CHAPTER 7

FOREIGN TRADE AND BALANCE OF PAYMENTS

7.1 A notable feature on the external front of the economy during 1977-78 was the re-emergence of a trade deficit after a modest surplus in 1976-77. Imports increased substantially and the increase has continued in the current year also following import liberalisation, while export growth has slackened in the wake of recessionary situation and protectionist tendencies in the major industrialised countries. On the other hand, growth in net invisible receipts comprising travel, transportation, private transfers etc., continued to be buoyant and as a consequence the country's foreign exchange reserves showed a record increase during 1977-78. The increase has, however, slowed down in the current year.

Foreign exchange reserves and overall Balance of Payments

7.2 India's foreign exchange reserves (excluding gold and SDRs in which variations are marginal) rose further in 1977-78 by Rs. 1,885 crores without taking account of transactions with the International Monetary Fund (IMF). In the current year the growth in reserves has slackened and by January end 1979, they showed an increase of Rs. 794 crores as against a rise of Rs. 1,345 crores in the corresponding period of 1977-78. The following table (7.1) shows the variations in India's foreign exchange reserves since 1971-72.

TABLE 7.1

Movements in India's Foreign Exchange Reserves

(Excluding Gold and SDRs)

(Rs. crores)

End of year/ Period	Foreign Exchange Reserves	Variation in Reserves	Net Drawings from (+)/and Repayments (—) to I.M.F.	Variation in Reserves exclusive of transactions with IMF (3-4)
1	2	3	4	5
1971-72	480.4	..	..	..
1972-73	478.9	—1.5	..	—1.5
1973-74	580.8	+101.9	+62.0	+39.9
1974-75	610.5	+29.7	+484.7	—455.0
1975-76	1491.7	+881.2	+207.1	+674.1
1976-77	2863.0	+1371.3	—302.8	+1674.1
1977-78	4499.8	+1636.8	—248.6	+1885.4
1978-79*	5081.7	+581.9	—212.3	+794.2

N.B. (1) At the end of January, 1979, India's holdings of monetary gold valued at Rs. 84.39 per 10 grams stood at Rs. 219.5 crores. Holdings of SDRs were 355.9 million SDRs (Provisional).

(2) All foreign exhange holdings are valued at par/central rates upto June, 1972 except for the holdings of Canadian dollars from June, 1970 to June, 1972, which are valued on the basis of the monthly averages of spot buying and selling rates in New York and theholdings of Deutsche Marks from May to November, 1971 and of Yen and Sterling from September to November, 1971 which are valued on the basis of monthly averages of spot buying and selling rates in London. From July, 1972 holdings in Sterling are valued at the average of the Reserve Bank's spot buying and selling rates; all other foreign exhnage holdings are valued on the basis of the monthly averages of the spot buying and selling rates in London from July 1972 to April, 1974 and on the basis of the averages of spot buying and selling rates in London from May, 1974.

*As on 31st January, 1979.

7.3 The improvement in the external payments position observed since 1975-76 continued during 1977-78 in spite of the re-emergence of a trade deficit in the year. Exports during the year amounted to Rs. 5,374 crores showing an increase of 4.5 per cent compared with an increase of 27.2 per cent during 1976-77. Imports on the other hand amounted to Rs. 6,066 crores showing an increase of 19.6 per cent in contrast to a decline of 3.6 per cent in the previous year. As a result, a trade deficit of Rs. 693 crores emerged during 1977-78 in contrast to a modest surplus of Rs. 69 crores in 1976-77. Net inflow of external assistance during 1977-78 was lower at Rs. 467 crores compared with Rs. 844 crores in the previous year. Despite these movements in trade and aid receipts the country's foreign exchange reserves recorded a rise of Rs. 1,885 crores during 1977-78, thanks to the continued buoyancy in invisible receipts. During the year the country also repaid to the IMF Rs. 249 crores by way of repurchases of gold tranche and credit tranche drawings.

7.4 According to the balance of payments data available at present up to December 1976, there was a surplus of Rs. 930 crores in 1976 in current invisible transactions compared with that of Rs. 520 crores in 1975 because receipts increased by 42 per cent and payments by only 17 per cent. Private transfers was the largest single item. These receipts at Rs. 696 crores showed an increase of Rs. 233 crores in 1976 while payments at Rs. 7 crores were nominal. Travel was the other major item, receipts under which improved over the year 1976 to Rs. 256 crores compared to Rs. 165 crores in 1975. This was due mainly to a significant increase in the number of foreign tourists visiting India and higher per capita tourist expenditure. Under transportation, the net surplus increased from Rs. 47 crores in 1975 to Rs. 78 crores in 1976. This was broadly in line with the growth of merchandise trade and travel. Investment income receipts in 1976 increased by Rs. 66 crores to Rs. 175 crores because of the growing volume of earnings from our foreign exchange reserves. Investment income payments on account of interest, profits and dividends fell by Rs. 11 crores and there was a significant reduction in the net deficit on this account from Rs. 213 crores in 1975 to Rs. 135 crores in 1976.

7.5 There is every reason to believe that these trends have continued in subsequent years also. The number of Indians who have gone out to work abroad, particularly to the Gulf countries, has increased and so have their remittances. Tourist traffic has also grown partly because of the efforts made by Indian authorities to attract such traffic. This has meant a larger volume of foreign exchange earnings. Finally, since the volume of foreign exchange reserves has increased continuously the earnings from these have also grown steadily.

7.6 During the current year the trends in merchandise transactions and invisibles noticed in 1977-78 have continued. According to provisional data from DGCI&S, exports during April—November 1978 amounted to Rs. 3,392 crores while imports were valued at Rs. 4,121 crores resulting in a deficit of Rs. 729 crores as against a surplus of Rs. 72 crores in April—November, 1977. In spite of the sharp rise in the trade deficit foreign exchange reserves have shown a further rise, due to continued favourable trends in invisibles. During the current financial year upto January 31, 1979 the reserves, exclusive of transactions with the IMF, showed a rise of Rs. 794 crores compared with that of Rs. 1,345 crores during the same period in 1977-78. The country has also repaid Rs. 212 crores, representing the only outstanding IMF credit to India on account of the 1975 Oil Facility, thus ending its indebtedness to the IMF.

7.7 During June 1978, the Reserve Bank of India purchased 25 million grams of gold from the IMF worth Rs. 123 crores through a non-competitive bid at the Gold Auction held by the Fund. Besides, in December, 1978 there was a further restitution of gold by IMF to its members and India's share amounted to a little more than 6 million grams. At the Reserve Bank's statutory holding price the gold purchased by R.B.I. is worth Rs. 21 crores and that received by way of restitution is worth over Rs. 5 crores. The country's gold reserves, thus, stand augmented by these amounts. There was also an increase in India's SDRs holdings during the year. As a step, in a major package of measures, intended to strengthen the SDR and provide the Fund with adequate resources over 4 billion SDRs have been allocated to 137 participating members of the Fund. India's share in this allocation is SDRs 119 million.

7.8 The rupee continued to be linked to a basket of currencies of India's major trading partners and the pound sterling continued to be the intervention currency. As in the previous year, during the current year also, the middle rate of the rupee was adjusted from time to time due to fluctuations in the value of the basket of currencies ; the latest adjustment was on December 20, 1978 when the middle rate was fixed at Rs. 16.50 per pound. In view of the wide fluctuations in international currency markets recently, it has been decided, effective from 30th January, 1979, to maintain exchange rate of the rupee within a wider margin of 5 per cent as against the previous margin of 2.25 per cent on either side.

Balance of Trade and Direction of Trade

7.9 The year 1977-78 witnessed the re-emergence of a trade deficit of Rs. 693 crores in contrast to a surplus of Rs. 69 crores in the previous year. The buoyancy in exports experienced in the previous three years when their rate of growth averaged 27 per cent subsided considerably in 1977-78 and exports rose only by 4.5 per cent. This sharp deceleration was the combined result of the increase in protectionist measures against some of our exports in importing countries, the persistence of recessionary conditions in major industrial countries of the world and restrictions placed by Government on exports of certain agriculture based mass consumption commodities in order to protect domestic consumer interest. In contrast, imports increased by 19.6 per cent from Rs. 5,074 crores due among others to a substantial step-up in the imports of edible oils, man-made fibres, rough diamonds, POL, raw cotton and fertilisers.

7.10 Provisional data for April—November, 1978 show a further widening of the trade deficit. Exports during the period at Rs. 3,392 crores were marginally lower as compared to Rs. 3,472 crores in the same period last year. At the same time, imports rose by 21.2 per cent to Rs. 4,121 crores. However, the rate of decline in exports witnessed in the earlier months of the current financial year has slowed down in the months of October and November, 1978. At the same time, the rate of growth in imports which was 33 per cent in April—July has come down to 21 per cent in April—November, 1978.

Direction of Trade

7.11 The geographic distribution of exports underwent some changes in 1977-78. Exports to East European Countries went up by 17 per cent during the year leading to an increase in the share of these countries in our total exports from the previous year's 14.4 per cent to 16.1 per cent. Similarly, exports to USA recorded significant gains and the share of USA moved up from 11.0 per cent to 12.5 per cent. On the other hand, exports to Japan declined by 7 per cent due largely to a fall in the exports of iron ore and consequently the share of Japan dropped from 10.6 per cent to 9.4 per cent. Likewise, the share of OPEC fell from 13.7 per cent to 12.9 per cent following a marginal decline in exports to these countries. Again, the share of EEC which had recorded a sharp increase in 1975-76 and 1976-77 witnessed a decline from 27.1 per cent in 1976-77 to 25.9 per cent in 1977-78. The share of 'other countries', however, remained at the previous year's level of 23.2 per cent.

7.12 The directional pattern of imports also witnessed some significant variations in 1977-78. Thus, imports from USA dropped sizeably during the year due mostly to the steep fall in imports of foodgrains. As a result, the share of USA in our total imports decreased to 12.5 per cent from 20.7 per cent in the previous year. The share of OPEC also declined from 25.6 per cent in 1976-77 to 22.3 per cent in 1977-78. On the other hand, the share of EEC increased substantially from 19.9 per cent to 25.3 per cent following a sharp rise in value of imports by 51 per cent. Likewise, the share of East European Countries improved from 9.3 per cent to 10.2 per cent and that of Japan from 5.9 per cent to 7.1 per cent. The share of 'other countries' also increased from 18.6 per cent to 22.6 per cent.

Imports

7.13 The value of India's imports which had shown a decline of 3.6 per cent in 1976-77 increased by 19.6 per cent to Rs. 6,066 crores in 1977-78. The magnitude of the increase, despite a steep fall in the value of imports of foodgrains, was quite substantial. In fact, the level of non-food imports during the year rose by 41 per cent. This rise was largely accounted for by a sizeable step-up in the imports of edible oils, man-made fibres, precious and semi-precious stones, POL, raw cotton and fertilisers. These six items together recorded an increase of Rs. 1,212 crores in imports as compared to the increase of Rs. 993 crores in the overall value of imports.

7.14 The trend in commodity-wise imports is indicated in the Table below (7.2) :

TABLE 7.2

Value of India's Imports by Major Commodity Groups

(Rs. crores)

Commodity	1974-75	1975-76	1976-77	1977-78*	Percentage change in 1977-78 over 1976-77	April-Sept. 1977-78	April-Sept. 1978-79†	Percentage change in April-Sept. 1978-79 over Apr.-Sept. 1977-78
1. Cereals and cereal preparations	763.8	1342.8	867.6	122.4	—85.9	52.5	34.5	—34.3
2. Raw cotton	27.4	28.2	129.5	198.9	53.6	100.2	19.4	—80.6
3. Raw wool	26.3	24.5	26.2	28.6	9.1	12.8	14.3	11.7
4. Synthetic and regenerated fibres (man-made fibres)	2.7	6.1	30.1	191.8	537.2	90.3	95.2	5.4
5. Vegetable oils, fixed (edible oils)	12.3	14.2	100.6	711.6	607.4	331.5	318.1	—4.0
6. Fertilisers and fertiliser materials	588.9	591.8	261.2	338.0	29.4	87.6	161.2	84.0
7. P.O.L.	1156.9	1225.7	1413.4	1556.4	10.1	776.5	784.6	1.0
8. Chemical elements and compounds	129.7	122.2	137.8	194.4	41.1	77.6	93.7	20.7
9. Paper and paper board and manufactures thereof	59.5	57.7	61.1	81.7	33.7	43.1	56.8	31.8
10. Pearls, precious and semi-precious stones, unworked or worked	53.0	84.2	180.6	330.7	83.1	150.0	205.1	36.7
11. Metals (Iron and steel and non-ferrous)	602.4	412.3	376.5	450.4	19.6	165.9	244.4	47.3
12. Capital goods	723.3	967.7	1079.4	1158.1	7.3	514.5	575.5	11.9
13. Others	372.6	387.8	409.8	663.0	61.8	304.5	482.7	58.5
TOTAL IMPORTS	4518.8	5265.2	5073.8	6026.0**	18.8	2707.0	3085.5	14.0

*Provisional.

†Quick estimates.

**Revised to Rs. 6066.4 crores.

Source : D.G.C.I.&S., Calcutta.

7.15 In the commodity-mix of imports during 1977-78, edible oils emerged as a single major item responsible for a substantial part of the increase in imports. Their imports recorded a seven-fold increase from Rs. 101 crores to Rs. 712 crores due mainly to rise in the quantity imported to 12.9 lakh tonnes from 1.7 lakh tonnes in 1976-77. The step-up in import of this consumer item was necessary to maintain domestic price stability. Imports of man-made fibres increased sharply from Rs. 30 crores in 1976-77 to Rs. 192 crores in 1977-78 to meet the growing domestic demand and for substituting cotton which was in short supply during the year. Similarly, raw cotton imports increased by Rs. 69 crores owing to an increase in the quantity imported as well as in the unit value. Imports of unworked precious and semi-precious stones increased by 83 per cent to Rs. 331 crores to meet the growing demand of the export oriented gem and jewellery industries. Imports of fertilisers recorded an increase of Rs. 77 crores, against a sharp decline witnessed in the previous year. This increase was the result of a spurt in domestic demand, which was not being met from domestic production. Petroleum and petroleum products (POL) continued to remain the largest single item of imports. The value of their imports at Rs. 1,556 crores in 1977-78 was higher by 10 per cent over that in 1976-77. On the other hand, food imports which were of the order of Rs. 868 crores in 1976-77 declined to Rs. 122 crores in 1977-78 because of improved domestic production. As a consequence, the share of food items in total imports declined to 2 per cent in 1977-78 from 17 per cent in the previous year.

7.16 The first eight months of 1978-79 saw the continuation of the rising trend in imports. According to provisional data, imports during April-November, 1978 at Rs. 4,121 crores recorded an increase of 21 per cent over the level of imports in the comparable period of the previous year. Commodity-wise details available for the first-half of the year indicate significant increases in the imports of fertilisers, iron and steel, non-ferrous metals, unworked precious and semi-precious stones, newsprint and capital goods. The progressive liberalisation of imports coupled with a reduction in import duties on a number of machinery items are likely to sustain the rising trend in imports in the current year as a whole.

Exports

7.17 In 1977-78 there was a decline in earnings from a number of items including fish and fish preparations, sugar, oil cakes, leather and leather manufactures, cotton fabrics, cotton apparel and iron and steel. These items had been responsible for a large part of the buoyancy in exports in recent years. However, there was a sizeable rise in exports of cashew kernels, spices and engineering goods and a spectacular increase in the earnings from tea, coffee and pearls and precious stones.

7.18 The details of commodity-wise exports are set out in the Table below (7.3).

TABLE 7.3

Value of India's Exports by Major Commodity Groups

(Rs. crores)

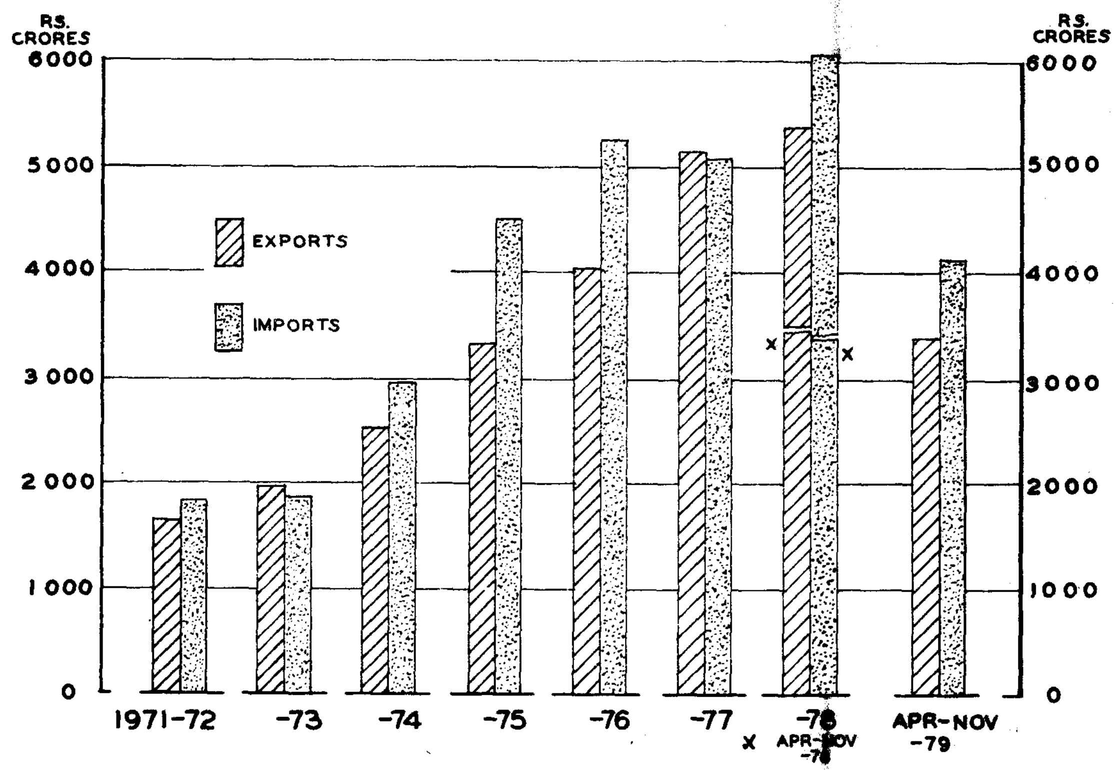
Items	1974-75	1975-76	1976-77	1977-78*	Percentage change in 1977-78 over 1976-77	April-Sept.		Percentage change in 1978-79 over 1977-78 (April-Sept.)
						1977-78	1978-79†	
1	2	3	4	5	6	7	8	9
1. Oil cakes	96.0	96.5	234.4	133.3	(—)43.1	95.2	23.7	(—)75.1
2. Tobacco	82.2	98.4	102.4	117.2	14.5	88.9	40.7	(—)54.2
3. Fish & fish preparations	66.2	127.2	180.6	174.3	(—)3.5	90.1	93.5	3.8
4. Tea	228.1	236.9	293.1	555.3	89.5	286.8	146.9	(—)48.8
5. Coffee	51.4	66.7	126.0	191.1	51.7	125.5	77.0	(—)38.6
6. Sugar	339.0	472.3	148.1	17.3	(—)88.3	12.4	22.1	78.2
7. Cashew kernels	118.2	96.1	106.1	149.5	40.9	106.2	39.7	(—)62.6
8. Spices	61.4	71.5	75.0	137.0	82.7	48.8	37.1	(—)24.0
9. Iron ore	160.4	213.9	238.5	240.8	1.0	104.7	87.5	(—)16.4
10. Raw cotton	15.2	41.3	27.0	0.7	(—)97.4	0.3	0.8	166.7
11. Cotton fabrics	158.9	161.2	267.3	222.1	(—)16.9	134.8	95.8	(—)28.9
12. Cotton apparel	96.9	146.4	263.1	235.1	(—)10.6	157.7	148.5	(—) 5.8
13. Jute manufactures	296.8	250.9	201.1	244.9	21.8	114.6	89.9	(—)21.6
14. Coir yarn & manufactures	17.9	19.0	24.0	23.9	(—) 0.4	11.9	11.9	—
15. Leather & leather manufactures (excluding footwear)	145.0	201.5	264.2	248.0	(—)6.1	124.6	132.6	6.4
16. Engineering goods	356.6	413.0	566.3	616.6	8.9	246.6	292.0	18.4
17. Handicrafts	186.6	252.0	455.7	750.0	64.6	299.7	275.6	(—)8.0
18. Chemicals & allied products	92.9	85.3	110.8	116.7	5.3	58.9	78.6	33.4
19. Iron & steel	21.1	68.0	290.5	186.3	(—)35.9	145.4	117.7	(—)19.0
20. Silver	77.9	174.1	170.8	78.6	(—)54.0	24.0	33.0	37.5
21. Others	660.1	750.6	997.7	934.9	(—)6.3	436.5	652.9	49.6
TOTAL	3328.8	4042.8	5142.7	5373.6	4.5	2713.6	2497.4	(—)8.0

*Provisional.

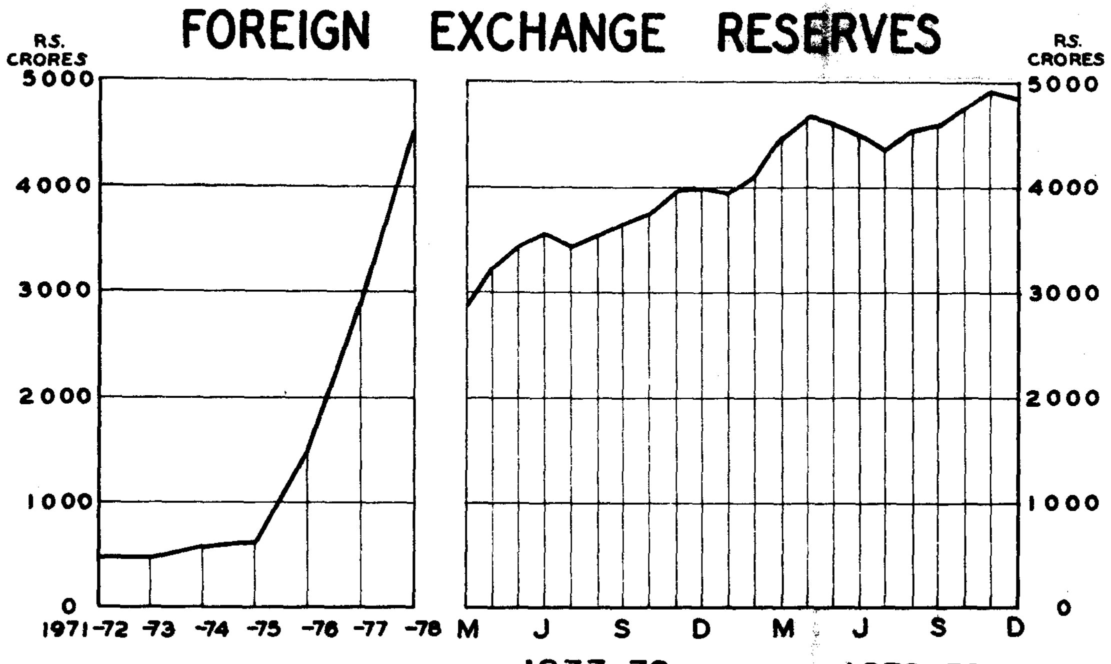
†Quick estimates

Source : D.G.C.I. & S., Calcutta.

FOREIGN TRADE



FOREIGN EXCHANGE RESERVES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

GMGIPND-PLW-450/5/Finance/78-79-Chart 10

7.19 During 1977-78 among various export items, tea showed the most striking improvement. With an export earning of Rs. 555 crores, it recorded an increase of Rs. 262 crores over the previous year's earnings and the entire increase flowed from gains in unit values. A shortfall in world production of tea and other beverages like coffee and cocoa was responsible for the sharp increase in tea prices. Similarly, export earnings from coffee increased by Rs. 65 crores during 1977-78 largely on account of a steep rise in unit value realisation. Spices as a group exhibited improvement in earnings by 83 per cent to Rs. 137 crores. Both the quantity and unit value of major products in this group namely, pepper, ginger and turmeric recorded substantial increases. The other significant contribution came from handicrafts which as a group showed enhanced earnings by 65 per cent to Rs. 750 crores. The most promising item of this group was pearls and precious stones, the earnings from which increased to Rs. 546 crores from Rs. 287 crores in the previous year. Cashew kernels was another item which, despite a fall in the quantity of exports by 22 per cent, registered an increase in value of 41 per cent due to a more than compensating rise in unit price to Rs. 37.1 per kg. from Rs. 20.6 per kg. in the previous year. These five items, *viz.*, tea, coffee, spices, handicrafts and cashew kernels, together accounted for an increase of Rs. 727 crores in export earnings and more than off-set the losses suffered in other export items.

7.20 Exports of tobacco and engineering goods recorded moderate increases. Export earnings from tobacco rose by Rs. 15 crores due to a marginal rise in both quantity and unit value. Exports of engineering goods, a growth item, increased to Rs. 617 crores in 1977-78 from Rs. 566 crores in the preceding year. Moreover, jute exports recorded an increase of 22 per cent to Rs. 255 crores during the year.

7.21 The items, which suffered significant reverses in export earnings and thereby depressed the rate of growth of exports during 1977-78, were oil cakes, fish and fish preparations, sugar, cotton fabrics, cotton apparel, leather and leather manufactures, silver and iron and steel. Oil cakes which had recorded an increase of two and a half times to Rs. 234 crores in 1976-77 declined to Rs. 133 crores during 1977-78. A drastic fall in the quantity exported was responsible for the decline in export earnings. The shortage of oilseeds and the need for preserving groundnut extraction for domestic use were the factors limiting the exports of oil cakes. Fish and fish preparations earned Rs. 6 crores less due solely to a decline in unit price to Rs. 28 per kg. from Rs. 31 per kg. realised in the previous year. Sugar encountered a strong buyer's market and export earnings slumped to a negligible Rs. 17 crores as against Rs. 148 crores in 1976-77 and Rs. 472 crores in 1975-76. The quantity exported declined to 70 thousand tonnes from 5.8 lakh tonnes in 1976-77 and 12 lakh tonnes in 1975-76. Cotton apparel, earnings of which had increased from Rs. 146 crores in 1975-76 to Rs. 263 crores in 1976-77, declined to Rs. 235 crores during the year due to quota restrictions in importing countries. The export of cotton fabrics was constrained by the spurt in prices of cotton on the one hand and restrictive policies in importing countries on the other. The quantity exported declined considerably and there was a fall in export earnings of 17 per cent. Leather and leather manufactures, which had shown an increase of 31 per cent in 1976-77 following improvement in demand abroad, suffered a demand recession in 1977-78 and export earnings declined to Rs. 248 crores from Rs. 264 crores in 1976-77. Similarly, iron and steel which had earned as much as Rs. 291 crores in 1976-77 fell to Rs. 186 crores during 1977-78 due to domestic supply constraints and a reduction in demand abroad.

7.22 The current year began with a rapid deterioration in exports and in the first eight months, the value of exports recorded a decline of 2.3 per cent from the level of exports during April-November, 1977. Although the rate of decline decelerated considerably in later months, the performance for the year as a whole may not show an improvement over 1977-78. Exports in the current year have been adversely affected by continued recessionary tendencies in developed countries and the protectionist measures adopted by them, the fall in international prices of such important items like tea, coffee and cashew-kernels and the reduction in exportable surpluses of certain items. According to preliminary data for the first half of 1978-79, there has been some improvement in earnings from fish and fish preparations, leather and leather manufactures, engineering goods, silver and chemicals and allied products. The improvement in exports of the items mentioned above seems to have stemmed from a pick up in both export demand and export price. There is a distinct down trend in the exports of tea, coffee, cashew kernels, tobacco, spices, iron ore, iron and steel, cotton fabrics, etc., during the first half of 1978-79 as compared with the same period last year. Tea, coffee and spices appear to have lost ground due to a slump in their prices and a weakening of export demand. Thus, the unit price of tea is reported to have declined from Rs. 27.4 per kg. in first half of 1977-78 to Rs. 21 per kg. in the same period this year. Similarly, the unit price of coffee has fallen from Rs. 38.5 per kg. to Rs. 22 per kg. during the same period. In the case of iron and steel, domestic supply constraints have come in the way of exports, while in the case of cotton fabrics, import restrictions operating in industrial countries have affected the exports.

Trade Policy Developments

7.23 Liberalisation of the import regime was carried significantly further in the trade policy for 1978-79. The policy sought to reduce the number of controls and regulations to a minimum and to enlarge substantially the scope of liberalisation of imports mainly with a view to satisfying the imported input requirements of industries to enable them to improve their performance and thus contribute to development and export efforts. In the process, the policy also opened the economy to international competition in a measured manner. Adequate safeguards have, however, been provided to protect the interests of small scale, tiny and cottage industry sectors in keeping with the priorities of growth.

7.24 As a part of import liberalisation, the policy brought about simplification and rationalisation in procedures. The system of free licensing was eliminated and merged with Open General Licensing (OGL) policy. The difference in treatment between public and private sector in regard to licensing facilities and that between merchant-exporter and manufacturer-exporter in respect of REP licences were abolished. A clear delineation of the area of licensing control was made by providing separate lists of 'banned' and 'restricted' items and stipulating that imports of all items outside these lists would be allowed freely and licensing would operate only for 'restricted' items.

7.25 A substantial measure aimed at enlarging the facility to import was the broadening of the compass of actual users by including all local authorities, maintenance workshops, service centres, printers, publishers hospitals, educational institutions etc. in this category. Alongside, the coverage of OGL was further widened and various raw materials and components, iron and steel items, several items of capital goods required by actual users as also numerous items of common use in the product groups of edible oils and seeds, pulses, spices, dry fruits, dates, hides and skins, life saving equipments and drugs were placed on OGL imports. Certain products like moulding powder and PVC resins were decanalised and put on OGL imports.

7.26 The facilities of automatic and supplementary licences for actual users were allowed to continue and as a measure of further liberalisation, the practice of issuing separate licences for iron and steel items, non-permissible spares and others was abolished and substituted by a single licence indicating separate values for these three categories of items.

7.27 In recognition of the important role of small scale, tiny and cottage industry in the economy, the favourable treatment being meted out to this sector was further enhanced. The items reserved for exclusive production in this sector were banned for imports and the full import requirements of this sector were allowed to be met in free foreign exchange. Further, the prices charged for materials supplied to this sector by canalising agencies were reduced and made equal to those payable by large users on high sea sales.

7.28 In a bid to liberalise imports of capital goods for strengthening production base, the list of capital goods items permitted for imports under OGL by actual users was substantially enlarged. Certain industries of national importance like fertilisers, power generation, basic drugs, cement etc. and fully export-oriented industries were allowed to import plant and equipment on a global basis.

7.29 Alongside, the policy for registered exporters was changed substantially in the light of the overall liberalisation of imports and the increased emphasis placed on OGL imports. The distinction between merchant-exporters and manufacturer-exporters in utilising REP licences has been removed and imports of some of the banned or canalised items by registered exporters are permitted under REP licences.

7.30 Subsequent to the announcement of the Policy in April, 1978, certain changes have been incorporated in the course of the year mostly with a view to enlarging the scope of imports by different categories of importers. The more important of these measures are as follows :—

(a) The definition of permissible spare parts was amended to include even restricted items in this category and imports were permitted on OGL;

(b) The facility providing for the grant of advance and imprest licences was extended to merchant—exporters in respect of specified export products like silverware, leather manufactures, sports goods, handicrafts, ready-made garments, gem and jewellery and handloom cotton fabrics. Further, these imprest licences were made eligible for duty exemption scheme under specified conditions; and

(c) To promote export of gold jewellery, a new Gold Jewellery Exports Replenishment Scheme was announced which provided for the replenishment of pure gold to the extent permissible. Import of gold for this purpose was canalised through the State Bank of India.

7.31 The export policy continued to remain liberal and the basic thrust was on encouraging exports of various commodities to the extent permitted by considerations of maintaining domestic price stability. While most of the items were allowed for exports on OGL without a licence, a limited number of items remained under export control in the larger interests of the economy. Exports of over two hundred items were decanalised, principal among which were leather, footwear and knitwear. Also, the export of footwear was brought under minimum export price regulation. The items which remained canalised included onions, potatoes, cardamoms, HPS groundnuts, castor oil, sugar, ferro—alloys and ferrous scrap. Exports of some items were regulated through quantitative ceilings, prominent among which were tea, pulses, fresh fruits and vegetables, cement and certain minerals like bauxite, kyanite and mica. The commodities which were subject to export ban included oilseeds, certain vegetable oils and salt.

7.32 Export promotion policy measures continued to operate more or less unchanged. However, some adjustments were made in the rates of cash compensatory support as also in the items eligible for such support in the light of their export performance and net foreign exchange earnings. The concessional rate of interest on pre-shipment and post-shipment export credits was reduced from 11.5 per cent to 11 per cent, the rate of interest on pre-shipment credit for the extended period was lowered from 13.5 per cent to 13 per cent and the export refinance rate was reduced from 10.5 per cent to 10 per cent.

7.33 Along with the liberalisation in trade policy, significant changes were effected in import duties in respect of several items while some adjustments were made in export duties on a few items keeping in view the movement in international prices and domestic availability. The most important change in import duty related to the downward revision of duty from 40 per cent to 25 per cent *ad valorem* in respect of wide ranging items of capital goods. Together with the liberalisation of imports, the reduction in duty was expected to bring down capital costs in domestic industries. Likewise, import duty on condenser tissue paper and electrical insulation paper was reduced from 186 per cent to 75 per cent *ad valorem* and that on polypropylene film was cut from 230 per cent to 75 per cent *ad valorem* in order to reduce the cost of transmission of electricity. Reduction was also made in the duty on certain electronic components for encouraging indigenous electronic industry. The duties on coking coal, gold imported by State Bank of India under Gold Jewellery Replenishment Scheme and precious stones were eliminated in order to make these items available at reasonable prices for manufacture and exports. Downward adjustments in import duties were also made in respect of several other products like paraffin wax, copper scrap, PVC resins and wood pulp.

7.34 In the field of export duties, important changes related to coffee and tea. The export duty on coffee was reduced from Rs. 500 per quintal to Rs. 200 per quintal in July, 1978 in view of the fall in international prices but again increased to Rs. 400 per quintal in September, 1978 following hardening of prices abroad. The duty on instant coffee was abolished in September, 1978 in order to encourage the export of this value-added product. In the case of tea, the export duty was reduced from Rs. 5 per kg. to Rs. 2 per kg. in September, 1978 and completely abolished in February, 1979 in the light of movement in price and demand abroad.

External Assistance

7.35 Net external assistance received by India in 1975-76 was Rs. 1,154 crores. It declined to Rs. 844 crores in 1976-77 and still further to Rs. 467 crores in 1977-78. Consequently, the proportion of imports financed by external assistance which was 22 per cent in 1975-76 fell to 17 per cent in 1976-77 and further to less than 8 per cent in 1977-78. However, according to revised estimates net aid is expected to increase to Rs. 544 crores in 1978-79.

7.36 Table 7.4 shows trends in the gross and net inflow of external assistance since 1968-69. Gross inflow of external assistance had dropped sharply from Rs. 1,841 crores in 1975-76 to Rs. 1,599 crores in 1976-77 or by 13 per cent mainly because of lower aid from oil-producing countries and the phasing out of grants under the United Nations Emergency Operations Scheme. It declined further to Rs. 1,288 crores in 1977-78 due mainly to (a) non-availability of fast disbursing industrial (non-project) credit from the IDA; (b) larger portion of aid being given for projects in the field of irrigation, power, rural development and urban projects which are inherently slow disbursing; and (c) reduced level of assistance in the form of debt relief which is totally untied. In 1978-79, however, gross aid is expected to be higher at Rs. 1,444 crores.

7.37 Debt service payments have grown continuously and their growth has accelerated in recent years. In 1977-78 debt service payments (amortisation and interest charges) amounted to Rs. 821 crores which were higher by Rs. 66 crores compared with 1976-77 and siphoned off as much as 64 per cent of gross aid receipts during the year. Expressed as a percentage of export earnings, debt repayments in 1977-78 amounted to 15.3 per cent compared with 14.7 per cent in 1976-77. As a consequence net aid inflow has tended to decline since 1975-76.

7.38 The Aid India Consortium met in Paris on 8th and 9th June, 1978. Pledges of external assistance totalling US $ 2.40 billion for 1978-79 were indicated at this meeting as against US $ 2.08 billion in the previous year. The World Bank Group indicated a higher figure of US $ 1.25 billion for the current year compared with US $ 1.1 billion last year. The bilateral donors pledged an assistance of US $ 1.15 billion for 1978-79 as against US $ 0.98 billion in the previous year. The European Economic Community (EEC) as an organisation indicated a pledge of US $ 48 million as against last year's pledge of US $ 22 million. The amount of debt relief indicated in the meeting at around US $ 10 million for 1978-79 was significantly lower than the debt relief of US $ 43 million for 1977-78 and US $ 160 million for 1976-77.

7.39 At the Ninth Special Session of the Trade and Development Board of the UNCTAD held in March 1978 a resolution was adopted according to which developed donor countries agreed to seek to adopt measures for an adjustment of the terms of past bilateral Official Development Assistance in order to bring them in line with currently prevailing softer terms or other equivalent measures as a means of improving the net flows of Official Development Assistance to developing countries. Subsequent to this the U. K. Government have decided to relieve India of a debt burden of £ 565 million (Rs. 932 crores) up to the end of the century through a scheme of annual additional grants to meet the Rupee expenditure on mutually agreed development projects and programmes. Other countries that have announced debt relief to India in varying measure are Sweden and Switzerland.

7.40 As mentioned in last year's Survey, there has been a gradual softening in recent years in the terms of assistance offered by individual donor countries. Further development in this respect is the reduction in the rate of interest on the commodity loans from Japan from 3.5 per cent last year to 3 per cent this year. The assistance from the U.K., Sweden and Norway continues to be entirely in the form of grants.

TABLE 7.4

Inflow of External Assistance : Gross and Net

(Rs. crores)

Item	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79**
I. Gross Disbursements	903	856	791	834	666	1036	1314	1841	1599	1288	1444
II. Total Debt Servicing	375	412	450	479	507	596	626	687	755	821	900
III. Net Inflow of Assistance (I-II)	528	444	341	355	159	440	688	1154	844	467	544

**Estimates.

NOTE : 1. Gross aid disbursements take into account debt relief which is inclusive of debt rescheduling/postponement, etc.

2. Figures for 1973-74 include USSR wheat assistance and those for 1974-75 include USSR wheat assistance, oil credits and assistance made available under the United Nations Emergency Operations Scheme.