CHAPTER 7

FOREIGN TRADE AND BALANCE OF PAYMENTS

7.1 The year 1979-80 saw a sharp deterioration in the external trade and payments situation. The deficit in merchandise trade was twice as large as in the previous year and this more than offset the likely growth in the surplus on net invisibles to produce an overall worsening of the current account situation. In sharp contrast to the steady increase in reserves in each of the past four years, foreign exchange reserves declined by Rs. 56 crores during 1979-80.

7.2 The deterioration in the Balance of Payments position was because of a combination of factors, some of which have been evident in the past two years while others surfaced only during 1979-80. These factors are not likely to disappear in the immediate future so that the external constraints upon economic performance will remain severe. Export growth has been sluggish since 1977-78 and since world trade is expected to slow down substantially in 1980-81 with an uncertain pace of recovery thereafter, it will not be easy to achieve a significant improvement in performance in the near future. Imports have been rising faster than exports since 1977-78 with the increase being particularly sharp in 1979-80 because of the hike in oil prices. However, this is only a partial reflection of the burden of higher oil prices since their full impact will only be felt in the current year.

7.3 These adverse developments affecting the trade account have come at a time when the hitherto growing surplus on net invisibles is unlikely to continue growing at the same rate. This surplus, largely attributable to remittances from Indian workers abroad, had helped to insulate the current account deficit from the growing deficit on merchandise trade in the past two years. However, there is considerable uncertainty about the pace of construction in the oil surplus countries of West Asia and their willingness to absorb foreign labour. Workers' remittances in the future are not likely to grow at the same rate as in the past and under some circumstances may even decline.

Foreign Exchange Reserves and Overall Balance of Payments

7.4 India's foreign exchange reserves (excluding gold and SDRs) rose by Rs. 927 crores in 1978-79 without taking into account the transactions with the International Monetary Fund (IMF). This growth represented a substantial slackening from the rate of growth in the previous two years. In the year 1979-80, however, there was a small decline of Rs. 56 crores and the declining trend has continued in the current year. By May 30, 1980, foreign exchange reserves (excluding gold and SDRs) showed a decline of Rs. 274 crores from the start of the year as against a rise of Rs. 282 crores in the corresponding period of 1979-80. 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)

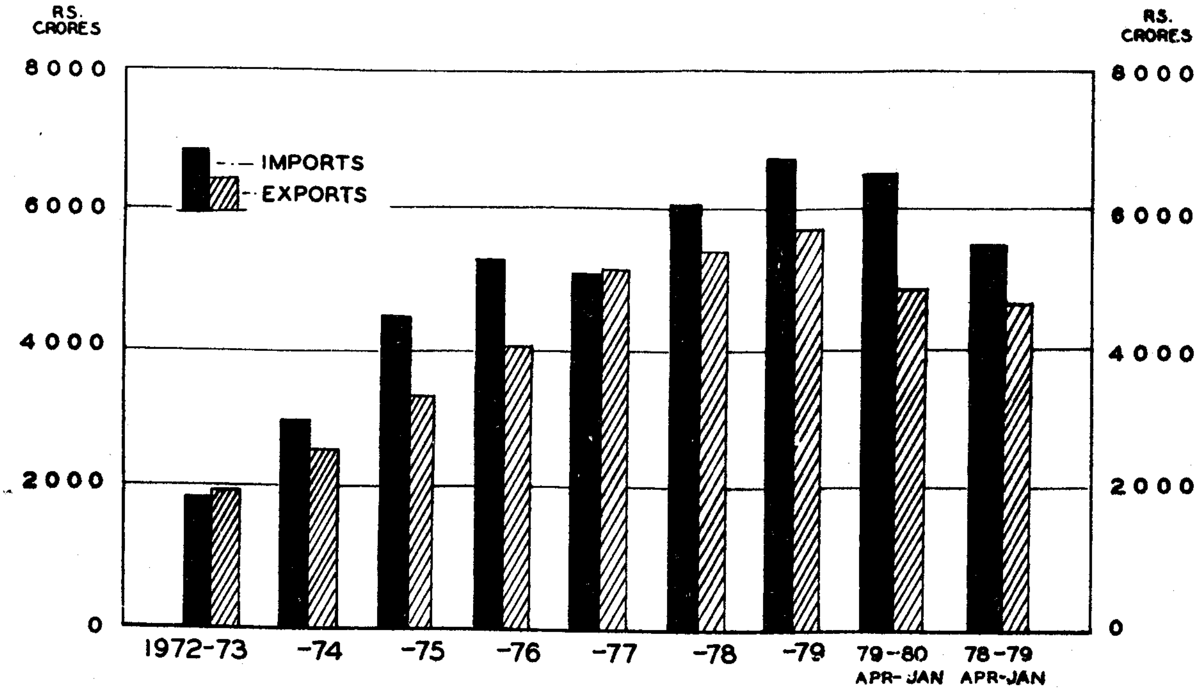
(Rs. crores)

End of year/period	Foreign Exchange Reserves	Variations in reserves	Net drawings from (+)/ and repayments (—) to IMF	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	+674.2
1976-77	2863.0	+1371.3	—302.8	+1674.1
1977-78	4499.8	+1636.8	—248.6	+1885.4
1978-79	5219.9	+720.1	—206.9	+927.0
1979-80	5163.7	—56.2	..	—56.2
1980-81*	4890.2	—273.5	..	—273.5

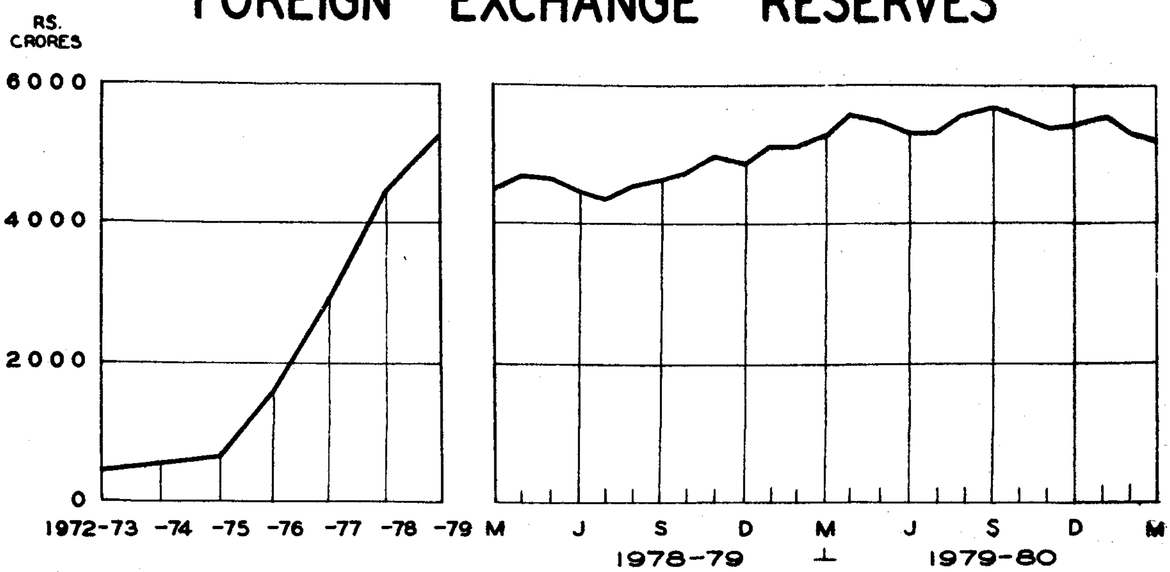
N.B. : On March 31, 1980, India's holdings of monetary gold valued at Rs. 84.39 per 10 grammes stood at Rs. 224.7 crores. Holdings of SDRs were 529.1 million SDRs (Provisional).

*As on May 30, 1980.

FOREIGN TRADE



FOREIGN EXCHANGE RESERVES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

7.5 The slowing down in the pace of accretion to foreign exchange reserves in 1978-79 was the outcome of a much larger trade deficit together with a much slower growth in the net surplus on the invisibles account. Exports during 1978-79 amounted to Rs. 5,726 crores showing a slightly higher increase of 5.9 per cent compared with an increase of 5.1 per cent in 1977-78. Imports on the other hand amounted to Rs. 6,814 crores showing an increase of 13.2 per cent compared with an increase of 18.6 per cent in 1977-78. As a result, the trade deficit increased to Rs. 1,088 crores during 1978-79 as compared with a deficit of Rs. 612 crores in 1977-78. Net inflow of external assistance in 1978-79 declined further to Rs. 384 crores compared with Rs. 469 crores in 1977-78. Despite these movements in trade and aid receipts the country's foreign exchange reserves recorded a rise of Rs. 927 crores during the year because of a continued increase, though at a slower pace, in invisible receipts. During the year, the country also repaid to the IMF Rs. 207 crores by way of repurchase of Oil Facility, 1975.

7.6 Detailed balance of payments data are available only up to 1977-78. They show a substantially larger surplus of Rs. 1,422 crores in 1977-78 under current invisibles compared with that of Rs. 824 crores in 1976-77. Receipts went up to Rs. 2,383 crores from Rs. 1,764 crores, an increase of Rs. 619 crores or 35 per cent while payments increased only marginally from Rs. 940 crores to Rs. 961 crores. The largest contribution to this increase was under the item 'Private Transfers' where receipts increased by 47 per cent from Rs. 624 crores in 1976-77 to Rs. 917 crores in 1977-78 while payments declined marginally over the year. Under foreign travel, receipts increased from Rs. 284 crores in 1976-77 to Rs. 530 crores in 1977-78 an improvement of 86 per cent while payments increased by only 16 per cent from Rs. 38 crores in 1976-77 to Rs. 44 crores in 1977-78. The investment account has typically been in deficit but in 1977-78, the deficit declined to Rs. 91 crores compared with Rs. 121 crores in 1976-77. This was mainly because of a sharp increase (42 per cent) in receipts owing to growth of interest earnings on our accumulated foreign exchange reserves. The surplus from current invisible transactions has continued to grow in 1978-79 and also in 1979-80 but it is not possible to estimate the rate of growth in the absence of Balance of Payments data.

7.7 According to provisional trade data, exports during 1979-80 amounted to Rs. 5,999 crores while imports were valued at Rs. 8,231 crores showing a deficit of Rs. 2,232 crores as against a deficit of Rs. 1,088 crores in 1978-79. This sharp rise in the trade deficit led to a marked deterioration in the current account position which is reflected in a decline of Rs. 56 crores in foreign exchange reserves in 1979-80 compared with an increase of Rs. 927 crores during the previous year. During the current year up to May 30, 1980, foreign exchange reserves declined further by Rs. 274 crores against an increase of Rs. 282 crores during the corresponding period last year.

7.8 In December, 1979 there was a further restitution of gold by the IMF to its members and India's share amounted to about 6.2 million grammes. At the Reserve Bank's statutory holding price, the gold purchased by the RBI is worth over Rs. 5 crores. The country's gold reserves thus stand augmented by this amount. There was also an increase in India's SDR holdings during the year. India was designated during the year to accept in SDRs 110 million against payment of foreign exchange. The net increase in India's SDR holdings during the year amounted to SDRs 164 million. India also made available to the IMF foreign exchange equivalent to Rs. 35 crores in 1979-80 against rupees under the Fund's Operational Budget, improving its reserve position in the Fund to that extent.

7.9 The rupee continued to be linked to a basket of a selected number of major international currencies and the pound sterling continued to be the intervention currency. As in earlier years since September 1975, during the current year also the middle rate of rupee was adjusted from time to time because of fluctuations in the value of the basket of currencies. The latest adjustment was on May 27, 1980 when the middle rate was fixed at Rs. 18.35 per pound sterling.

Imports

7.10 In recent years Government has followed a policy of liberal imports in order to enable the economy to function at higher levels of activity and augment domestic availability where there is a shortfall in domestic production. Under this policy, overall imports increased by 18.6 per cent in 1977-78 and 13.2 per cent in 1978-79. The slower growth of imports in 1978-79 compared with the previous year was principally because of a sharp decline in imports of cotton and edible oils following improved domestic availability. If these two items are excluded, imports in 1978-79 increased by 22 per cent over 1977-78. Imports of fertilizers, iron and steel, capital goods, unworked precious and semi-precious stones and petroleum and petroleum products together registered an increase of Rs. 698 crores and accounted for about 91 per cent of the increase in the value of imports in the year.

The trends in broad category-wise imports since 1975-76 are detailed in the table below :

TABLE 7.2

India's imports by major commodity-groups

(Rs. crores)

	1975-76	1976-77	1977-78	1978-79	Percentage change in 1978-79 over 1977-78	April—Sept. 1978	April—Sept. 1979	Percentage change in April—Sept. 1979 over April—Sept. 1978
1. Cereals and cereal preparations	1342.8	867.6	122.4	86.9	—29.0	44.2	36.3	—17.9
2. Raw cotton	28.2	129.5	198.9	29.1	—85.4	20.2	..	..
3. Raw wool	24.5	26.2	28.6	29.9	4.6	15.1	14.4	—4.6
4. Synthetic and regenerated fibres (man-made fibres)	6.1	30.1	191.8	198.2	3.3	93.3	35.2	—62.3
5. Vegetable oil fixed (edible oils)	14.2	100.6	711.6	537.1	—24.5	324.2	156.4	—51.8
6. Fertilizers and fertilizer materials	533.8	261.2	338.0	449.6	33.0	192.8	161.8	—16.1
7. P.O.L.	1225.7	1413.4	1551.0	1676.8	8.1	784.7	1220.6	55.5
8. Chemical elements and compounds	122.2	137.8	194.6	226.3	16.3	101.3	132.6	30.9
9. Paper and paper boards and manufactures thereof	57.7	61.1	81.7	104.8	28.3	53.8	79.8	48.3
10. Pearls, precious and semi-precious stones	84.2	180.6	330.7	466.1	40.9	219.1	165.9	—24.3
11. Metals (Iron and steel and non-ferrous)	412.3	376.5	451.4	716.9	58.8	277.2	419.6	51.4
12. Capital goods	967.7	1079.4	1158.8	1274.0	9.9	644.1	562.4	—12.7
TOTAL (including others)	5265.2	5073.8	6020.2	6814.3	13.2	3204.3	3690.1	15.2

7.11 In the year 1978-79, the largest increase in imports was recorded under iron and steel. The quantity imported increased by more than two-fold to 1.16 million tonnes because of a shortfall in domestic production. The unit price paid at Rs. 4,054 per tonne was, however, lower by 13 per cent than in the previous year. The quantity of manufactured fertilisers imported increased by 8.6 lakh tonnes to 33 lakh tonnes and the average unit price paid was higher by 6 per cent. The larger imports were necessary to meet the growing domestic consumption of fertilizers which increased from 4.29 million tonnes in 1977-78 to 5.17 million tonnes in 1978-79. The value of imports of unworked precious and semi-precious stones increased by Rs. 135 crores to meet the growing demand for export production of finished gem and jewellery. Imports of non-ferrous metals went up by 29 per cent to Rs. 247 crores because of a sharp increase in the quantity of copper imported. An increase of 66 thousand tonnes in the quantity of imports of paper and paper boards led to an increase of 28 per cent in the value of their imports and the unit value paid was lower by 5 per cent. Capital goods recorded an increase of 10 per cent in the value of imports to Rs. 1,274 crores reflecting to some extent the impact of the liberalisation in imports of machinery and components. POL registered a comparatively moderate increase of 8 per cent in value of imports to Rs. 1,677 crores which was almost wholly because of the increase in quantity imported from 17.4 million tonnes in 1977-78 to 18.5 million tonnes in 1978-79.

7.12 Imports increased very substantially in 1979-80. Provisional customs data for 1979-80 place imports at Rs. 8,231 crores showing an increase of 24.6 per cent over the provisional level of imports of Rs. 6,606 crores in 1978-79, and an increase of 20.8 per cent over the revised imports of Rs. 6,814 crores. Commodity-wise details are, however, available for only the first six months viz. April—September, 1979. During this period, the bulk of the increase in imports was due to increase in import cost of POL. Imports of iron and steel increased by Rs. 128 crores to meet the domestic shortfall in production and availability. Similarly, import of crude rubber was stepped up from Rs. 8 crores to Rs. 56 crores in the face of domestic shortage and consequent escalation in its price. The substantial increase in the value of imports of rubber was because of a four fold increase in quantity imported and an increase of about 50 per cent in its unit price following a spurt in world market prices. Other important items showing increases in imports during the period were sulphur, paper and paper boards and organic chemicals, plastic materials and professional and scientific instruments.

7.13 During the first six months April—September 1979, the quantity of POL imported amounted to 9.9 million tonnes which was only slightly higher than 9.1 million tonnes imported during the corresponding period of the previous year. The unit price paid during April—September 1979 was, however, 43 per cent higher than a year before so that the value of POL imported amounted to Rs. 1,221 crores compared with Rs. 785 crores in the previous year. The higher unit price paid reflects the sequence of price increases implemented by OPEC in 1979. The price of "marker crude" was increased by 5 per cent on January 1, 1979. In March 1979 OPEC members decided to advance by six months the implementation of the price increase for the "marker crude" originally scheduled to take effect on October 1, 1979. Member-countries were also allowed to introduce additional "market premia" or "surcharges". There was another price rise of about 50 per cent effective from December, 1979 after the Caracas meeting of the OPEC. As a result of these decisions, the average oil export price increased more than 120 per cent from the end of 1978 to the beginning of 1980. The full effect of these increases will be felt in our imports in 1980-81. The table below indicates the trend in unit value of petroleum and petroleum products since 1976-77 :—

TABLE 7.3

Unit Value of Petroleum and Petroleum Products

(Unit value in Rs. per tonne)

	1976-77	1977-78		1978-79		April—Sept. 1979-80	
		Unit value	Percent increase	Unit value	Percent increase	Unit value	Percent increase
A. Crude Oil	837	849	1.4	859	1.2	1130	31.6
B. *Petroleum products* :							
I. Light Distilates							
(*i*) Naphtha	1162	1062	—8.6	1116	5.1	1845	65.3
(*ii*) Others	1861	1967	6.0	2056	4.5	3472	68.9
II. Middle Distilates							
(*i*) Kerosene	1169	1169	..	1251	7.0	1736	38.8
(*ii*) H.S.D.	1002	1046	4.4	1191	13.9	..	..
III. Heavy Ends							
(*i*) Furnace oil	636	688	8.2	635	—7.3	1067	68.0
(*ii*) Lubes	2095	2684	28.1	2933	9.0	3477	18.6
TOTAL	854	883	3.4	905	2.5	1235	36.5

The important fact to note from the above table is that unit price paid for petroleum products increased faster than that of crude oil. This explains why our import bill for POL has increased more than in proportion to the rise in the price of crude oil.

7.14 The Table below gives the average unit value of some of our important items of imports for the years 1977-78, 1978-79 and April—September 1979, compared with April-September of the previous year.

TABLE 7.4

Unit Values of Important Items of Imports

(Rs./tonne)

Commodity	Unit	1974-75	1975-76	1976-77	1977-78	1978-79	April-Sept. 1978	April-Sept. 1979	Percentage change
Crude rubber (inc. synthetic and Reclaimed)	Rs./tonne	N.A.	10070	10210	10210	9795	10395	15617	50
Pulp and waste paper . .	,,	N.A.	4410	5030	4678	3827	4011	4302	7
Synthetic & regenerated fibres	,,	N.A.	11460	11160	11065	10933	11044	15443	40
Fertilizers raw materials . .	,,	456	570	133	439	419	410	552	35
Fertilizers manufactured . .	,,	1613	2406	992	1055	1123	1077	1128	5
Mineral, fuel lubricants and related products . . .	,,	672	761	851	891	906	862	1233	43
Vegetables oil (Edible oils) . .	,,	4140	5315	5971	5524	5148	5202	6219	20
Paper and paper board and manufactures thereof . . .	,,	3367	3802	3773	4288	4081	3982	4503	13
Iron and steel	,,	10161	5406	5473	4659	4054	4518	4310	(—)5

7.15 In 1978-79, average unit value increased significantly in the case of sulphur and manufactured fertilisers while it declined for crude rubber, paper and paper board, iron and steel and vegetable oil. During April—September 1979, there was a significant increase in the unit values of crude rubber, synthetic fibres, fertilisers and vegetable oils.

Direction of imports

7.16 There was a significant change in the distribution of imports by regions of origin in 1978-79. Imports from the ECM countries increased sharply by 37.2 per cent and as a result share of these countries in India's imports rose to 30.6 per cent from 25.1 per cent in the previous year. Likewise, share of the ESCAP countries (excluding Iran and Indonesia which are grouped under OPEC) improved from 14.8 per cent to 16.4 per cent as a consequence of an increase of 25.7 per cent in our imports from these countries. The share of Canada in our imports also improved to 3.5 per cent in 1978-79 from 3 per cent in 1977-78. On the other hand, share of the USA and East European countries declined marginally from 12.6 per cent to 11.2 per cent and from 10.3 per cent to 9.5 per cent respectively. The share of imports from OPEC countries dropped from 21.8 per cent to 20.3 per cent.

Exports

7.17 India's exports in 1978-79 rose by only 5.9 per cent to Rs. 5,726 crores showing a sluggish growth for the second year in succession. This performance is in sharp contrast to the impressive annual average growth rate of 27 per cent in the years 1973-74 to 1976-77. It seems to indicate a return to the long term trend of a declining share in world exports. India's share declined from 0.7 per cent in 1970 to 0.5 per cent in 1974 and then increased in the next three years to 0.6 per cent reflecting the sharply improved export performance from 1974-75 to 1976-77. There was a reversal of this thereafter with exports growing slower than world exports. India's share declined to 0.5 per cent in 1978 and available evidence suggests a further decline in 1979. (Table below).

7.18 An encouraging development in 1978-79 was that some of the important growth items of exports having high value added such as cotton apparel, leather and leather manufactures and fish and fish preparations showed sizable increases in their respective earnings. Gems and jewellery exports included under the category handicrafts also performed well. Exports of these items taken together increased by 41 per cent in value terms and helped offset the decline in export earnings of items like tea, coffee, jute manufactures, oil cakes and cashew kernels. The trends in exports of major commodities are shown in the Table on the next page.

	1970	1971	1972	1973	1974	1975	1976	1977	1978
India's share in world exports (percentage)	.71	.63	.66	.55	.50	.56	.61	.62	.54

Source : International Financial Statistics.

TABLE 7.5

India's Exports by Major Commodity-groups

(Rs. crores)

Commodity	1975-76	1976-77	1977-78	1978-79	Percentage change in 1978-79 over 1977-78	April—September		Percent-age change
						1978	1979	
1. Oil cakes	96.5	234.4	133.3	115.8	—13.1	35.6	68.6	92.7
2. Tobacco	98.4	102.4	117.2	116.3	—0.8	76.9	64.3	—16.4
3. Fish and Fish preparations	127.2	180.6	174.3	228.3	31.0	97.9	134.6	37.5
4. Tea	236.9	293.1	569.7	340.5	—40.2	156.2	118.1	-24.4
5. Coffee	66.7	126.0	194.4	144.1	—25.9	83.1	83.8	0.8
6. Cashew kernels	96.1	106.1	149.5	80.2	—46.4	42.3	64.6	52.7
7. Sugar	472.3	148.1	19.5	131.9	576.4	31.3	54.1	72.8
8. Spices	71.5	75.0	137.1	148.1	8.0	43.8	66.9	52.7
9. Iron Ore	213.9	238.5	240.8	232.9	—3.3	91.0	115.1	26.5
10. Raw Cotton	41.3	27.0	0.7	16.0	128.6	1.8	20.0	1011.1
11. Cotton fabrics	161.2	267.3	224.8	200.1	—11.0	105.8	132.1	24.9
12. Cotton apparel	146.4	263.1	235.1	345.5	47.0	200.1	220.0	9.9
13. Jute manufactures	250.9	201.1	244.0	165.7	—32.1	114.5	122.7	7.2
14. Coir yarn and manufactures	19.0	24.0	23.9	26.3	10.0	12.3	16.9	37.4
15. Leather and leather manufactures (excluding footwear)	201.5	264.2	248.0	326.3	31.6	141.5	231.4	63.5
16. Engineering goods	413.0	566.3	617.4	699.4	13.3	N.A.	N.A.	—
17. Handicrafts	252.0	455.7	751.8	952.3	26.7	418.9	326.3	—22.1
18. Chemical and allied products	85.3	110.8	116.7	146.3	25.4	75.9	81.6	7.5
19. Iron and steel	68.0	290.5	185.4	115.1	-37.9	116.7	61.5	—47.3
20. Silver	174.1	170.8	78.6	94.4	20.1	52.3	2.0	—96.2
TOTAL (Including others)	4042.8	5142.7	5407.9	5726.3	5.9	2722.0	2890.9	6.2

7.19 With a few exceptions, the commodities which registered substantial increases in export earnings and contributed in a large measure to the overall increase in value of exports in 1978-79 belonged to the non-traditional group. Prominent among these was fish and fish preparations whose export earnings increased by 31 per cent to Rs. 228 crores largely because of larger quantities exported. Gems and jewellery, another profitable export item, recorded an increase in value by Rs. 165 crores. Steps taken to make uncut gems available to exporters at international prices played a crucial role in this. Cotton apparel which had shown a subdued export performance in 1977-78, registered a sizeable increase of Rs. 110 crores to Rs. 346 crores. This was made possible by improved servicing of export orders and fuller utilization of export quotas. Leather and leather manufactures which had suffered a decline in export earnings by 6 per cent in 1977-78 also made a welcome recovery and the value of exports increased by 32 per cent to Rs. 326 crores. The entire increase in value of exports of this group resulted from a near doubling of the export earnings from finished leather and a sizeable increase in earnings from leather manufactures both of which are items with higher value added. The other notable export item namely, engineering goods, showed only a marginal improvement of Rs 82 crores since their export was constrained by domestic supply bottlenecks and the consequent failure to service export orders

7.20 Among traditional items, spices, manganese ore, rice, raw cotton and sugar showed uneven growth. Spices registered only a moderate rise of 8 per cent to Rs. 148 crores in spite of an increase of 29 per cent in quantity exported. Unit-value realisations dropped from Rs. 18 per kg. to Rs. 15 per kg. because of a decline in international prices. Export of rice recorded a more than three-fold increase to Rs. 39 crores arising from a doubling of the quantity exported and a rise of 59 per cent in unit value. Sugar exports, which had slumped to Rs. 20 crores in 1977-78 recovered substantially and rose to Rs. 132 crores reflecting an increase in quantity exported from 0.7 lakh tonnes to 7.4 lakh tonnes. The unit-value realisation, however, declined substantially from Rs. 2.80 per kg. to Rs. 1.74 per kg.

7.21 On the other hand significant declines were recorded in exports of tea, coffee, cashew kernels, jute manufactures, and iron and steel. Marginal declines were recorded with regard to oil-cakes, iron ore, tobacco and cotton fabrics. Export of tea suffered a steep decline from Rs. 570 crores in 1977-78 to Rs. 340 crores in 1978-79, because of a substantial fall in quantities exported and also depressed prices. The quantity exported fell from 224 million kgs. in 1977-78 to 172 million kgs. in 1978-79 and the unit value dipped from Rs. 25.48 per kg. to Rs. 19.75 per kg. Purchases made by important importing countries like the UK, the USA, Canada, West Germany, the U.S.S.R. and Sudan were lower probably because of excess stocks accumulated by these countries in the previous year. Export of coffee suffered a decline in value by Rs. 50 crores despite an increase in quantity exported by 8 million kgs. to 66 million kgs. because of the sharp fall in the international price of coffee from the record average of £ 2760 per tonne in 1977 to £ 1605 per tonne in 1978. The unit price of coffee export in 1978-79 fell from Rs. 33.52 per kg. in 1977-78 to Rs. 21.73 per kg. showing a decline of 35 per cent which was more or less in line with the decline in world coffee price. Cashew kernels recorded a fall in value by 46 per cent to Rs. 80 crores. The fall in export earning resulted from a sizable decline in quantity exported owing to reduced off-take by the U.S.S.R. and lower availability of raw nuts from East African countries. The unit price realisation also dropped by 20 per cent.

7.22 Jute manufactures performed poorly with exports of Rs. 166 crores as against Rs. 244 crores in 1977-78. This was entirely because of a decline in quantity exported. Both production and export of jute manufactures suffered owing to prolonged strikes in jute mills and at Calcutta port during the later part of the year. The fall in the value of export of iron and steel to Rs. 115 crores from the previous year's Rs. 185 crores was largely because of supply constraint. The marginal decline in export of oilcakes to Rs. 116 crores was the outcome of lower unit value realisation. In the case of tobacco, the decline could be attributed to a fall in quantity exported. Cotton fabrics performed poorly due to lack of availability of wide-width variety of fabrics. Quantity exported fell by 12 per cent and there was a similar decline in value of exports.

7.23 In 1979-80, provisional customs data place exports at Rs. 5999 crores showing an increase of 8.2 per cent over the provisional exports figure of Rs. 5544 crores in the previous year. Compared with the revised estimates of exports of Rs. 5726 crores for 1978-79, the provisional 1979-80 figure shows an increase of only 4.8 per cent. Exports during 1979-80 were adversely affected by a number of domestic supply constraints and bottlenecks in transport and ports. Industrial production remained virtually stagnant. Super-imposed on internal constraints were the adverse external factors.

7.24 Commodity-wise data on exports are available only for the first half of 1979-80. They show a continuation of the declining trend in exports of items like, tea, tobacco and iron and steel, and a substantial fall in exports of important growth items like metal manufactures, machinery and transport equipment and gems and jewellery. Exports of tea declined because of a fall in international price of tea which lowered the unit price realisation from Rs. 21 per kg. in April—September 1978 to Rs. 16 per kg. in the same period of 1979. Exports of tobacco and iron and steel remained constrained by domestic supply bottlenecks. Exports of metal manufactures and machinery and transport equipment were also handicapped by production shortages. The sharp decline in value of export of gems and jewellery by Rs. 91 crores could be traced to sluggish export demand because of depressed economic conditions in industrial countries Silver exports disappeared following the ban on export of silver bullion imposed in February, 1979. There was a considerable increase in exports of fish and fish preparations and leather and leather manufactures. Both these items gained in volume and value of exports and the unit value realisation from these items also improved significantly following a rise in their respective world market prices. As in the previous year, the improved earnings from leather and leather manufactures flowed from near doubling of the value of finished leather and an increase of about 50 per cent in the value of leather manufactures. Other items showing encouraging improvements in export earnings included jute manufactures, cotton fabrics, cashew kernels and rice. Except for cashew kernels, all these items benefited from higher unit price realisation.

7.25 The reasons for the slow growth of our exports are varied. The most important among them are domestic supply constraints, the strong pull of the highly profitable domestic market which does not encourage aggressive export orientation, and also an increasingly unfavourable international trading environment compared with the past because of slower growth in world trade and an accompanying increase in protectionism. The growth of protectionism in advanced countries directed at manufactured exports from developing countries is a particularly disturbing phenomenon. There is increasing resort to a host of measures like quotas, excessively restrictive and cumbersome quality control, counter-vailing duties, etc. all of which limit access to developed country markets and increase the uncertainty facing exporters.

7.26 There is evidence to show that quotas are working as constraints upon our export effort particularly in the case of garments and leather goods. For example, in 1978, the quota for exports of blouses and trousers to the USA was fully utilised. In the same year, in the case of mill made made-ups and other garments, utilisation of US export quota was 108.6 per cent. The level was exceeded as advantage was taken of the flexibility provision. Similarly, in the case of exports of knitted garments to Norway, and Finland, quotas were exceeded in several cases. In the absence of such restrictions, our exports would have certainly performed better. There are also cases where our export levels fall short of the available quota but these are in categories where we do not have adequate production capacity for the type of output demanded. Besides, the mere existence of quotas and the increasingly restrictive international environment tend to discourage longer term investment for export planning in these sectors.

Direction of Exports

7.27 The market distribution of exports saw some variations in 1978-79. Exports to the ESCAP countries recorded the highest increase of 18.1 per cent, thereby raising the share of these countries in our total exports to 22.8 per cent from the previous year's 20.5 per cent. Similarly, exports to the ECM countries rose by 12.8 per cent and consequently the share of these countries increased from 25.7 per cent to 27.4 per cent. Belgium, France and West Germany were largely responsible for the increase in exports, each absorbing additional exports of Rs. 30 crores. Exports to the USA increased by 14.4 per cent so that the share of the U.S.A. moved up from 12.4 per cent to 13.4 per cent. Exports to the OPEC which had shown a marginal decline in 1977-78 witnessed an increase of 4.8 per cent but the share remained unchanged at the previous year's level of 12.8 per cent. Likewise, exports to Canada improved by 8.7 per cent but the share remained constant at 0.8 per cent. On the other hand, exports to East European countries suffered a sharp decline by 30 per cent and the share of these countries slipped significantly from 16.1 per cent to 10.7 per cent. The share of 'others' improved marginally to 12.1 per cent.

Trade Policy Development

7.28 The trade policy for 1979-80 continued the selective liberalisation designed to increase domestic production and efficiency while at the same time providing incentives to exports.

7.29 Import policy was further liberalised in 1979-80 to meet the requirements of an expanded production base for various raw materials, machinery and components and spares. The system of issuing 'automatic' and 'supplementary' licences to Actual Users for raw materials and components was continued but the facility of granting additional 10 per cent over the certified consumption for purposes of automatic licences was restricted to small industrial units and those large units which had exported at least 5 per cent of their production in either of the previous two years. The list of banned items was pruned and more items added to the restricted list. The coverage of Open General Licences was further enlarged to include imports of various raw materials, components and even machinery items by Actual Users. Moreover, a large number of items such as scientific and technical books, instruments required by the blind, life saving drugs, homeopathic and ayurvedic medicines, dry fruits, spices, etc. were also allowed to be imported under OGL by all persons for stocks and sale. The benefits of REP licences continued to be restricted to those items generally included under the banned category. The facility for the grant of advance licences with duty exemption benefit was made more broad based.

7.30 The export policy was tailored to promote exports while also protecting domestic consumer interests. While exports of most of the items were allowed freely, certain items like onions, potatoes, groundnut extractions, etc. remained regulated because of domestic compulsions and exports of kynite, natural rubber, silver and strethomycine formulations were banned. A broad range of export promotion and support measures continued in force, such as the scheme for supply of indigenous and imported inputs at international prices for export production, supply of gold under the Gold Jewellery Replenishment Scheme and cash compensatory assistance to selected exports. The rates of cash compensatory assistance as also the coverage of the products eligible for such assistance were, to some extent, modified and in most cases such assistance was made operative for three years. The Gold Jewellery Replenishment Scheme was suspended in January, 1980 following the sharp rise in international price of gold and the associated extreme uncertainty regarding the movement of gold prices in the world market.

Import-Export Policy for 1980-81

7.31 There has been gradual and progressive liberalization of import policy during the past several years and the current import policy maintains this trend. However, certain modifications have been introduced in the policy for 1980-81. These modifications as they affect different categories of importers are described below :

Actual Users

The policy towards actual users has been modified as follows :

(i) The policy allows the continuation of the system of granting automatic licences to actual users for raw materials and components but stipulates that additional 10 per cent over the certified actual consumption in either of the previous two years, on the basis of which the value of automatic licences is determined, will now be available only to actual users who exported at least 10 per cent of their annual production of selected products.

(ii) A number of items have been taken out of the purview of Open General Licence because of indigenous availability. These items include chromic acid, sodium dichromate, potassium dichromate, basic chromium sulphate, and wattle extract used in dyeing and tanning of leather, calcined petroleum coke, gum resin, acetylene black, sisal yarn, components of process control instruments and precision measuring instruments, and certain items of drugs and drug intermediates.

(iii) A number of items have been included in the banned list on account of improved indigenous production. These include lanolin anhydrous of non-pharmaceutical grade, A.B.S. moulding powder, caffeine and its salts, cork products, watch dials, industrial jewels, vitamin B-12, vitamin C, polypropylene fibre, glass fibre yarn/fabric and articles made therefrom, and beta-naphthol.

(iv) Unlike in the previous years a provision has been made in the policy for the grant of supplementary licences to new units.

(v) In the Government sector the facility of O.G.L. has been extended to departmentally-run undertakings and railways. The same facility has also been extended to State Electricity Boards/Projects/Undertakings in the public sector for import of spares.

Registered Exporters

7.32 Registered exporters will continue to get the facility of REP Licences for the import of relevant banned or canalised items and packing materials. REP Licences also continue to be freely transferable unless they are held by export houses and used for importing O.G.L. items for actual users. Direct import of canalised items against REP Licences will also continue. The new features introduced in the Registered Exporters Policy to strengthen export-oriented units and to make them more viable are the folowing :

(i) Manufacturer exporters have been given greater flexibility in the matter of utilisation of REP Licences. They are allowed to import against their own REP Licences not only items appearing in the Shopping List but any other item of raw materials, components, consumables or packing materials required by them for use in their factories. However, import of banned items will be allowed only up to 20 per cent of the face value of REP Licences subject to the condition that the value of 'single' item does not exceed Rs. 1 lakh.

(ii) A new scheme has been introduced permitting duty-free imports of raw materials against REP Licences issued on exports of specified products. To begin with the scheme is available to exports of only a few items. These items are : stainless steel utensils, sinks and hospital wares (made from non-magnetic stainless steel sheets) brass art wares, steel pipes, tubes, wire, sheets whether or not corrugated, including galvanised items. It may be extended to more export products in the light of the experience gained.

(iii) The scheme of Advance Licences with benefit of customs duty exemption has been made more comprehensive with further improvements so as to make it more responsive to the needs of the exporters. More items of imports have been added to the scheme and certain procedural modifications have been effected to facilitate the exporter in timely execution of export orders and to make available all the imported inputs at international prices (without payment of duty) for export production.

7.33 The policy for import of spares has been further liberalised in the interest of efficient production and proper maintenance of assets. Similarly, import of certain capital goods (CG) has been made more liberal. The list of CG items allowed under OGL has been enlarged by including a number of items required by electronics and TV industry. Some items of capital goods have also been taken out of the banned list as their indigenous production could not meet the full demand. Six more items have been added to the list of items permitted to be imported under OGL by all persons for stock and sale.

7.34 Retaining substantially the export promotion measures of the earlier years, some more steps have been taken to improve our expert prospects in 1980-81. More emphasis has been placed on securing better unit prices for some of the export items. The minimum export prices for footwear have been raised substantially. The export of dried fish and cardamom has been decanalised and some more items have been put under OGL export. Export promotion measures continue as in the previous year.

External Assistance

7.35 Net external assistance received by India has been declining since 1976-77. From Rs. 1,154 crores in 1975-76, it declined to Rs. 844 crores in 1976-77, to Rs. 469 crores in 1977-78 and further to Rs. 384 crores in 1978-79. Together with the growth of imports, this decline has resulted in the proportion of imports financed by external assistance declining from 22 per cent in 1975-76, to less than 8 per cent in 1977-78 and to less than 6 per cent in 1978-79. According to revised estimates, net aid is expected to increase to Rs. 524 crores in 1979-80.

7.36 Trends in the gross and net inflow of external assistance since 1969-70 are shown in Table 7.6. Gross inflow of external assistance had dropped sharply from Rs. 1,841 crores in 1975-76 to Rs. 1,599 crores in 1976-77 and to Rs. 1,290 crores in 1977-78. In 1978-79, there was a further decline to Rs. 1,266 crores. The principal reasons behind the fall in gross disbursements have been : (a) decline of fast disbursing non-project credit from the International Development Association (IDA); (b) larger portion of aid being given for projects in the fields of irrigation and rural development and urban projects which are inherently slow-disbursing; (c) reduced level of assistance in the form of debt relief in 1979-80; (d) non-materialisation of credit for Kudremukh project; and (e) scarcity of essential raw materials like aluminium, steel and cement for implementation of projects in rural areas. In 1979-80, however, it is expected that gross aid would be higher at around Rs. 1,382 crores.

7.37 Debt service payments comprising amortization and interest payments amounted to Rs. 882 crores in 1978-79 when they were higher by Rs. 61 crores compared with 1977-78. At this level they siphoned off as much as 70 per cent of gross aid receipts during the year. Expressed as a percentage of export earnings, debt repayments in 1978-79 amounted to about 16 per cent compared with a little more than 15 per cent in 1977-78.

7.38 The Aid India Consortium met in Paris on 7th and 8th June, 1979. Pledges of external assistance totalling US dollars 3.03 billion for 1979-80 were indicated at that meeting as against US dollars 2.46 billion in 1978-79. The World Bank group indicated a higher figure of US dollars 1.90 billion for 1979-80 compared with US dollars 1.25 billion in 1978-79. The pledges of US dollars 3.03 billion made at the Consortium meeting did not include those of Canada and the United Kingdom; their share comes to U.S. $ 38.77 million in the case of Canada and U.S. $ 249.74 million in the case of the U.K. The European Economic Community (EEC) as an organisation indicated a pledge of US dollars 84 million as against a pledge of US dollars 48 million in 1978-79.

7.39 The total pledges for 1979-80 are expected to amount to US dollars 3.32 billion compared with US dollars 2.46 billion in 1978-79. This is the highest amount pledged in any single year. Of the total amount pledged for 1979-80, it is estimated that US dollars 2.52 billion are earmarked as project aid and the balance as non-project aid.

7.40 In recent years, there has been a gradual softening in the terms of assistance offered by individual donor countries. The assistance from the UK and Sweden continues to be mainly in the form of grants.

TABLE 7.6

Inflow of External Assistance : Gross and Net

(Rs. crores)

	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80@
I. Authorisation	634	762	929	676	1171	1671	2654	1286	1897	2334	1606
II. Gross Disbursements	856	791	834	666	1036	1314	1841	1599	1290	1266	1382
Of which : Debt Relief	75	77	61	106	117	116	133	102	28	7	N.A.
III. Debt servicing	412	450	479	507	596	626	687	755	821	882	858
IV. Net Inflow of assistance	444	341	355	159	440	688	1154	844	469	384	524

@Provisional estimates.

Outlook for 1980-81

7.41 The above review points to a serious Balance of Payments problem which will surface in the coming year and persist over the medium term. The low growth rate of our exports is a serious handicap at a time when imports are increasing rapidly because of world inflation and intolerably large increases in the prices of petroleum and petroleum products. At present, India is placed in a different situation from that in 1973 when the first major increase in oil prices took place. In the years that followed the fourfold increase in petroleum prices in 1973, the balance of payments difficulties were tackled through a highly successful export performance. Exports increased at an average annual rate of 27 per cent between 1974-75 and 1976-77. We organised domestic production and fashioned export policy to take advantage of the relatively favourable trading conditions which prevailed after the first oil crisis, including especially the sharp increase in the import demand of oil exporting countries. We also benefited from the large demand from these countries for our skilled and unskilled services. The situation today is distinctly unfavourable in comparison because the world trading environment is much more unpropitious and because domestic supply constraints are a much greater inhibition to increasing exports. Also the demand for our workers abroad seems to be slackening.

7.42 To overcome these difficulties we will have to make an all out effort at strengthening our export capability. In the short run, the immediate priority must be to overcome the infrastructure constraints especially power, transport and ports which depressed industrial production in 1979-80 and thereby also lowered exports. However, it is also necessary to develop a broad based strategy for rapid export growth in the coming decade. Successful export performance ultimately depends upon the growth of competitiveness and efficiency in Indian industry combined with a system of incentives which makes exports profitable and encourages export growth in areas of dynamic comparative advantage. It will be necessary to devise policies which will promote efficiency and provide appropriate incentives on a sustained basis. It will also be necessary to keep industrial policy under review so as to remove undue restrictions on production and capacity expansion in areas with export potential. There is considerable scope for expanding agricultural exports to the oil rich countries of West Asia and these opportunities must be exploited through higher production and better marketing.

7.43 Systematic development of export potential requires a departure from the passive policy of exporting surpluses as and when available to a policy of planning for export surpluses in areas of comparative advantage. This has implications for the investment pattern in the medium term which must be recognised if export promotion is to be successful. Domestic price stability is also important in ensuring competitiveness of exports.