## CHAPTER 8

### Foreign Trade and Balance of Payments

8.1 The external trade and payments situation has been under severe strain since 1979-80. The full impact of the doubling of oil prices in the course of 1979 was felt only in 1980-81 when total imports reached Rs. 12,465 crores. Exports remained sluggish reflecting domestic production constraints and unfavourable world market conditions. The trade deficit more than doubled to reach Rs. 5756 crores in 1980-81. The situation remains difficult in the current year although the trade deficit in 1981-82 may be somewhat lower than in 1980-81. Nevertheless, the trade gap will be very large amounting to about Rs. 5500-5600 crores and although net invisibles earnings (including remittances) and other inflows will help to cover a large part of the deficit, the balance of payments situation will remain extremely difficult. This was reflected in the fact that foreign currency assets declined by Rs. 1167 crores in the first seven months of 1981-82.

8.2 The deterioration in the balance of payments arose principally from the massive increase in oil prices since 1978-79 which pushed up the oil bill from Rs. 1687 crores in 1978-79 to Rs. 5587 crores in 1980-81. Other import prices have also risen sharply. This has happened at a time when exports face severe external constraints arising from sluggish demand in world markets and increasing protectionism. It will take time for the economy to adjust to these developments by reducing our dependence on imported oil, increasing domestic production in sectors where it is cost-effective to substitute imports and restoring dynamism to exports. It is expected that this adjustment will take place over the Sixth Plan period but in the meantime a large balance of payments deficit will have to be financed. In recognition of this need, the Government entered into an Extended Fund Facility arrangement with the International Monetary Fund in November, 1981 whereby an amount of SDR 5 billion will be made available for balance of payments support over the period of three years. The Government has also had to resort to commercial borrowings for development projects to a much greater extent than in the past.

### Balance of Payments and Foreign Exchange Reserves

8.3 The balance of payments data as compiled by the Reserve Bank are available only up to the third quarter of 1979-80. The recent development in the balance of payments must, therefore, be assessed on the basis of available trade data, partial information on invisible earnings, known capital flows and reserve movements.

8.4 The major factor underlying the difficult balance of payments situation has been the deterioration on the trade account. The movement in India's imports and exports in recent years is shown in table 8.1.

TABLE 8.1

*India's Trade Balance*

(Rs. crores)

| | Exports | Imports | Trade gap |
|---|---|---|---|
| Financial years | | | |
| 1978-79 | 5555 | 7398 | —1843 |
| 1979-80 | 6459 | 9022 | —2563 |
| 1980-81 | 6709 | 12465 | —5756 |
| 1981-82* | 7700 | 13200 | —5500 |
| **1980-81** | | | |
| April—October@ | 3472 | 6616 | —3144 |
| **1981-82** | | | |
| April—October@ | 3960 | 6883 | —2923 |

*Estimates.

@Provisional.

NOTE: Figures for 1978-79 are from the final balance of payments data published by the Reserve Bank. Figures for subsequent years are from the DGCI&S.

8.5 The trade gap increased from about Rs. 1843 crores in 1978-79 to Rs. 5756 crores in 1980-81. This was mainly due to the sharp increase in import values particularly those of POL (crude oil and petroleum products) and fertilisers which increased from Rs. 2098 crores in 1978-79 to Rs. 6240 crores in 1980-81. The rising import bill for POL and fertilisers in 1980-81 was partly due to volume growth as domestic production of POL and fertilisers was constrained, but the major factor affecting the increase in the import bill was the rise in import prices. The average unit values of POL items increased by 147 per cent between 1978-79 and 1980-81 while the volume increased by 34 per cent. Unit values of fertiliser increased by 41 per cent while the volume increased by 13 per cent.

8.6 These adverse movements in the balance of trade were only partly cushioned by rising net invisible receipts. The surplus on invisibles account in 1978-79 was Rs. 1692 crores. With a trade deficit of Rs. 1843 crores, this yielded a current account deficit of Rs. 151 crores. Complete data on net invisible receipts are not available for later years but partial data indicate that although these receipts have remained buoyant they have not been sufficient to offset the deterioration in the trade balance. The deficit on current account rose further in 1979-80 and in 1980-81 it widened very considerably to over Rs. 2700 crores. This was financed by net aid flows of about Rs. 1058 crores, drawings aggregating Rs. 815 crores under the IMF Trust Fund and Compensatory Financing Facility and a drawdown of Rs. 342 crores in foreign currency assets.

8.7 The balance of payments position in 1981-82 continues to cause concern. Trade data available for the first seven months of 1981-82 show that the trade deficit is somewhat lower than the deficit in the corresponding period of last year. It is anticipated that the trade deficit for the year as a whole may also be below the 1980-81 level. Nevertheless, the position on current account is expected to show further deterioration because of anticipated decline in the flow of net invisibles compared with 1980-81.

8.8 Reserve movements in the course of 1981-82 correspond broadly to the current account position indicated above. The decrease in foreign currency assets up to end of January, 1982 was about Rs. 1292 crores in spite of the utilisation of Rs. 637 crores under the IMF arrangement. This amounts to a residual financing requirement at the rate of about Rs. 193 crores per month. It is likely that the rate of utilisation of reserves in the first three quarters of the year was somewhat higher than is likely in the last quarter. For the year as a whole, the rate of utilisation of reserves plus IMF resources is likely to be of the order of Rs. 2000 crores. As the drawings from the IMF in the financial year upto January, 1982 were of the order of Rs. 637 crores, foreign exchange reserves are likely to decline by about Rs. 1400 crores by the end of the year. Table 8.2 shows the movements in the RBI's foreign currency assets since 1971-72.

TABLE 8.2

*Movements in the RBI's Foreign Currency Assets*

(Rs. crores)

| End of fiscal year/period | Foreign currency assets | Variation in foreign currency assets | Net drawings from(+)/ repayments (—) to IMF | Variation in foreign currency assets exclusive of transactions with IMF (3–4) |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 1971-72 | 480.4 | +42.3 | .. | +42.3 |
| 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 | 5219.9 | +720.1 | —206.9 | +927.0 |
| 1979-80 | 5163.7 | —56.2 | —55.1 | —1.1 |
| 1980-81 | 4822.1 | —341.6 | +813.8 | —1155.4 |
| 1981-82 | | | | |
| January 31, 1982 | 3529.7 | —1292.4 | +636.8 | —1929.2 |

N.B.:—On January 31, 1982, India's holdings of monetary gold valued at Rs. 84.39 per 10 grams stood at Rs. 225.6 crores. Holdings of SDRs were 467.6 million SDRs (Provisional).

8.9 During 1981-82 the rupee continued to be linked to a basket of currencies of India's major trading partners and the pound sterling remained the intervention currency. The middle rate of the rupee was adjusted from time to time because of the fluctuations in the value of the basket of currencies; the latest adjustment was on 10-2-1982 when the middle rate was fixed at Rs. 17.00 per pound.

**Imports**

8.10 The trends in India's imports by major categories are shown in Table 8.3.

TABLE 8.3

*India's Imports by major commodity-groups*

(Value in crores of rupees)

| Commodity | 1979-80 | 1980-81 | Per cent change 1980-81/ 1979-80 | April—Sept. 1980 (P) | April—Sept. 1981 (P) |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1. Cereals & cereal preparations | 105.8 | 76.3 | —27.9 | 40.0 | 45.1 |
| 2. Synthetic and Regenerated fibres | 108.2 | 90.4 | —16.5 | 36.7 | 64.9 |
| 3. Petroleum, pet. products and related materials | 3267.1 | 5586.9 | 71.0 | 2326.9 | 2472.1 |
| 4. Edible oils | 429.8 | 567.8 | 32.1 | 403.9 | 159.8 |
| 5. Organic & Inorganic chemicals | 314.8 | 324.7 | 3.2 | 172.9 | 137.9 |
| 6. Chemical materials & products | 61.8 | 67.8 | 9.8 | 43.0 | 24.7 |
| 7. Medicinal & Pharmaceutical products | 74.0 | 81.2 | 9.8 | 48.6 | 33.6 |
| 8. Fertilizers, crude | 59.7 | 63.3 | 5.6 | 26.0 | 28.3 |
| 9. Fertilizers, finished | 371.2 | 590.1 | 59.0 | 261.8 | 251.3 |
| 10. Paper, paper board & mnf. thereof | 155.3 | 175.9 | 13.3 | 88.1 | 130.0 |
| 11. Pearls, precious & semi-precious stones | 347.4 | 388.2 | 11.8 | 238.2 | 169.1 |
| 12. Non-metallic mineral mnf. excl. pearls | 94.3 | 153.8 | 63.1 | 67.2 | 39.6 |
| 13. Non-ferrous metals | 336.3 | 424.2 | 26.1 | 189.3 | 135.7 |
| 14. Iron and steel | 834.2 | 779.2 | —6.6 | 344.2 | 463.4 |
| 15. Capital goods | 1430.1 | 1651.5 | 15.5 | 920.8 | 752.3 |
| 16. Professional, scientific, controlling instruments, photographic optical goods, watches and clocks | 155.3 | 155.3 | .. | 84.9 | 68.6 |
| 17. Others | 876.4 | 1258.0 | 43.5 | 452.3 | 999.0 |
| TOTAL IMPORTS | 9021.7 | 12434.6* | 37.8 | 5744.8 | 5975.4 |

P — Provisional.

*Revised to Rs. 12465.4 crores.

Source : DGCI&S, Calcutta.

They show that imports now are heavily dominated by a few items. Imports of POL, fertilisers, non-ferrous metals and iron and steel, all of which are essential inputs into domestic production account for 60 per cent of the total imports in 1980-81. These items are even more dominant in the observed growth in import values. The increase in the import bill for these items accounts for 83 per cent of the increase in imports between 1978-79 and 1980-81. There has been some improvement in 1981-82 when it is expected that some of these imports such as POL and fertilisers will actually decline in value terms. The total value of imports in 1981-82 is likely to be around Rs. 13,200 crores which is about 6 per cent higher than in 1980-81 reflecting growth in non-bulk imports and capital goods in line with the requirements of expanding industry and the industrial revival.

8.11 Imports of POL rose from Rs. 1687 crores in 1978-79 to Rs. 5587 crores in 1980-81. This increase was partly because of larger import volumes. In quantity terms POL imports increased from 18.6 million tonnes in 1978-79 to 20.8 million tonnes in

1979-80 reflecting the high demand for petroleum products arising from the exceptionally large demand for irrigation in the drought year 1979 and the high demand for road transport because of railway movement constraints. These factors eased in 1980-81 but the disruption of domestic oil production in Assam led to further growth in import volumes to 24.9 million tonnes. Thus import volumes increased by 34 per cent over the two years due to exceptional factors. However, the total import bill increased by 231 per cent reflecting the fact that average unit values for all POL products increased by 147 per cent over these two years. The POL imports bill in 1981-82 shows signs of easing. The resumption of domestic production in Assam and higher production of Bombay High Oil combined with a moderation of demand in the wake of a series of price adjustments in petroleum products have led to a decline in import volumes. International oil prices have also eased in 1981-82.

8.12 The fertiliser import bill rose sharply from Rs. 411 crores in 1978-79 to Rs. 653 crores in 1980-81. This increase was due to a modest increase in import volumes and a large increase in unit values. In volume terms imports of crude and finished fertilisers taken together increased only modestly from 42.8 lakh tonnes in 1978-79 to 48.3 lakh tonnes in 1980-81, an increase of about 13 per cent. However, unit values increased by 41 per cent in these two years. The value of fertiliser imports are likely to decline in 1981-82 reflecting an easing of fertiliser prices in international markets and more importantly, a very marked increase in domestic production.

8.13 Edible oils have been a major item of imports since 1976-77 because of a policy of augmenting domestic supplies of this essential item in the interest of price stability. Imports of this item amounted to 1 million tonnes in 1978-79, declined to 0.7 million tonnes in 1979-80 and increased to 1.2 million tonnes in 1980-81. The volume of edible oils imports is likely to remain high in 1981-82. In value terms edible oils import grew from Rs. 430 crores in 1979-80 to Rs. 568 crores in 1980-81 and may exceed Rs. 600 crores in 1981-82.

8.14 Imports of iron and steel rose sharply in 1979-80 reflecting the existence of domestic shortages due to infrastructure constraints but eased in 1980-81. In quantity terms, imports of iron and steel declined by 19 per cent in 1980-81 but their average unit values rose by 15 per cent from Rs. 3362 per tonne in 1979-80 to Rs. 3863 per tonne in 1980-81. As a result, the value of iron and steel imports in 1980-81 was only 7 per cent lower than in 1979-80. There appears to have been a sharp increase in steel imports in 1981-82 reflecting higher demand from industry and building up of stocks. Imports of non- ferrous metals rose by 26 per cent from Rs. 336 crores in 1979-80 to Rs. 424 crores in 1980-81.

8.15 Capital goods imports in 1979-80 had increased by 9 per cent over the previous year. Growth in this item accelerated in 1980-81, reflecting the revival of investment activity, and imports of capital goods increased by 15.5 per cent. Further growth can be expected in 1981-82 since the pace of investment activity has accelerated.

8.16 Imports of pearls and precious and semi-precious stones have risen by 12 per cent to Rs. 388 crores in 1980-81 as against a decline of 26 per cent in 1979-80. Imports of these items are mostly meant for re-exports with value added. The rising trend in imports of the paper group witnessed in the previous years continued during 1980-81 as well. Imports of these items have gone up by 13 per cent from Rs. 155 crores in 1979-80 to Rs. 176 crores in 1980-81. Within the group, newsprint accounts for a large chunk. From 1.01 lakh tonnes valued at Rs. 38 crores in 1975-76, newsprint imports reached a level of 2.94 lakh tonnes valued at Rs. 111 crores in 1979-80. In 1980-81 imports of newsprint are provisionally placed at Rs. 126 crores for 2.98 lakh tonnes. The category 'others' which largely represents raw materials has grown in value by over 43 per cent to Rs. 1258 crores in 1980-81.

**Sources of Imports**

8.17 The picture of sources of imports by region during 1980-81 indicates that as in the previous year the largest share is from the OPEC region which accounted for 27.6 per cent of total imports compared with 26.7 per cent in 1979-80. Imports from these countries rose by about 43 per cent, from Rs. 2410 crores in 1979-80 to Rs. 3437 crores in 1980-81, representing mainly increase in value of oil imports. Within the OPEC group, Iran, Iraq and Saudi Arabia are the major sources of imports. Together they accounted for over 75 per cent of total imports from the OPEC region during 1980-81. Imports from the European Economic Community (EEC) countries rose by Rs. 555 crores to Rs. 2732 crores in 1980-81. However, their share in India's total imports declined from 24.1 per cent in 1979-80 to 22.0 per cent in 1980-81. Among the EEC countries, the United Kingdom has been the single largest source followed by Federal Republic of Germany, Belgium, France, Italy and the Netherlands. The Netherlands, Italy, and France have improved their shares in 1980-81. Imports from the ESCAP region (excluding Iran and Indonesia which are grouped under the OPEC) rose by about 49 per cent to Rs. 2036 crores from Rs. 1367 crores in 1979-80. Consequently, the region's share in total imports has also gone up from 15.2 per cent in 1979-80 to 16.4 per cent in 1980-81. Japan is the major source within this region. Imports from Japan have gone up by about Rs. 34 crores to Rs. 643 crores in 1980-81. However, its share in imports from the ESCAP region has declined by about 13 per cent to 31.6 per cent compared with 1979-80. A notable development in 1980-81 is the three-fold increase in imports from Singapore. From Rs. 151 crores in 1979-80, imports from Singapore rose to Rs. 452 crores in 1980-81. The share of the USA in India's total imports has gone up from 10.3 per cent in 1979-80 to 12.2 per cent in 1980-81 due to a 63 per cent increase in imports from Rs. 926 crores in

1979-80 to Rs. 1511 crores in 1980-81. On the other hand, the share of the East European countries in India's total imports has come down from 12.2 per cent in 1979-80 to 10 per cent in 1980-81 due to a relatively moderate increase in imports from Rs. 1102 crores to Rs. 1246 crores. The USSR accounts for the bulk of imports from this region. Its share in imports from the East European countries which was about 75 per cent in 1979-80 rose to about 77 per cent in 1980-81—from Rs. 824 crores to Rs. 955 crores.

**Exports**

8.18 Trends in major items of India's exports are shown in Table 8.4.

TABLE 8.4

*India's Exports by Major Commodity-Groups*

(Value in crores of Rupees)

| Sl. No. | Commodity | 1979-80 | 1980-81 | Per cent change 1980-81/ 1979-80 | April—September 1980 (P) | April—September 1981 (P) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. | Tea and mate | 367.8 | 385.4 | 4.5 | 144.5 | 180.2 |
| 2. | Coffee and substitute | 163.3 | 225.0 | 37.8 | 125.2 | 68.8 |
| 3. | Tobacco unmanufactured | 102.2 | 122.6 | 20.0 | 75.9 | 107.1 |
| 4. | Raw cotton | 75.1 | 129.6 | 72.6 | 55.4 | 16.3 |
| 5. | Rice | 128.3 | 156.0 | 21.6 | 43.7 | 146.2 |
| 6. | Sugar | 128.9 | 36.0 | (—)72.1 | 10.0 | 15.3 |
| 7. | Cashew kernels | 118.1 | 123.2 | 4.3 | 72.9 | 105.6 |
| 8. | Spices | 149.4 | 106.2 | (—)28.9 | 53.1 | 37.8 |
| 9. | Oil cakes | 127.5 | 109.2 | (—)14.4 | 44.4 | 59.8 |
| 10. | Iron ore | 285.2 | 289.4 | 1.5 | 139.3 | 119.0 |
| 11. | Jute manufactures | 336.1 | 243.3 | (—)27.6 | 153.5 | 134.1 |
| 12. | Cotton fabrics | 287.4 | 293.8 | 2.2 | 130.1 | 119.5 |
| 13. | Leather and Leather manufactures including footwear | 519.5 | 376.0 | (—)27.6 | 164.0 | 189.5 |
| 14. | Fish and fish preparations | 249.4 | 223.7 | (—)10.3 | 90.7 | 120.3 |
| 15. | Readymade garments | 459.7 | 481.0 | 4.6 | 190.4 | 262.9 |
| 16. | Chemical and Allied products | 197.8 | 209.8 | 6.1 | 113.8 | 157.6 |
| 17. | Iron and Steel | 105.2 | 82.3 | (—)21.8 | 35.1 | 33.6 |
| 18. | Engineering Goods | 730.1 | 900.5 | 21.8 | 347.5 | 362.0 |
| 19. | Handicrafts | 832.5 | 903.5 | 8.5 | 313.2 | 411.2 |
| | of which Pearls, precious and semi-precious stones | 519.0 | 542.7 | 4.6 | 186.9 | 253.0 |
| 20. | Others | 1086.3 | 1312.3 | 20.8 | 532.8 | 679.6 |
| | TOTAL EXPORTS | 6458.8 | 6708.8 | 3.9 | 2835.5 | 3326.4 |

P — Provisional.

Source : DGCI&S, Calcutta.

Exports increased by less than four per cent in value terms in 1980-81. The provisional figure for the first seven months in the current fiscal year shows a growth of 14 per cent in rupee value terms over the corresponding period in 1980-81. The sluggishness in total export growth in 1980-81 was largely because of a sharp decline in export volumes of tea, sugar, spices, oil cakes and jute. In the case of tea higher unit value realisations offset the decline in quantities, but in the other items this was not the case and export values declined sharply. Sugar exports which had reached 7.2 lakh tonnes in 1978-79 had declined to 5.7 lakh tonnes in 1979-80. With the emergence of domestic shortages in 1979 and 1980 sugar exports declined precipitously to 0.7 lakh tonnes in 1980-81. These items taken together account for 17 per cent of exports in 1979-80 and their combined values declined by 21 per cent in 1980-81.



8.19 Exports of some non-traditional items also suffered. Marine products exports declined from 76,600 tonnes in 1979-80 to 76,000 tonnes in 1980-81. Exports of marine products are adversely affected by a combination of constraints. On the supply side the limitations on our ability to exploit deep sea fishing is preventing growth since inshore fisheries are at present fully exploited. In 1980-81 shrimp exports to the USA were subjected to non-tariff barriers arising from quality inspection. These problems have since been resolved. Exports of leather and leather manufactures had increased from Rs. 354 crores in 1978-79 to Rs. 520 crores in 1979-80. They declined sharply to Rs. 376 crores in 1980-81. Depressed international demand and protectionism were the main factors behind this decline. Exports of garments, as well as gems and jewellery also suffered for the same reasons. Garment export increased only marginally from Rs. 460 crores in 1979-80 to Rs. 481 crores in 1980-81 and export of gems and jewellery from Rs. 543 crores in 1979-80 to Rs. 558 crores in 1980-81.

8.20 Among the traditional exports some items performed well in 1980-81. Exports of coffee, which had slumped in 1978-79, recovered somewhat in 1979-80 due to higher prices in world market and then expanded further by 38 per cent in value terms in 1980-81. This impressive performance in 1980-81 was because of a 43 per cent increase in export volumes. Unit value realisations declined marginally from Rs. 26.43 per kg. in 1979-80 to Rs. 25.51 per kg. in 1980-81. Rice exports had also done well. They had expanded by over 231 per cent in 1979-80 and increased further by 22 per cent to reach Rs. 156 crores in 1980-81, entirely due to higher unit value realisation.

8.21 Export of unmanufactured tobacco has recovered fully to Rs. 123 crores in 1980-81 from the ground lost during the previous two years. However, this was mainly due to higher unit value realisation. Exports in quantity term have declined in recent years from 89.4 thousand tonnes in 1977-78 to 78.5 thousand tonnes in 1978-79 and further to about 75 thousand tonnes in 1979-80. In 1980-81 exports of unmanufactured tobacco increased marginally to 77.8 thousand tonnes. Exports of cashew kernels, which increased by 47 per cent in value during 1979-80, rose further by about 4 per cent to Rs. 123 crores in 1980-81. The export performance of cashew kernels in 1979-80 and 1980-81 remained below the achievement in 1977-78 when exports in value amounted to Rs. 150 crores. Insufficient indigenous production and declining imports of raw nuts resulted in lower exports in quantity terms in recent years. From the peak of 66.3 thousand tonnes in 1972-73, export had declined to as low as 27 thousand tonnes in 1978-79, thereafter it recovered to 38 thousand tonnes in 1979-80 and slumped again to 28.4 thousand tonnes in 1980-81. However, global shortages of supplies during the last five years led to sharp increases in prices and hence the value realised through exports has been generally showing an upward trend. The unit price increased from Rs. 17.94 per kg. in 1975-76 to Rs. 31.08 per kg. in 1979-80 and further to Rs. 43.38 per kg. in 1980-81. Due to increase in prices, demand has fallen in all major markets except the USSR. Exports of iron ore increased only marginally by Rs. 4 crores to Rs. 289 crores in 1980-81.

8.22 Engineering goods exports which had grown by only 5 per cent in value terms in 1979-80 recovered substantially and grew by 22 per cent in 1980-81. This sharp improvement in performance was principally a reflection of the easing of infrastructural constraints in 1980-81 and the consequent revival of industrial production.

8.23 In contrast to the sluggish performance of exports in 1980-81 there has been a distinct improvement in the current year. Exports are expected to show a growth of 6-7 per cent in volume terms and about 14 per cent in value terms. The commodity-wise export trend during the first six months of 1981-82 shows that the recovery is fairly general. Oil cakes and leather and leather manufactures whose export earnings recorded declines in 1980-81, have recovered considerably during April-September, 1981. There has been further improvement in the export performance of unmanufactured tobacco, rice, cashew kernels, fish and fish preprations, chemicals and allied products and engineering goods. On the other hand, iron ore and cotton fabrics whose export growth in value decelerated considerably during 1980-81 have shown large declines during April-September, 1981. Exports of spices and iron and steel have also shown further declines.

8.24 Although the improvement in 1981-82 is encouraging it must be recognised that India's export performance will have to be further strengthened in the coming years. A dynamic export performance is essential if the country is to achieve a sustainable balance of payments. This requires sustained efforts to improve domestic production base of a wide range of our exports which have potential for growth and also to ensure adequate profitability of exports.

**Direction of Exports**

8.25 The distribution of exports by market regions during 1980-81 shows that the share of the East European countries in India's total exports has improved considerably from 13.1 per cent in 1979-80 to 20.9 per cent in 1980-81 mainly due to an increase of 81 per cent in exports to the USSR from Rs. 638 crores in 1979-80 to Rs. 1,157 crores in 1980-81. The growth in exports to the USA has been only nominal at 4.3 per cent from Rs. 817 crores in 1979-80 to Rs. 852 crores in 1980-81 which was just enough to maintain its previous year's share at about 13 per cent of total India's exports. There have been large declines in the exports to the other two major regions, namely, the EEC and the ESCAP. Exports to the EEC slumped from Rs. 1,751 crores in 1979-80 to Rs. 1,464 crores in 1980-81. The decline was contributed by all the major countries in the region. Consequently, EEC's share in India's total exports declined by 5.3 per cent to 21.8 per cent. Exports to the ESCAP region (excluding Iran and Indonesia which are grouped under the OPEC) marked a decline of about 8 per cent to Rs. 1,383 crores and its share in India's total exports went down from 23.3 per cent in 1979-80 to 20.6 per cent in 1980-81, mainly due to declines in exports to Japan, Australia, Shri Lanka and Korea. Exports to the OPEC countries during 1980-81 have increased only by 4.5 per cent to Rs. 750 crores due to a reduction in exports to Iraq from Rs. 61 crores in 1979-80 to Rs. 51 crores in 1980-81 and to Kuwait from Rs. 124 crores to Rs. 97 crores.

**Import-Export Policy for 1981-82**

8.26 The Import-Export Policy for 1981-82 retained the basic framework of the trade policy for the fourth year in succession. It allows flexible and liberal access to import requirements for actual users consistent with the aim of strengthening and diversifying the production base of the economy. Exporters are given specially favourable treatment to ensure their competitiveness. The major elements of the Import-Export policy during 1981-82 are indicated below :

8.27 Actual users (Industrial) are allowed, as in the past, to obtain their requirements of imported raw materials, spares, components and consumables through Open General Licences, where applicable, automatic and supplementary licences, and also through the canalising agencies. Under the system of automatic licences available to actual users for importing raw materials, components, consumables and spares, the maximum value of repeat licences which the small scale industrial units can obtain without production of consumption certificate was raised from Rs. 50,000 to Rs. 1 lakh. This measure is expected to benefit more than 40,000 units spread over the country which depend on imported inputs for carrying on their activities.

8.28 In 1980-81 manufacturer-exporters were given the facility of importing against replenishment licences (REP) not only the items appearing in the shopping list against the relevant export product but also any other items of raw materials, components, consumables or packing materials required for their own use. In the 1981-82 policy this facility was extended to all manufacturers whether they export their products directly or through others.

8.29 The scheme of Advance Licences with the benefit of customs duty exemption was extended to new export products and a simplified procedure was evolved for issuing Advance Licences on the basis of pre-determined input-output norms without having to produce a certificate of chartered engineer or recommendation of DGTD. Established manufacturer, exporters, who have been exporting for at least 3 years, are permitted under the revised procedure to obtain bulk advance licence with a single duty exemption entitlement certificate. This facility is designed to enable the exporters to meet their requirements for export production on the basis of advance planning and phased export programme.

8.30 Under the scheme of duty free imports against REP Licences introduced last year in respect of specified products, the manufacturer-exporters were allowed to import raw materials subject to an 'Actual User' condition. In order to make the scheme more responsive to the needs of exporters, especially of products made in decentralised sector, the 'Actual User' condition has been removed. The scheme has also been extended to cover one more product *i.e.* hand-knitted woollen carpets.

8.31 The 1981-82 policy recognises the much larger role which the export houses, particularly the larger ones, can play in promoting and developing exports. In order to enable them to undertake increased export activity and promote exports of products manufactured in the small scale sector, a new scheme of Trading Houses was introduced in the 1981-82 policy. Trading Houses are eligible, besides the normal REP benefits, to the following facilities :

(a) They are allowed to utilise foreign exchange for export promotion activities abroad including establishment of warehouses and offices abroad at 2.5 per cent of their total exports in the previous year subject to a ceiling of Rs. 40 lakhs.

(b) They are eligible for additional licences at 20 per cent of the value of exports of select products manufactured by small scale sector and 7½ per cent of other exports of select products in 1980-81. Additional licences issued to Trading Houses will be valid for import of restricted items with a value limit of Rs. 20 lakhs per item and they will also be valid for import of banned and canalised items upto a maximum of 5 per cent of the licence subject to a single item not exceeding Rs. 5 lakhs in value.

(c) They are also authorised to act as Industrial Raw Materials Assistance Centres (IRMAC) providing facilities both to Actual Users against Actual Users Licences and Registered Exporters and Export Houses against REP and Additional Licences.

8.32 In the case of other Export Houses, the value of additional licences issued against exports of products manufactured by small scale units has been reduced from 33⅓ per cent to 15 per cent. This reduction will not, however, apply to small scale units recognised as Export Houses and consortia Export Houses of Small Scale units.

8.33 In order to maintain good trade relations with their foreign buyers, the Export Houses have been allowed to settle small-value claims of their foreign buyers out of the bulk foreign exchange allocated to them for export promotion activities.

8.34 In order to strengthen the links between Export Houses and their supporting manufacturers and to ensure regular supplies of raw material to small scale and cottage sector units, certain items of metal scraps, including brass scrap and copper scrap have been placed on OGL for Export Houses and Small Industries Corporations of State Governments/ Union Territories. Such imports can be distributed only to Actual Users (Industrial).

8.35 The role of public sector canalising agencies has been strengthened. Such agencies can now import under OGL even the non-canalised items which

Actual Users (Industrial) can import under OGL, for distribution to Actual Users provided this is within the foreign exchange released to them. Some items such as aluminium rods, writing and printing papers, and all types of edible and non-edible oils and fatty acids were added to the list of canalised items. On the other hand, some of the items which are not generally suitable for bulk purchasing have been taken out of canalisation.

8.36 Special facilities for non-resident Indians returning home for settlements have been further liberalised. Hereafter such persons will be eligible to import machinery not only for setting up a new industry but also for participation in the expansion or diversification of an existing industry and the earlier ceilings of Rs. 25 lakhs for new machinery and Rs. 15 lakhs for old machinery, on the value of the machinery that could be imported, have been removed. Professional and technical persons would be allowed also to import banned items of machinery and computer systems provided the applicant has been using the equipment for at least one year before his return to India or where the computer is a built-in part of the equipment being allowed for import. Import of prototypes will be allowed. Import of cement required for construction of factory buildings and machinery required for agricultural production and development (other than banned) purchased out of their own foreign exchange earnings abroad will be allowed. The benefit of concessional rate of customs duty as admissible to project imports will be permissible in these cases also.

8.37 Several modifications were made to the policy regarding import of capital goods. Importers of prototypes are not required to go through the advertisement procedures. In respect of other capital goods, the value limit for the waiver of the advertisement requirement has been raised from Rs. 10 lakhs to Rs. 20 lakhs. The value limit for import of machinery against REP Licences has also been raised from Rs. 15 lakhs to Rs. 20 lakhs. Import of second-hand machinery under the OGL is permitted, provided the machinery is not more than 10 years old and its expected residual life is not less than 5 years.

8.38 The policy with regard to the import of spares, accessories and toolings along with capital goods permitted for import under OGL has been rationalised and separate value limits have been set for these categories *viz.* 5 per cent of the value of the main equipment in respect of spares as also accessories/toolings. Accessories/toolings in excess of 5 per cent norm, if required by an actual user, will be allowed on a recommendation of DGTD. Import of standard accessories supplied compulsorily as part of the main equipment will not be restricted to the prescribed limit of 5 per cent.

8.39 The proposal to establish an Export-Import Bank was approved by the Parliament. The Bank is to have an authorised capital of Rs. 200 crores. The Bank will provide financial assistance to exporters and importers and function as the principal financial institution for coordinating the working of institutions engaged in financing foreign trade. It will refinance commercial banks and financial institutions in their financing of export—import activities.

**External Assistance**

8.40 Gross disbursements of external assistance increased sharply in 1980-81 to Rs. 2165 crores from the previous year's level of Rs. 1367 crores. A major part of the increase was due to disbursement of Rs. 538 crores from the IMF Trust Fund Loan. However, even excluding this non-recurring item, gross disbursements from the normal sources of assistance were Rs. 1627 crores, an increase of 19 per cent over the previous year. This was due to better utilisation of aid in the pipeline. Utilisation of aid had deteriorated after 1976-77 due to projectization of aid, with gross disbursements declining while authorisations increased. A concerted effort has been made to accelerate the pace of disbursement. There was an improvement in 1980-81 with authorisations (excluding the Trust Fund Loan) totalling Rs. 3302 crores compared with Rs. 1860 crores in the previous year. This was mainly because of IDA authorisations which increased from Rs. 421 crores in 1979-80 to Rs. 1539 crores in 1980-81. Trends in gross and net inflow of external assistance are shown in Table 8.5.

TABLE 8.5

*Inflow of External Assistance, Gross and Net*

(Rs. crores)

| | 1970-71 | 1971-72 | 1972-73 | 1973-74 | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 | 1981-82* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| I. Authorisations | 762 | 929 | 676 | 1171 | 1671 | 2654 | 1286 | 1897 | 2334 | 1860 | 3840** | 1183@ |
| II. Gross Disbursements of which : | 791 | 834 | 666 | 1036 | 1314 | 1841 | 1599 | 1290 | 1266 | 1367 | 2165** | 1926 |
| Debt relief | 77 | 61 | 106 | 117 | 116 | 133 | 102 | 28 | 7 | 11 | 13 | 2 |
| III Debt Servicing (including interest payments) | 450 | 479 | 507 | 596 | 626 | 687 | 755 | 821 | 882 | 884 | 868 | 837† |
| IV. Net inflow of assistance | 341 | 355 | 159 | 440 | 688 | 1154 | 844 | 469 | 384 | 483 | 1297 | 1089 |

*Provisional

@April—December, 1981

**Include Rs. 538 crores from the IMF Trust Fund.

†Excluding Suppliers' Credits.

8.41 The Aid India Consortium met in Paris on June 9 and 10, 1981. Delegates at the Consortium meeting commended the recovery of the Indian economy during the fiscal year 1980-81 and in particular the remarkable agricultural recovery achieved during the year. There was a strong endorsement of the objectives, priorities and structure of the Sixth Five-Year Plan. Recognising that India's balance of payments had worsened mainly due to external reasons and would continue to be under heavy strain, the member countries endorsed India's need for increased flow of aid and for support to its balance of payments.

8.42 Pledges for fresh aid for the year 1981-82 totalling SDR 2822 million were announced at the meeting. This compared with last year's figure of SDR 2728 million, showing an increase of 3.7 per cent. Out of this, the World Bank Group pledges were of the order of US dollar 2030 million (equivalent to SDR 1652 million). In addition, technical assistance amounting to SDR 41 million was also pledged. The total pledges including technical assistance amount to about Rs. 3000 crores at current exchange rates. Unfortunately the climate for concessional assistance has worsened in the past year and this portends some difficulties ahead. The Sixth Replenishment of the International Development Association (IDA) has run into difficulties. The US contribution will not be according to the commitment schedule envisaged in the programme and other donors have also reduced their contribution.

8.43 In view of the medium term nature of the balance of payments problem, and the need to finance a large current account deficit for some years it was essential to resort to additional financing beyond the normal flows of external assistance. Accordingly, the Government entered into an extended arrangement under the IMF's Extended Fund Facility/Enlarged Access Policy which enables India to purchase up to the equivalent of SDR 5 billion over a three-year period which spans the fiscal years 1981-82 to 1984-85. Purchases under this arrangement (which is equivalent to 291 per cent of India's quota of SDR 1717.5 million) will be financed in part from the Fund's ordinary resources (SDR 2404.5 million) and in part from resources borrowed by the Fund under the policy of enlarged access (SDR 2595.5 million). Of the total amount of the arrangement, the schedule envisages that the equivalent of SDR 900 million can be made available until June 30, 1982; not more than SDR 1800 million up to June 30, 1983; leaving SDR 2300 million for the remaining period of the programme. An amount of SDR 600 million had been drawn under the first year's allocation by the end of January 1982.

8.44 The extended arrangement supports an adjustment programme aimed at strengthening the balance of payments position over the medium term. The adjustment programme outlined by the Government of India is an integral part of the Sixth Five Year Plan (1980-81 to 1984-85). The Plan places special emphasis upon investment in energy and infrastructure which are critical for the adjustment. The accelerated programme for oil exploration and production which was approved in 1981-82 will lead to a large increase in domestic oil production. It is anticipated that with additional production, and a moderation in growth of domestic demand, the dependence on import of POL products will decline from about 70 per cent in 1980-81 to about 47 per cent in 1981-82. Similarly, expansion of capacity and production in critical sectors such as coal, power and railways, will ensure large increases in domestic production in areas like steel, cement, aluminium and fertilisers which will enable us to save on imports in areas where we are highly cost-effective. The Plan also emphasises the importance of export performance. All these features are central to the adjustment programme which forms the basis of the extended arrangement with the IMF. The medium term adjustment programme is to be implemented in a framework of macro-economic stability and moderation in the rate of inflation. To this end, credit ceilings have been intimated to the IMF. These ceilings allow for an expansion of 19.4 per cent (or an increment of Rs. 12055 crores) in total domestic credit and an increment of 20.1 per cent (or Rs. 5175 crores) in the net bank credit to Government.

8.45 Until recently India had refrained from major commercial borrowing from the international market. The Government has since decided to borrow from the international market to the extent the availability of low-cost multilateral and bilateral resources fall short of the requirement of external resources. Euro-currency financing on a fairly large scale was arranged for the National Aluminium Company Ltd. project (Rs. 544 crores) and for the ONGC (Rs. 160 crores) in 1980-81. Private companies have also been selectively allowed to raise money abroad for approved projects through bond issues, Euro-currency loans and through the International Financial Corporation. Oil exporting developing countries have been allowed equity investment and to advance loans for industrial projects, hotels and hospitals. As part of the agreement with the IMF India has intimated its intention of limiting commercial borrowings to SDR 1.4 billion (U.S. $ 1.5 billion) in 1981-82. This amount excludes borrowings for major projects like the Paradip Steel Plant and a major super thermal power project as well as borrowings with maturities beyond 12 years.

8.46 The total volume of external commercial loans committed during 1980-81 amounted to Rs. 880 crores. Actual disbursement during the year amounted to Rs. 141 crores. There is a growing interest in the world capital markets in India which has a high credit rating because of its careful management of the balance of payments.

8.47 It is evident that the balance of payments situation presents major challenges in the coming years. The massive deterioration in the terms of trade arising from the increase in oil prices in 1979 is not likely to be reversed. Nor can the large current account deficits it has produced be financed indefinitely. The availability of external finance on concessional terms is shrinking, especially from the multilateral sources which India has traditionally tapped. There are limits to the extent to which commercial borrowing can be undertaken without running into debt servicing problems. These difficulties point to the extreme urgency of bringing the current account deficit under control. This calls for an all out effort to expand domestic production in areas where the country can efficiently substitute for imports. There is considerable scope for such import savings in petroleum, steel, cement, aluminium, fertilisers and edible oils. Along with efforts at import saving it is also essential to improve the export performance of the economy. India's exports had performed extremely well in the mid-Seventies but the momentum was lost in the later years of the decade. There has been an improvement in export performance in 1981-82. Further improvement is necessary in the coming years if the balance of payments problem is to be brought under control. Policy towards exports should aim not only at expanding the export base but also focus on their competitiveness in world markets. Remittances of Indian workers abroad have been an important source of earnings on the invisibles account. Although these are not expected to grow at the higher rates witnessed in the past few years, it is essential to provide adequate facilities and encouragement to flow of savings from this source and for their investment in India. A sustained push on all these fronts is necessary to make the external payments situation manageable in future.