	301.2	311.9	368.3	376.0	180.3	199.4
3. DGTD units	274.8	385.0	252.7	171.2	90.6	85.4
4. Small scale industries	65.6	83.3	118.0	86.4	37.5	29.6
5. Registered exporters	85.9	94.7	93.4	136.0	71.0	77.3
6. Capital goods/heavy electrical plant	73.2	127.1	252.2	268.0	133.6	148.3
7. Customs clearance permits	43.6	32.9	32.0	58.1	38.1	35.5
8. State trading agencies	242.8	444.6	587.6	620.9	296.2	549.8
9. Others	72.9	112.7	108.7	83.8	54.9	62.4
Total	1203.7	1633.9	1853.7	1855.7	935.3	1202.0

7.23 There was a steep increase of about Rs. 430 crores in the value of import licences in 1970-71, as restrictions on imports were relaxed. The higher tempo of issuance of import licences was continued in 1971-72 when import licences issued to actual users, small scale industries, capital goods and heavy electrical plants and state trading agencies recorded a big increase.

7.24 The overall level of import licensing in 1972-73 was almost at the same level as in 1971-72 but significant changes took place in import licensing for various categories. The import licensing for registered exporters showed the maximum increase of 46 per cent due to the higher value of import replenishment licences issued as a result of increase in exports. Licensing for imports of capital goods/heavy electrical plant also showed an increase of about 6 per cent. There was, however, a fall in the value of import licences issued to small scale industries as part of their import requirements were to be met out of release orders issued for canalised imports.

7.25 The value of import licences issued during the first 7 months of 1973-74 recorded an increase of Rs. 267 crores over the corresponding period of the previous year. There was a spurt in licences issued to state trading agencies which showed an increase of 86 per cent during this period. There was also an increase in licences issued to actual users, registered exporters and for capital goods/heavy electrical plant. There was, however, a steep fall in licences issued to established importers as a result of reduction in quotas for a number of items. Licences issued to small scale industries also showed a small decline during this period. The decline of 6 per cent in licences issued to DGTD units during this period was due to progressive canalisation of imports through state trading agencies. As mentioned earlier, despite considerable liberalisation in import policy for small scale industries, total import licensing for the small scale industries declined in 1972-73 as well as in the first seven months of 1973-74. This was mainly due to the fact that an increasing proportion of the requirements of these industries was to be met by way of release orders consequent on increasing emphasis on canalisation of imports through public sector trading agencies. Among the small scale industries, the import licensing for priority industries has shown an increasing trend since 1971-72.

Exports

7.26 1972-73 was an extremely good year for our exports. According to the DGCI&S data, India's exports reached a record level of Rs. 1960.89 crores in 1972-73, showing an increase of 21.9 per cent over the preceding year. This compares with an annual compound rate of growth of about 5.8 per cent in the first three years of the Fourth Plan ending in 1971-72. If exports to Bangladesh are excluded for 1971-72 and 1972-73, export growth in 1972-73, still works out to 15.2 per cent. This represents the highest rate of growth of exports achieved in a single year since the end of the Korean war.

7.27 Exports during 1972-73 benefited from international commodity boom in respect of a number of our export commodities as well as the depreciation of Indian rupee in relation to the currencies of Japan, West Germany, France and other West European countries (except the U.K., since there was no change in the rupee's central rate designated in terms of pound sterling). Although price factors played an important part in boosting the value of exports during the year, the volume of exports also registered a high rate of growth (11.3 per cent). With a few exceptions, growth in exports was shared by both traditional and non-traditional export commodities.

7.28 The most significant gains in exports were recorded by the following items : leather and leather manufactures, oilcakes and vegetable oils, and handicrafts. These together accounted for almost half of the total increase in exports during the year. The increase in exports of leather goods was speciallv phenomenal; these exports were almost twice as high as in 1971-72. Other items which showed a substantial growth were mineral fuels and lubricants, unmanufactured tobacco, cotton textiles, engineering goods, fish and fish preparations, coffee and cashew kernels. A substantial part of the increase in exports of tobacco cotton textiles and engineering goods was attributable to increased exports to Bangladesh. Commodities which showed a decline in exports in 1972-73 over the level reached in 1971-72 are jute and jute manufactures, tea, rubber manufactures, iron and steel, manganese ore, sugar and spices.

TABLE 7.4

Exports : Major Commodities

(Value in Rs. crores)

	1971-72	1972-73	Percentage variation between 1971-72 and 1972-73	April—August 1972-73	April—August 1973-74	Percentage variation between Apr.—Aug. 1972 & Apr.—Aug. 1973
	(1)	(2)	(3)	(4)	(5)	(6)
1. Oilcakes	40.2	74.8	86.1	24.4	67.7	177.5
2. Tobacco	45.1	63.9	41.7	40.0	44.8	12.0
3. Fish & fish preparations	42.0	54.5	29.8	23.5	34.1	45.1
4. Tea	156.3	147.3	—5.8	57.5	46.5	—19.1
5. Coffee	22.1	32.9	48.9	13.4	20.8	55.2
6. Cashew kernels	61.3	68.8	12.2	33.7	38.5	14.2
7. Iron ore	104.7	109.8	4.9	33.9	45.9	35.4
8. Cotton textiles	106.5	153.6	44.2	51.4	65.2	26.8
9. Jute manufactures	265.3	250.0	—5.8	114.8	102.0	—11.1
10. Leather, leather manufactures (excluding footwear)	90.8	174.5	92.2	59.5	83.4	40.2
11. Engineering goods	122.3	138.7	13.4	52.2	55.8	6.9
12. Handicrafts	81.7	119.7	46.5	45.0	47.5	5.6
13. Others	469.9	572.5	21.8	207.8	212.5	2.3
Total Exports	1608.2	1960.9	21.9	757.1	851.7	12.5

Source : DGCI&S

7.29 It may be recalled that exports of jute manufactures had enjoyed exceptionally buoyant demand conditions in 1971-72 partly because of disruption of supplies to the world markets from Bangladesh and partly because of low level of stocks with overseas consumers, particularly carpet manufacturers, in the U.S.A. Export prices were also high, and as a result India's exports of jute manufactures had increased from Rs. 190 crores in 1970-71 to Rs. 265 crores in 1971-72. In 1972-73, however, exports amounted to only Rs. 250 crores. The decline in exports in 1972-73 was a result of several factors, e.g., re-emergence of Bangladesh jute industry as a significant supplier to world markets as well as increasing price competition from synthetics during the year. Even then export performance in respect of jute goods in 1972-73 was much better than in years previous to 1971-72 (exports amounted to Rs. 207 crores in 1969-70 and Rs. 190 crores in 1970-71). The behaviour of exports of tea in 1972-73, however, was much more unsatisfactory. Exports of tea were only Rs. 147 crores as compared to Rs. 156 crores in 1971-72. At this level, tea exports show a fairly stagnant trend since 1966-67. Exports of Indian tea continued to suffer from stiffer competition from East Africa in the U.K. market. Tea has also not derived any benefit from the international commodity boom and unit value for tea in 1972-73 was about the same as in 1971-72 and appreciably lower than in 1967-68 and 1968-69.

7.30 Among traditional exports, the most encouraging performance was in respect of cotton textiles. Exports of cotton textiles increased from Rs. 106.5 crores in 1971-72 to Rs. 153.6 crores in 1972-73, or by 44 per cent. This was a welcome reversal of the trend witnessed in the previous three years when exports of cotton textiles had remained stagnant around Rs. 100 crores. This substantial expansion in exports of cotton textiles was attributable to a comfortable supply position of raw cotton as well as strong demand conditions abroad. Export prices were also high during the year. Among cotton textiles, growth in exports of cotton apparel, which is an item with relatively high value-added, was specially welcome. These reached a comparatively high level of Rs. 30 crores as compared to Rs. 14 crores in 1971-72 and only Rs. 8.6 crores in 1970-71.

7.31 Among other traditional exports, exports of oilcakes reached a new high of Rs. 75 crores in 1972-73. These exports benefited from the tight supply position in the international markets as well as higher demand from Poland, Japan and the USSR. In fact, exports of oilcakes would have been much higher but for domestic shortages consequent on a decline in production of oilseeds in 1971-72 and 1972-73. The bulk of increase in the exports of unmanufactured tobacco was due to larger offtake by the USSR and Bangladesh. Demand for cashew kernels, coffee and handicrafts was also strong in world markets. However, it may be mentioned that increased exports of cashew nuts are largely dependent on imports of raw materials as internal production of these is inadequate. The same applies to exports of gems and jewellery where the net gain in foreign exchange from exports essentially represents domestic value added in processing imported rough diamonds and stones. Export performance in these items is to a considerable extent dependent on the availability of raw materials at suitable prices in the world markets.

7.32 Among non-traditional products, exports of engineering goods, after a disappointing performance in 1971-72, increased by 13 per cent in 1972-73 (from Rs. 122 crores in 1971-72 to Rs. 139 crores). The increase was largely on account of exports to Bangladesh; export performance of engineering goods in other markets continued to be sluggish for second year in succession. Industry attributes rather unsatisfactory performance of exports of engineering goods in recent years to a continuing shortage of steel, combined with high domestic prices and widespread power shortages which had an adverse effect on domestic production of engineering goods. However, since exports of engineering goods (for most firms as well as for the industry as a whole) account for only a small part of production, the slackening of exports in recent years is, to a substantial degree, the result of improved sales and profit prospects in the domestic market.

7.33 Exports of iron ore which had declined slightly in 1971-72 showed some recovery in 1972-73. Export performance of marine products was particularly encouraging; the value of exports reached Rs. 55 crores in 1972-73 as compared to Rs. 42 crores in 1971-72 and Rs. 31 crores in 1970-71. Average export prices were also high, leading to a significant increase in unit values for the second year in succession.

7.34 All categories of leather and leather manufactures showed a sharp increase in exports during the year. In view of large export orders, however, the leather industry in the country faced difficulties regarding the supply of raw materials. With a view to regulating the supply of raw materials, exports of semi-processed hides and skins were canalised through STC in December 1972 and quantitative restrictions were imposed on exports of semi-processed hides and skins. Contrary to the experience of previous years, in 1972-73, a substantial part of growth in exports of leather goods was accounted for by chrome tanned and finished leather manufactures.

7.35 During the first eight months of 1973-74, export earnings at Rs. 1488 crores represent an increase of 21 per cent over the value of exports during the corresponding period of 1972-73. However, the figures for 1973-74 and 1972-73 are not comparable because some exports to Bangladesh, particularly those of foodgrains, which took place in earlier part of 1972-73 were recorded in export statistics only towards the end of the year. If suitable adjustments are made for this factor, the rate of growth in exports during the first eight months of 1973-74 may be lower. Nevertheless, there is no doubt that the export performance in first eight months of 1973-74 remained quite satisfactory.

7.36 Commoditywise details of exports, are available only for the period April-August 1973. These show, with a few exceptions, a continuation of the rising trend in export earnings witnessed during 1972-73. Exports of oilcakes, vegetable oils, marine products, leather and leather manufactures and cotton textiles continued to grow at a high rate. Exports of jute goods and tea recorded a sharp fall during this period. Exports of iron ore and coffee during the period, however, increased at a much faster rate than in the corresponding period of last year, while exports of handicrafts increased at a much lower rate. Exports of engineering goods, after picking up in 1972-73, showed a smaller increase during this period. This probably reflected the worsening situation with regard to power availability and shortage of steel.

7.37 As mentioned earlier, in 1972-73, an important reason for the appreciable increase in value of India's exports was the world commodity boom. Barring a few items like tobacco, mica, cotton yarn, ferro-manganese and pepper, all the other export commodities benefited from an increase in the unit value of exports. Major items accounting for more than 20 per cent increase in unit values were fish and fish preparations, raw wool, lac, cardamom, sugar, oilcakes, vegetable oils, iron and steel scrap, E.I. tanned hides and skins and fabrics of art silk. The boom in prices seems to have continued during the year 1973-74, and there was an appreciable increase in the unit value of exports of vegetable oils and oilcakes, unmanufactured tobacco, lac, raw wool, coffee, iron and steel scrap, cotton textiles, iron ore, cashew nuts, marine products and ferro-manganese, during the first five months of 1973-74.

7.38 It should be mentioned that value of exports, expressed in terms of rupees, tends to overstate our earnings in foreign exchange during a period when a number of major currencies, which have been floating, have appreciated in relation to the rupee. In the last eighteen months, exchange rate changes among the world's major currencies have been both frequent and quantitatively very significant. If adjustments are made for exchange rate fluctuations, weighted by proportions of our trade with different countries, the rate of growth of exports is likely to be lower than the nominal growth rate registered during this period.

7.39 In view of these factors as well as a number of uncertainties that now prevail in the international trade and monetary field as a result of the oil situation, it would be a mistake to view the export performance of 1972-73 and the first eight months of 1973-74 as a permanent change in our export prospects. While the behaviour of exports since 1972-73 has been highly satisfactory, there is no room for complacency on this score.

Trade Policy Developments

7.40 The role of state trading agencies in foreign trade was further enlarged during 1973-74, and import substitution was encouraged through restriction on imports of those commodities whose domestic production had increased. The basic policy of export promotion through provision of export assistance and incentives was continued with suitable modifications in export duties, provision of compensatory cash support and import replenishments.

7.41 Twenty additional items were added to the list of items canalised through public sector agencies in 1973-74 as against a similar addition of 70 items in 1972-73. The number of canalised import commodities thus increased to over 200 items. Canalisation of imports can be an important means of reducing import costs by securing economies of bulk buying and bulk shipment.

7.42 According to the import policy for 1973-74, the Industrial Raw Materials Assistance Centre (IRMAC), set up by the State Trading Corporation, further expanded its activities for supply of 'off-the-shelf' raw materials. The 'steel bank' set up by the HSL is similarly going to organise bulk imports of about a million tonne of steel to enable the actual and priority users to obtain supplies ex-stock against their valid import licences. DGTD units were allowed to apply for issue of advance release orders for canalised items for values not exceeding 25 per cent of their annual requirements.

7.43 Priority treatment by greater allocation of imported inputs was extended to 11 more industries in 1973-74, bringing their total number to 70. Import of machinery is now allowed on a more liberal basis against replenishment licences. About 14 new items were included for need-based replenishment of imported raw materials of priority industries and exporters. These include certain varieties of bar steel and aluminium, electronic components and goods, machinery, chemicals, floor coverings, natural silk and nylon fabrics. The licensing of import requirements of small scale industries was further liberalised particularly for priority industries, new units and for units in backward areas. The scheme for the grant of facilities to eligible Export Houses was also enlarged to enable small scale industries to strengthen their export effort.

7.44 During 1973-74, a number of items (about 220) for which indigenous production had developed were taken off the permissible list and import of 55 items was restricted. These include certain types of machinery and components, dyes, drugs and chemicals. Quotas for established importers were further reduced in respect of 26 items. Import of spare parts was, however, liberalised.

7.45 The scheme of compulsory export obligation was extended to large scale units in six more industries, namely, radio receivers, cosmetics, toileteries, playing cards, spectacle frames and vacuum flasks. Supplies of indigenous materials at international prices to exporters will be treated as exports for the purpose of benefits under the import policy. Additional compensatory financing from the Market Development Fund has been allowed since the beginning of the current year to some of the engineering and other exporters who increase their exports over the 1972-73 level. Rates of compensatory cash assistance on exports were adjusted for some items. Liberalisation of imports was also effected in the case of manufacturer—exporters, including those engaged in small scale industries who increase their exports.

7.46 To encourage remittance from abroad, a scheme affording special facilities for import of machinery and raw materials upto Rs. 5 lakhs to persons of Indian origin returning or residing abroad was introduced in 1972-73. A special feature of the import policy for 1973-74 was to enlarge the limit of licences eligible under the scheme to Rs. 25 lakhs in the case of technology intensive industries, subject to certain conditions. Till the middle of Jan., 1974, licences worth Rs. 4.9 crores were sanctioned under the scheme.

7.47 With a view to encouraging export of jute goods, the export duty on carpet backing was reduced from Rs. 700 to Rs. 200 per tonne for carpet backing weighing 7½ ozs. or more per sq. yard and Rs. 300 for carpet backing weighing less than 7½ ozs. per sq. yard in June 1973. In August, 1973 the export duty on hessian was reduced from Rs. 600 per tonne to Rs. 200 per tonne. Simultaneously, the export duty of Rs. 150 per tonne on sacking (cloth and bags) which was in existence since March, 1969, was abolished. On the other hand, export duties were levied on mica splittings of certain types (20 per cent), tanned hides of bovine animals (10 per cent) and black iron ore (Rs. 7 per tonne). The export duty on hides, skins and leather, tanned and untanned, of all sorts, but excluding snake skins and manufactures of leather, was raised from 10 to 20 per cent in January, 1974.

7.48 In order to encourage import substitution, regulatory rates of import duty were imposed in December, 1971 in the wake of war with Pakistan. These duties were modified in 1972-73 so that most articles were liable to pay a regulatory duty of 5 or 10 per cent depending on the rate of basic duty. These regulatory duties were substituted by auxiliary duties at 5 to 20 per cent with effect from 1st March 1973. There were also certain selective upward revisions of existing duties on machinery and allied items, raw cotton, copper and stainless steel sheets, nylon yarn used in the manufacture of tyres and cinematographic films.

7.49 Since December, 1968, the Industrial Development Bank of India (IDBI) has been operating a scheme of credit to suppliers who export engineering goods and services on deferred payment terms. There was a steep fall in the export credits sanctioned by IDBI in 1972-73 due to fall in demand for such credits by Indian exporters in view of exchange risks during a period of floating rates. A new scheme of buyers' credit for large value exports of engineering goods, was started in December, 1973 to grant credits directly to foreign buyers in connection with the export to them of capital goods from India.

External Assistance

7.50 In recent years, there has been a considerable reduction in India's dependence on external assistance. In 1971-72, net aid financed only about 20 per cent of India's imports as compared to over 40 per cent in 1967-68. In 1972-73 the proportion of imports financed by net aid was even smaller at 9 per cent. The proportion of investment financed by net aid, which had increased from 19 per cent during the Second Plan to 27 per cent in 1967-68, declined substantially during the Fourth Plan, when it is estimated to be no higher than 8 per cent.

7.51 The gross inflow of aid utilised by India fell from Rs. 1196 crores in 1967-68 to Rs. 666 crores in 1972-73. It is estimated that the utilisation of external assistance may increase to Rs. 787 crores in 1973-74, but even at this level, it would be Rs. 409 crores less than the aid disbursements six years ago. The decline in concessional imports of food is a major factor which has contributed to the fall in aid disbursements, there being virtually no such imports in the last two years as against imports of Rs. 330 crores in 1967-68.

7.52 Disbursements of aid, however, do not indicate the net transfer of resources to India, since India has to pay substantial amounts to the donor countries and institutions towards debt servicing in the form of repayments of principal and interest payments. Taking account of such reverse flows, the net transfer of resources received by India showed a substantial decline in recent years, having fallen from Rs. 863 crores in 1967-68 to about Rs. 159 crores in 1972-73. It is estimated that in 1973-74 the net transfer may increase to Rs. 275 crores.

TABLE 7.5

Inflow of External Assistance : Gross and Net

(Rs. crores)

Items	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74 (Estimates)
I. Gross disbursements	1196	903	856	791	834	666	787
of which :							
(a) PL 480 food*	285	131	128	57			
(b) PL 480 non-food*	57	27	41	32	112	4	—
(c) Other food assistance	45	55	19	36	32	—	—
II. Total debt servicing	333	375	412	450	479	507	512
of which :							
(a) Amortisation payments	211	236	268	290	299	327	332
(b) Interest payments	122	139	144	160	180	180	180
III. Net flow of assistance (I-II)	863	528	444	341	355	159	275

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

NOTE : Gross aid disbursements take into account debt relief inclusive of debt rescheduling/postponements etc. Debt service payments relate to those involving foreign exchange and through export of goods.

7.53 The debt burden which has been mounting rapidly in the recent past poses a serious problem in the management of external resources of the country. Debt service payments, consisting of amortization and interest payments, amounted to Rs. 142 crores in 1961-62 and rose steadily in the next decade and reached a level of Rs. 479 crores in 1971-72 and Rs. 507 crores in 1972-73. It is estimated that these payments would further rise to Rs. 512 crores in 1973-74. A fast increase in debt service payments has had the direct effect of diminishing the net availability of external resources for financing development. These payments, which formed about 28 per cent of all aid received by India in 1967-68 constituted more than three fourth of gross aid disbursement in 1972-73, so that in effect the net transfer of resources to India was slightly less than one-quarter of gross aid inflow in 1972-73.

7.54 Debt service payments directly impinge on the freely usable resources of foreign exchange available to India for financing imports of those commodities which are not normally financed by aid. Debt service payments which have to be made in free foreign exchange, also create an additional burden in that the purchasing power of resources thus transferred to the developed countries is higher than that of resources made available by these countries which are normally tied and can be used only for procurement of goods in the donor countries. The debt service problem has recently received the attention of the donor countries and multilateral institutions and it has been recognised that a measure of debt relief should be extended to India so as not to impair unduly her external resource position. India accordingly received debt relief of the order of U.S. $ 100 million a year for four years from 1968-69 to 1971-72. The debt relief received by India increased to $ 148 million in 1972-73. The estimate for 1973-74 is $ 170 million.

7.55 The Aid India Consortium, which met in June 1973, considered that it would be desirable to extend to India non project assistance (including debt relief) of about U.S. $700 million and project assistance of about U.S. $500 million for 1973-74. During the first nine months of 1973-74, fresh aid authorisations have amounted to U.S. $ 990 million as against U.S. $ 638 million during the corresponding period last year. In addition, a wheat loan of 2 million tonnes was extended by USSR in 1973-74. The loan is repayable through exports of wheat in subsequent years.

7.56 The increase in authorisations of external assistance in the current year is substantially due to larger assistance from IDA and Czechoslovakia. Authorisations by the Federal Republic of Germany, Canada and Italy have also been higher. As compared to authorisations, the total disbursements of assistance in 1973-74 are likely to show a relatively smaller increase. The pipeline assistance at the end of 1973-74 may therefore be higher than at the end of 1972-73.

External Environment and Export Prospects

7.57 From the point of view of balance of payments, perhaps the most important development of the year was the steep rise in the price of crude oil. Because of price escalation, total imports of oil as a percentage of India's exports are likely to increase from nearly 10 per cent in 1972-73 to about 20 per cent in 1973-74, and may increase to above 40 per cent in 1974-75 even after the most severe economies in oil imports are effected. These figures, however, do not provide the full measure of the balance of payments impact of the increase in cost of importing oil within a short period of one year. If India's bilateral trade, which does not result in free foreign exchange earnings, is excluded, the relevant figures for oil imports as a percentage of free foreign exchange earnings are likely to rise from 14 per cent in 1972-73 to 25 per cent in 1973-74, and might exceed 50 per cent in 1974-75.

7.58 The fact that we have to pay a great deal more for our oil imports has highlighted the importance of further strengthening of our export promotion efforts so that the economy may not suffer for want of other essential maintenance and development imports. The first priority is, of course, to economise on the use of oil. But even with the severest economies, as mentioned above, the import bill for oil in value terms is likely to increase tremendously. To absorb this increase, it is necessary to take full advantage of such export opportunities as we have, and maximise our own domestic output of industrial and agricultural goods in order to diminish import dependence.

7.59 The growth of exports will have to be secured despite considerabale uncertainty that presently characterizes international trading and monetary relations. Even before the oil crisis, there were indications that a number of developed countries might experience a substantial decline in the rates of their economic growth in 1974. The oil crisis has added to the uncertainty of growth prospects for these countries. Of course, the now expected deceleration is not likely to degenerate into a major recession if these countries continue to receive their normal supplies of petroleum. Even then, a steep rise in oil prices is likely to have significant repercussions on the balance of payments position of many developed countries. On present indications, the current account of the balance of payments of most countries of Western Europe and Japan will experience a sharp deterioration in 1974. The overall impact on their reserves will naturally depend on the likely pattern of investment of surplus funds accruing to oil exporting countries. Nonetheless, the fact that developed countries as a group will, for the first time, experience a large deficit on current account is bound to create uncertainty about the international trading environment. A slow down in the pace of economic activity in major developed countries, or the emergence in these countries of an outlook favouring restrictions on imports, will no doubt affect export prospects of developing countries. In such an uncertain environment, our trade relations with countries of Eastern Europe impart a welcome element of stability to our exports.

7.60 The international monetary system is still in a state of turmoil and at present most of the major currencies of the world are floating. Since for the first time in post war history, the recent cyclical boom in major developed countries appeared at the same time, the level of economic activity and the growth of international trade have not been affected by generalised floating which has characterised the international monetary scene in the last two years. Whether the international monetary system will be able to bear the inevitable additional strains caused by a sharp deterioration in balance of payments of major developed countries in the wake of oil crisis, is yet to be seen. However, it appears that the world will have to live with a regime of generalised floating for some time to come. Thus, developing countries like India will have to devise suitable institutional arrangements to minimize the adverse effects of continued uncertainty of exchange rates on the growth of their foreign trade.

7.61 In the field of international trade, multilateral trade negotiations which were launched in September 1973 in the framework of the General Agreement on Tariffs and Trade are expected to be much wider in scope and coverage than the earlier negotiations. These negotiations are scheduled to conclude in 1975. However, on account of the uncertainty generated by the oil crisis, it is difficult to predict the outcome of these negotiations. In any case, judging by past experience, vital questions of interest to developing countries (such as advance implementation of concessions in their favour, reduction or elimination of duties on products of particular export interest to developing countries, treatment of tropical products, commodity agreements, compensation for loss of preferences and removal of non-tariff barriers affecting their exports) may not receive the priority attention they deserve. Nonetheless, it is worth emphasising that in the last fifteen years, tariffs in most cases have ceased to be the most important determinant of trade flows in manufactured goods. As such, except for the recent uncertainty of the international trading environment, created by the oil crisis, we have significant opportunities for increasing our exports of manufactures, provided we can generate large enough export surpluses at internationally competitive prices.

7.62 Another recent development which has a bearing on our export prospects was the accession of the United Kingdom, one of our most important trading partners, to the European Economic Community (EEC). This has meant that Commonwealth preferences, available to Indian exports in the U.K. market, would no longer be available. In fact, with effect from 1st January 1974, the U.K. is obliged to move towards adoption of the Common External Tariff of the EEC, which would have a further restrictive effect on India's exports to that country. Fortunately, significant progress has been made in working out a viable policy framework with respect to our trading relations with the enlarged EEC, which, in due course, should mitigate to some extent, the disadvantages to our exports arising from U.K.'s membership of the EEC. Thus, a Commercial Co-operation Agreement was signed between India and the EEC on the 17th December, 1973. This Agreement provides for the establishment of a Joint Commission of the EEC and India to examine and recommend positive solutions for commercial problems, particularly those arising from trade barriers, including non-tariff and quasi-tariff barriers to trade. In a separate declaration, the EEC has also confirmed its willingness to consider adjustment in its Generalised Scheme of Preferences (GSP) with a view to extending and strengthening trade relations with India. India and the EEC have also concluded two sectoral agreements on jute and coir, which provide for a reduction in import duty by 40 per cent on jute and coir manufactures in 1974, followed by a further reduction of 20 per cent in 1975 as against the existing common external tariff of 15 to 22 per cent on jute goods and 23 per cent on coir manufactures.

7.63 The introduction by the developed countries of a Generalised Scheme of Preferences (GSP) for exports of manufactured goods from developing countries provides an opportunity for greater exports of manufactured goods by India. The U.S.A., which is an important market for manufactured exports of developing countries, as well as Canada have not yet implemented their GSP scheme. However, the U.S. Government has recently submitted necessary legislation for approval of the U.S. Congress. Schemes introduced by industrialised countries contain a number of restrictive features such as quantitative ceilings for so called sensitive commodities and there are also many non-tariff barriers. In addition, a number of manufactured products of significant export interest to developing countries are altogether excluded from the scope of GSP offers. Even then, there is considerable scope for expanding our exports under the GSP provided we are able to generate adequate quantities of export surpluses. Recently, there has been a welcome liberalisation of the EEC scheme as the base year for the determination of quotas in the enlarged EEC has been shifted from 1968 to 1971 and also quotas have been enhanced for a few selected products like rubber tyres and electrical goods.

7.64 The Fifth Plan, to be launched in April 1974, has provided for a compound rate of growth of 7.6 per cent per annum in exports over the Plan period. In view of the steep rise in prices of crude oil and oil products, it is likely that in order to maintain a viable balance of payments position during this period, we would have to do even better by way of export performance. As against the Fifth Plan target, the compound rate of growth achieved during the first four years of the Fourth Plan was 9.6 per cent. This rather satisfactory performance was largely due to the high rate of growth of exports during 1972-73. However, as mentioned earlier, exports in that year were helped by a number of special factors, such as the credit-financed exports to Bangladesh and the international commodity boom. The persistence of commodity boom has also helped in the growth of exports in 1973-74. However, by their very nature, these factors cannot be relied upon to secure a permanent increase in our exports. Therefore, on past experience, there can be no room for complacency as regards our export promotion efforts.

7.65 In working out a suitable export strategy, the importance of expanding out exports of traditional products cannot be overemphasised. Three items (jute, tea and cotton textiles) account for nearly 30 per cent of our total exports, and it is clear that even a small percentage decline in respect of these commodities has a major impact on our balance of payments.

Fortunately, exports of cotton textiles in the last eighteen months have done well and we were able to meet our quotas to U.S.A. for the first time in 1971-72; and our performance in meeting the quotas set by the EEC countries, including the U.K., under the long term Textile Agreement has also improved considerably during the last two years. Exports of cotton textiles as also of jute goods are likely to benefit from stiffening in prices of oil-based synthetic fibres. However, our ability to take full advantage of this situation and continue the export momentum in respect of exports of cotton textiles will depend on adequate availability of raw cotton and our ability to offer competitive prices. So far as exports of jute goods are concerned, attempts have to be made to increase the proportion of high value-added items and to derive maximum advantage from the likely increase in prices of synthetic packaging materials. As regards tea, one major reason for the long-term stagnation in our exports is a steep decline in our exports in the last two decades to the world's most important market, namely, the United Kingdom. Our exports of tea to the U.K. have fallen drastically during a period when total imports of tea in the U.K. have increased, albeit slowly. Although some progress has been made in securing a foothold in newer markets such as Japan, Australia and Morocco prospects for a substantial expansion in tea exports in the near future do not seem to be very favourable. However, the least we should expect to do in respect of tea is to maintain our present market share, and to increase the proportion of high value teas, particularly packet tea.

7.66 In respect of products such as leather manufactures, marine products, and cashew kernels, which have enjoyed high rates of growth in the past, our ability to export in the near future is likely to be constrained only by our ability to produce more. The main problem here is to increase domestic production of the relevant raw materials, and the Government has already taken a number of steps to augment their production. Thus, efforts are being made to increase production of raw cashew nuts, to import more fishing trawlers, and to shift the structure of leather exports in favour of finished goods rather than hides and skins.

7.67 Engineering goods have always been looked upon as offering a very high export potential. However, actual export performance in recent years has not come up to initial expectations. In the first four years of the Fourth Plan, total exports of engineering goods amounted to Rs. 490 crores. After showing a high rate of growth in 1969-70 and 1970-71, they declined in 1971-72 and increased slowly in 1972-73, when they reached a level of Rs. 138 crores. As against this, the Fifth Plan target for these exports is Rs. 1500 crores for the Plan period as a whole or Rs. 300 crores annually on an average. Although the target looks ambitious, it should be remembered that even at the projected level, India's exports of engineering goods would constitute a miniscule proportion of world trade in these goods. Our ability to achieve this target is, therefore, likely to depend more on our ability to supply these goods at competitive prices than the state of world demand. This is an area where Indian exporters face the toughest competition from industrialised countries as well as some developing countries. Our own ability to compete in foreign markets seems to have suffered because of insufficient supply of essential inputs (e.g., steel and power), as well as high cost of production and inadequate attention to quality. The inducement to export has also been affected because of a readily available protected domestic market, where prices are normally higher than in international markets. Exports of engineering goods have thus remained a marginal activity for most firms, to be undertaken only when domestic demand slackens or in response to compulsory export obligations. The number of exporting firms in any particular industry is normally much lower than the number of non-exporting firms, and even for exporting units, exports seldom reach more than 10 to 15 per cent of output.

7.68 In order to overcome some of these disadvantages, it has been the policy of the government to provide import replenishment licences as well as some essential inputs at international prices to exporting units on a priority basis. The government has also introduced a comprehensive framework of compensatory support and duty drawbacks which are designed to make exports competitive abroad. However, it appears that all these measures have not yet been sufficiently effective in imparting the required momentum to our engineering exports. Thus more effective ways and means will have to be found so as to ensure that exports become a normal feature of the marketing strategy of a large number of engineering firms. It is, of course, also vital that production is not disrupted due to inadequate supply of power or steel. A fall in capacity utilisation, due to inadequate availability of essential raw materials, accentuates domestic shortages, adds to unit costs, and in the process also hurts our ability to compete abroad.

7.69 To sum up, the continued viability of India's balance of payments is crucially dependent on a significant increase in our export earnings. The recent sharp hike in the price of crude oil lends added urgency to the task of export promotion. The considerable uncertainty that currently surrounds the world trading and monetary systems makes it difficult to assess the immediate export outlook. Nevertheless, it needs to be emphasised that in the longer run there is a substantial untapped potential for the growth of our exports. Our ability to fully exploit this potential is vitally linked with our ability to increase agricultural and industrial production, restrain the growth of domestic demand for promising exportable items and ensure internationally competitive standards of quality and prices.