CHAPTER 8

FOREIGN TRADE AND BALANCE OF PAYMENTS

The external payments situation, which had eased in 1982-83, improved further in 1983-84. The trade gap which was Rs. 5,802 crores in 1981-82, and declined to Rs. 5,526 crores in 1982-83, is expected to fall further to about Rs. 5,000 crores in 1983-84. As a percentage of Gross Domestic Product (GDP), the trade deficit is likely to come down from over 3.9 per cent in 1981-82 to about 2.7 per cent in 1983-84. Foreign exchange reserves (excluding gold and SDRs) increased from Rs. 4,265 crores at the start of 1983-84 to Rs. 4,696 crores by January 31, 1984. At this level, foreign exchange reserves were Rs. 431 crores higher than the level at the beginning of the financial year.

8.2 In view of the improvement in the external financing position, the Government on its own initiative decided to refrain from making any further drawings under the EFF arrangement with the International Monetary Fund (IMF) after the completion of the current year's programme. By then India will have drawn SDR 3.9 billion out of SDR 5 billion originally envisaged. The faster than anticipated improvement in the country's balance of payments is a matter of satisfaction and underscores the soundness of the external adjustment policies adopted by the Government at the beginning of the Sixth Five Year Plan period.

Balance of Payments and Foreign Exchange Reserves

8.3 The official balance of payments data compiled by the RBI are available only up to the first quarter of 1982-83. However, major developments in the balance of payments in 1982-83 and 1983-84 can be inferred from the available partial data on trade, invisibles flows and aid flows as their net effect is directly reflected in the movements in foreign exchange reserves.

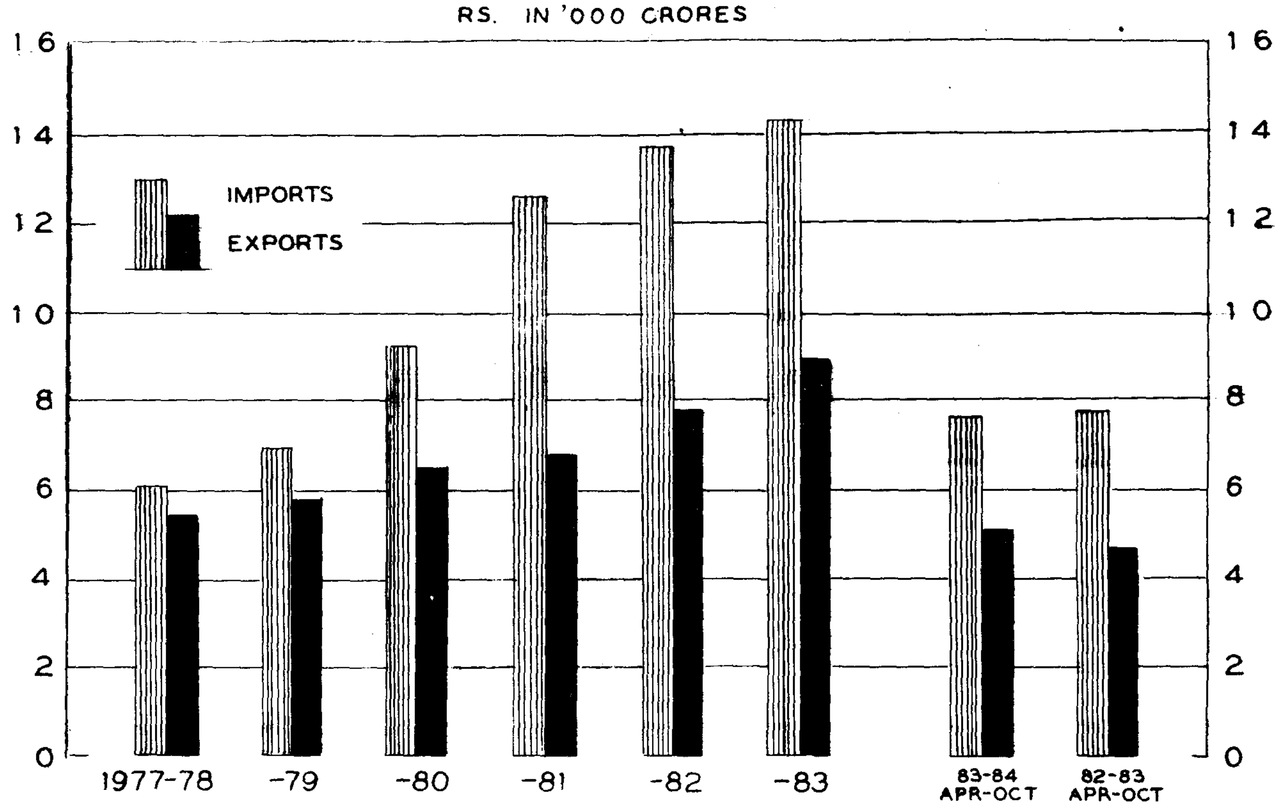
8.4 The year 1982-83 saw a turn around in the external payments position of the country. The previous year (1981-82) had seen severe strain on external payments. Foreign reserves (including gold and SDRs) had declined by Rs. 1,618 crores in spite of the drawal of Rs. 637 crores from the IMF under the EFF arrangement negotiated in November 1981. Thus the residual financing gap *i.e.,* the loss in reserves that would have occurred in the absence of IMF resources, amounted to as much as Rs. 2,255 crores in 1981-82. The situation improved considerably in 1982-83. Although drawings from the IMF increased to Rs. 1,893 crores, the residual financing gap was lower allowing a build up of foreign reserves (including gold and SDRs) by Rs. 771 crores, recouping to some extent the excessive reserves loss of the previous year. The residual gap in 1982-83 is estimated from these figures at Rs. 1,122 crores which is about half the size of the gap in 1981-82. The situation has improved further in 1983-84. The movement in foreign reserves (including gold and SDRs) upto 31st January, 1984 showed an increase of Rs. 242 crores and the net drawal from the IMF was Rs. 937 crores so that the financing gap in the first ten months of 1983-84 has been about Rs. 695 crores. On present expectations the gap for the year as a whole is likely to be about Rs. 900 crores.

8.5 The improvement in the balance of payments witnessed in 1982-83 and 1983-84 reflects the combined effect of developments on both the current and capital accounts. On the current account there has been a definite improvement in the balance of trade. The trade deficit, which was Rs. 5,802 crores in 1981-82, declined to Rs. 5,526 crores in 1982-83. As a percentage of GDP, the decline was from 4.6 per cent in 1980-81 to 3.4 per cent in 1982-83. This decline in the trade deficit was principally because of massive import savings in petroleum, as domestic production of crude oil increased, together with import savings in other bulk imports, especially in fertilisers and non-ferrous metals. The trade balance has improved further in 1983-84. In the period April—October, 1983 the trade deficit was Rs. 2,744 crores which was Rs. 584 crores less than the trade deficit in the corresponding period of the previous year. On present prospects, the trade deficit for the year as a whole is likely to be about Rs. 5,000 crores. The continued improvement in 1983-84 is principally because of continued import saving in petroleum following higher domestic production and a softening in international oil prices. The volume of other imports, especially raw materials and other inputs into industry also declined on account of the slow-down in industrial growth in 1982-83 which continued into the first half of 1983-84.

8.6 A second factor underlying the improvement in the balance of payments position in the current year is the behaviour of invisible receipts. These had been buoyant up to 1981-82, but were expected to

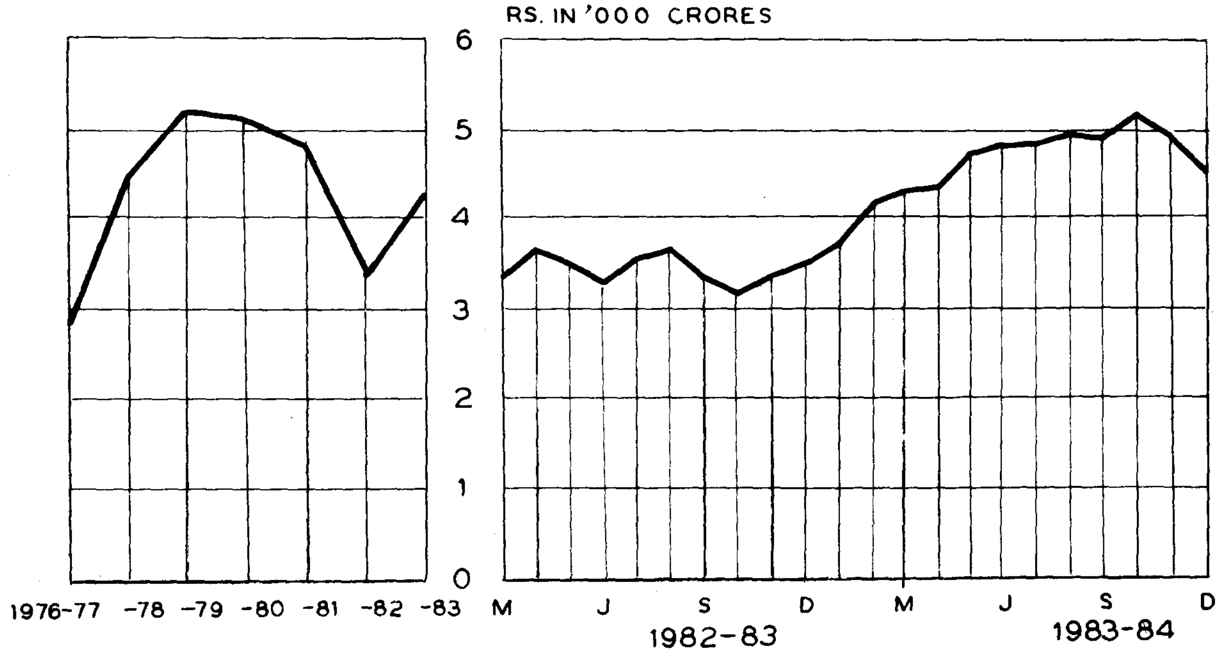
FOREIGN TRADE

RS. IN '000 CRORES



FOREIGN EXCHANGE RESERVES

RS. IN '000 CRORES



MINISTRY OF FINANCE , ECONOMIC DIVISION.

GMGIPMRND-PLW-668/1/Fin/83-84...Chart 13

decline in 1982-83 and 1983-84 because of the deteriorating international environment and the economic slow-down in the Gulf countries. Although developments in the Gulf countries are not favourable from a medium term point of view, these have not yet affected net invisibles which continue to lend strength to the current account position.

8.7 A number of steps were taken in 1982-83 to step-up the flow of remittances to India and to encourage non-resident Indians abroad to hold their savings in the form of deposits in Indian banks. These included a two percentage point premium in the interest rate on these deposits over that on domestic deposits. These measures have proved successful and there has been a sizeable accretion of funds in the form of deposits in non-resident external accounts which has strengthened the capital account side of the balance of payments. The increase in the amounts outstanding in the various types of external accounts is shown below :

TABLE 8.1

Outstanding amounts in various types of external accounts

As on	Non-Resident External Rupee Account* (Rs. crores)	Foreign Currency Non-Resident Accounts			
		U.S. $ Accounts		£ sterling Accounts	
		$ million	Rs. crores	£ million	Rs. crores
31 March, 1981	937.74	140.29	115.66	19.78	36.60
31 March, 1982	1,186.18	107.32	100.55	27.64	46.16
31 March, 1983	1,634.60	151.50	150.81	68.23	100.63
**31 December, 1983	2,153.50	355.26	374.47	109.25	167.16

*Figures include accrued interest.

**Provisional data.

Whereas the total accretion to these accounts in 1981-82 was Rs. 243 crores, it increased to about Rs. 550 crores in 1982-83. In 1983-84 up to the end of December, 1983 the receipts have increased by about Rs. 800 crores.

8.8 The external assistance environment has been deteriorating and remains unfavourable. Fortunately, this did not affect aid disbursements in 1982-83 and 1983-84 which were largely influenced by projects in the pipeline. Efforts are being made to accelerate disbursements in 1983-84 but disbursements are only likely to show a modest increase over the previous year.

8.9 The improvement in the balance of payments situation may be expected to continue into 1984-85 for a variety of reasons. Crude oil production is projected to increase further to reach the Sixth Plan target of 29.6 million tonnes and international oil prices are expected to remain at about the present level. The slow-down in the growth of other imports witnessed in the first half of 1983-84 will also take time to be reversed, especially since there are substantial stocks of raw materials, such as steel, and considerable potential for increasing production through better capacity utilisation in steel and fertilisers. Food stocks have been replenished and food imports may not be needed under normal weather conditions. On present expectations, therefore, the financing gap in 1984-85 will be significantly lower than in the current year.

8.10 In view of these favourable developments in the balance of payments, the government decided to abstain from making any further drawings under the EFF arrangement after the completion of the current third year programme. By the end of the third year programme India will have drawn a total of SDR 3.9 billion out of SDR 5 billion originally available. While there will be a residual financing gap in 1984-85, it will be of manageable limit which can be met without resort to the IMF.

8.11 The external value of the rupee continued to be fixed in terms of a weighted basket of currencies of countries which are India's major trading partners with the pound sterling as the intervention currency. The exchange rate between the rupee and the pound sterling was adjusted from time to time in line with the exchange rate movements of the currencies in the basket. The latest adjustment was effected on 15th February, 1984 when the middle rate was fixed at Rs. 15.45 per pound.

Imports

8.12 Total imports during 1982-83 amounted to Rs. 14,356 crores (provisional) showing an increase of 5.5 per cent over the previous year's level. This was a second year of modest import growth; in 1981-82, imports had increased by 8.3 per cent. As in 1981-82, the moderation in import growth in 1982-83 was because of the increase in domestic production of items such as petroleum, fertilisers, non-ferrous metals, etc. There was also some decline in world prices of a few items of India's imports, especially POL, fertilisers, and edible oils. The slow-down in imports has continued into 1983-84 with the data for April—October, 1983 indicating that the value of imports was 2.8 per cent lower than in the corresponding period of the previous year. The low level of imports in 1983-84 is because of continued import savings in petroleum through higher domestic production, and a lower level of oil prices in world markets than at this time last year but it is also because of slack demand from industry. The volume of imports is expected to increase in the second half of 1983-84 on account of some revival in economic activity and some bunching in the arrival of bulk imports. However, even allowing for this pattern, imports in 1983-84 are likely to grow at a lower rate than in 1982-83.

8.13 The slow growth in imports in 1982-83 and 1983-84 is characterised by some important differences in the behaviour of individual items. While imports of bulk items have been declining, there has been expansion in capital goods imports and in other imports, mainly input requirements of industry. In 1982-83, when imports increased by 5.5 per cent, capital goods imports increased by 13 per cent, and the largest increase was in the category of "others". It may be noted that 1982-83 data are provisional while those for 1981-82 are revised. The category "others" in the provisional figures includes unclassified items which would get distributed later among the identified groups thereby reducing the percentage rise in 1982-83 under this category. The high growth rate of capital goods imports has continued into the current year with the data for April—September, 1983 showing a growth rate of 31.7 per cent for this category. Interestingly, the category "other imports" also shows stagnation compared with the same period in 1982-83 (both figures are provisional) probably reflecting the slow down in industrial activity during the early part of the year.

8.14 In 1982-83, imports of cereals and cereal preparations amounted to Rs. 306.5 crores, which were lower than the level of 347.2 crores in the previous year. Imports of foodgrains continued in 1983-84 to supplement domestic availability after the drought. The import of wheat was around 1.3 million tonnes in each of the two years 1981-82 and 1982-83 and 2.1 million tonnes of wheat has been contracted for delivery in 1983-84.

8.15 The trade data compiled by the DGCI&S show a very sharp decline in edible oil imports from Rs. 625.3 crores in 1981-82 to Rs. 226.3 crores in 1982-83. However, the 1982-83 data are provisional and understate the actual level of edible oil imports. Pending revision of the DGCI&S data, a more reliable picture of edible oil imports is obtained from data from the State Trading Corporation (STC) through which edible oil imports are canalised. According to these data, imports of vegetable oil were 10.2 lakh tonnes valued at Rs. 498.4 crores in 1981-82, but in 1982-83 these had declined to 9.8 lakh tonnes valued at Rs. 417.5 crores. The world market prices for edible oils were depressed in 1982-83, when there was a sharp fall in prices of palm oil and groundnut oil, and a moderate fall in the case of soyabean oil. Reflecting this the unit price of imports was about 12.5 per cent cheaper in 1982-83 than in 1981-82. However, during the current year prices of edible oils have firmed up in the world market. STC's imports during April—September, 1983 were larger at 6.8 lakh tonnes compared with 4.7 lakh tonnes in the corresponding period in the previous year (an increase of 44.7 per cent). Imports in value terms during the above period (Rs. 304.5 crores) were, however, higher by 47.1 per cent as a result of increase in prices. The large outgo of foreign exchange on account of edible oils imports and the rising trend in international prices of edible oils underscore the urgent need to step up production of oilseeds within the country as an important area for import substitution.

8.16 During 1982-83 POL imports (gross) were about 22.0 million tonnes valued at Rs. 5,598 crores compared with 20.2 million tonnes valued at Rs. 5,189.5 crores during 1981-82. The increased volume of POL imports during 1982-83 needs to be adjusted for the fact that constraints in domestic refining capacity prevented refining of part of the crude produced in Bombay High, which was exported and against this, additional crude or products more suitable for India's refining and consumption requirements were imported. The value of POL imports, net of oil exports is, therefore, the appropriate measure of the country's dependence on imported oil and net imports declined from Rs. 4,978.2 crores in 1981-82 to Rs. 4,440.6 crores in 1982-83. The saving of POL imports has continued in 1983-84. The gross value of POL imports during April—September 1983 was lower by 20.5 per cent than in the same period of the previous year. POL imports value, net of oil exports during the same period show a decline of 31.7 per cent over April—September 1982. For the year as a whole, prospects are that POL imports, net of oil exports, will amount to about Rs. 3,600 crores, a substantial reduction from the level of Rs. 4,441 crores in 1982-83. Underlying this improvement is the increase in domestic production of crude oil from 16.2 million tonnes in 1981-82 to 21.1 million tonnes in 1982-83, and likely production of about 26 million tonnes in 1983-84.

TABLE 8.2

Imports by Major Commodity Groups

(Value in crores of Rupees)

Sl. No.	Commodity	1981-82	1982-83 (P)	Percentage change 1982-83/1981-82	April–September 1982(P)	April–September 1983(P)
1.	Capital goods	2096.2	2368.3	13.0	1050.9	1383.8
2.	Cereals and cereal preparations	347.2	306.5	—11.7	88.1	310.0
3.	Chemical materials and products	77.6	73.2	—5.7	27.4	43.5
4.	Edible oils	625.3	226.3	—63.8	117.6	116.8
5.	Fertilizer crude	82.6	55.5	—32.8	27.6	26.0
6.	Fertilizer finished	509.7	145.6	—71.4	76.3	24.0
7.	Iron and steel	1203.5	1146.0	—4.8	531.0	416.7
8.	Medicinal and pharmaceutical products	84.4	80.6	—4.5	33.2	46.5
9.	Non-ferrous metals	397.1	279.1	—29.7	148.3	148.9
10.	Non-metallic mineral manufactures excluding pearls	114.2	141.4	23.8	43.1	108.4
11.	Organic and inorganic chemicals	485.2	387.0	—20.2	166.4	209.0
12.	Paper, paper-board and manufactures thereof	245.4	147.5	—39.9	49.1	80.4
13.	Pearls, precious and semi-precious stones	397.4	677.4	70.5	387.9	398.2
14.	Petroleum, petroleum products and related materials (Gross)	5189.5	5597.7	7.9	2758.5	2192.9
15.	Professional scientific controlling instruments, photographic optical goods, watches and clocks	201.3	189.8	—5.7	81.3	121.0
16.	Synthetic and regenerated fibres	173.2	124.7	—28.0	52.9	51.8
17.	Others	1377.8	2409.2	74.9	1048.0	1019.8
	TOTAL	13607.6*	14355.8**	5.5	6687.6	6697.7

(P) Provisional.

*Figures as per March 1982 issue of "Monthly Statistics of Foreign Trade of India."

**Revised to Rs. 14,360 crores for supplementary data received up to October, 1983.

Source : DGCI & S, Calcutta.

8.17 The volume of imports of finished fertilisers showed a drop of 66.3 per cent in 1982-83 and the value of fertiliser imports dropped by 71.4 per cent. There was also a decline in imports of crude fertilisers. This decline was mainly because of higher domestic production and to some extent also because of some slowing down in offtake on account of the drought. During April—September, 1983 imports of manufactured fertilisers showed a decline of 60.7 per cent in volume and a drop of 68.5 per cent in value, because of lower prices abroad and a rise in domestic production. In the case of crude fertilisers while the volume of imports increased during April—September 83, the value was marginally lower on account of decline in prices.

8.18 Imports of organic and inorganic chemicals showed a decline of 20.2 per cent from Rs. 485.2 crores in 1981-82 to Rs. 387.0 crores in 1982-83. However, during April—September 1983, imports showed a rise of around 25.6 per cent to Rs. 209 crores. Imports of chemical materials and products also showed somewhat similar trends. Imports of medicinal and pharmaceutical products showed a fall of 4.5 per cent in value in 1982-83 but in the first half of the current year, these showed an increase of about 40 per cent when they amounted to Rs. 46.5 crores compared with Rs. 33.2 crores in April—September 1982. Synthetic and regenerated fibre imports declined by 31.5 per cent in volume and around 28 per cent in value during 1982-83 but their imports showed a rise in volume of 13.8 per cent during April—September 1983 though with a fall in unit value, the import outlay was marginally lower.

8.19 Imports of non-metallic mineral manufactures showed an increase of 23.8 per cent from Rs. 114.2 crores in 1981-82 to Rs. 141.4 crores in 1982-83. This trend continued when their imports amounted to Rs. 108.4 crores during April—September 1983 as against Rs. 43.1 crores in the same period in the previous year. There was a fall in imports of paper and paper board from 412,300 tonnes valued at Rs. 245.4 crores in 1981-82 to 208,700 tonnes valued at Rs. 147.5 crores during 1982-83. The fall in imports of paper and paper board manufactures was of 49.4 per cent in volume and 39.9 per cent in value. This is largely attributed to reduction in newsprint imports during 1982-83 on account of improvement in domestic production. However, during April—September, 1983 there was an increase in volume of imports of around 97.1 per cent and an increase in value of 63.7 per cent reflecting a decline in unit value of imports of 16.9 per cent. Imports of pearls and precious stones (primarily to feed the export oriented gem and jewellery industry), increased by 70.5 per cent from Rs. 397.4 crores in 1981-82 to Rs. 677.4 crores in 1982-83. However, during the first six months of 1983-84, the increase in these imports was smaller at 27 per cent.

8.20 Imports of non-ferrous metals declined from Rs. 397.1 crores in 1981-82 to Rs. 279.1 crores in 1982-83, showing a fall of 29.7 per cent. This was on account of decline in aluminium imports brought about by improvement in production and somewhat weak domestic demand. During April—September, 1983, imports remained around the same level as in the first half of the previous year. Iron and steel imports declined from around 3.2 million tonnes valued at Rs. 1203.5 crores in 1981-82 to 2.8 million tonnes valued at around Rs. 1,146 crores in 1982-83. While there was a drop in imports of around 12.5 per cent in volume, imports value declined by 4.8 per cent because of higher unit value of imports. During April-September, 1983, imports of iron and steel declined by 22.3 per cent in volume and 21.5 per cent in value. Because of imbalance in the product mix of domestic demand and supply, iron and steel imports had to be at a higher level. But in view of the steps taken to encourage the use of indigenous iron and steel, the level of these imports is likely to be lower during 1983-84.

8.21 Imports of capital goods which had increased by 13 per cent during 1982-83, showed a rise of 31.7 per cent during April—September 1983. The step up reflects that investment is being expanded in many import intensive sectors. This includes sectors such as petroleum and coal, power, fertilisers etc., where the import content of investment is high.

Sources of Imports

8.22 The Organisation for Economic Cooperation and Development (OECD) countries as a group continued to account for the largest share in India's imports accounting for 46.2 per cent of these in 1982-83. This was followed by the Organisation of Petroleum Exporting Countries (OPEC) whose share was 27.1 per cent. Developing countries (excluding members of the OPEC) and East European countries respectively accounted for 13.7 per cent and 12.7 per cent of the country's imports in 1982-83.

8.23 Imports from the OECD countries showed an increase of 3.9 per cent from Rs. 6,378 crores in 1981-82 to Rs. 6,627.0 crores in 1982-83. Within the OECD, imports from the European Economic Community (EEC) showed an increase of 6.1 per cent from Rs. 3,059 crores in 1981-82 to Rs. 3,245 crores in 1982-83 and accounted for 22.6 per cent of the total imports. Among the EEC countries, the UK was the largest source of imports followed by the Federal Republic of Germany, Belgium, France and the Netherlands. The position of the USA as the single largest source for imports changed in 1982-83, as a result of a decline in its share in India's total imports to 9.5 per cent from 10.4 per cent in the previous year. In absolute terms, India's imports from the USA fell from Rs. 1,420 crores in 1981-82 to Rs. 1,371 crores in 1982-83, that is by 3.5 per cent. There was an increase of 20.7 per cent in imports from Japan, from Rs. 886.5 crores in 1981-82 to around Rs. 1,070 crores in 1982-83.

8.24 There was an increase of around 3 per cent in imports from the OPEC to Rs. 3,885 crores in 1982-83 from Rs. 3,770 crores in 1981-82. About 98.8 per cent of India's imports from this group came from West Asia, which showed an increase of 15.3 per cent in 1982-83, in contrast to a decline in imports from Algeria and Venezuela.

8.25 The share of the countries of Eastern Europe in the country's imports went up from 11.1 per cent in 1981-82 to 12.7 per cent in 1982-83 on account of an increase of 21.1 per cent in imports from Rs. 1,507 crores in 1981-82 to around Rs. 1,825 crores in 1982-83. The USSR was the largest single country source of imports in 1982-83 (with a 10.5 per cent share) an increase from 8.4 per cent in 1981-82. This reflected an increase of 33.1 per cent in imports from the USSR during 1982-83.

8.26 The share of developing countries (excluding members of the OPEC) remained unchanged at around 14 per cent in imports during 1982-83. During that year imports from Africa and Latin America showed decline of 9.7 per cent and 24.6 per cent respectively, while imports from Asia and Oceania showed an increase of 11.2 per cent.

Exports

8.27 India's exports in 1982-83 at Rs. 8,830 crores (provisional) showed an increase of 13.1 per cent over the previous year. These figures include crude oil from Bombay High. Excluding crude oil exports, the growth in 1982-83 was 2.6 per cent. Though this was a deceleration from the rate of 13.9 per cent in 1981-82 for non-oil exports, this performance has to be viewed against the background of the severe contraction in world demand conditions and increased protectionism abroad. World trade in fact declined in volume by about 2 per cent in 1982. Some of the important markets for India in West Asia faced disturbed conditions and there was also a slowing down in economic activity in these countries, following the decrease in volume of their oil exports and international oil prices. Lower purchases by the East European countries was another factor which contributed to the slow growth in exports in 1982-83.

8.28 Available data for April—October, 1983 indicate that there has been some improvement in export performance this year. Total exports in this period show a growth of about 7.7 per cent over exports in the same period of 1982-83. In the case of non-oil exports, the growth rate is 9.9 per cent. Much of the growth came from an increase in exports of handicrafts, mainly gems and jewellery. Exports of manufactured goods, such as engineering goods and ready-made garments, remained relatively depressed. There was an increase in exports of leather and leather manufactures, raw cotton, iron ore, tea and cashew kernels. There are indications of a pick up in world economic activity although the demand revival is neither spread over all markets nor sufficiently robust. However, it is likely that non-oil export growth for the year as a whole will be better than in the previous year.

TABLE 8.3

Exports by Major Commodity Groups

(Value in crores of Rupees)

Sl. No.	Commodity	1981-82	1982-83 (P)	Percentage Change 1982-83/ 1981-82	April–September 1982(P)	April–September 1983(P)
1.	Cashew kernels	181.5	134.0	—26.2	79.5	90.7
2.	Coffee and coffee substitutes	146.3	184.2	25.9	128.5	109.3
3.	Fish and fish preparations	280.3	349.4	24.7	169.4	154.9
4.	Oil cakes	117.9	149.4	26.7	78.0	55.4
5.	Raw cotton	36.3	101.2	178.8	69.3	104.2
6.	Rice	367.8	199.5	—45.8	113.6	44.1
7.	Spices	98.8	88.9	—10.0	34.8	46.5
8.	Sugar	64.2	62.4	—2.8	27.7	24.3
9.	Tea and mate	395.2	367.5	—7.0	150.8	163.1
10.	Tobbacco unmanufactured	204.9	208.5	1.8	161.3	84.8
11	Iron ore	351.8	373.8	6.3	151.0	158.2
12.	Engineering goods@	850.7	786.2	—7.6	392.8	311.4
13.	Chemicals and allied products	364.1	308.2	—15.4	169.8	124.2
14.	Cotton fabrics	294.6	265.5	—9.9	116.0	120.7
15.	Iron and steel	79.1	55.8	—29.5	25.4	22.1
16.	Jute manufacture	257.5	202.8	—21.2	92.2	90.8
17.	Leather and leather manufactures including footwear	405.5	371.8	—8.3	174.5	180.5
18.	Ready made garments	595.8	527.5	—11.5	232.9	202.4
19.	Handicrafts	1130.9	1172.2	3.7	306.6	794.3
	of which : Pearls ; precious and semi-precious stones	(761.1)	(824.9)	(8.4)	(138.6)	(612.4)
20.	Others	1582.7	2921.0	84.6	1394.6	1390.6
	of which, Crude oil	(196.2)	(1023.5)	(421.6)	(582.3)	(574.5)
	Total	7805.9(a)	8829.8*	13.1	4068.7	4272.5

(P) Provisional (a) Figures as per March 1982 issue of the "Monthly Statistics of Foreign Trade of India."

*Revised to Rs. 8,834 crores for supplementary data received up to October 1983.

@These exports mainly consist of machinery and transport equipment and metal manufactures excluding iron and steel.

Source : DGCI & S, Calcutta.

8.29 During 1982-83, export of tea declined to 191.6 million kgs. valued at Rs. 367.5 crores from 213.8 million kgs. valued at Rs. 395.2 crores in the previous year. Exports of tea suffered during 1982-83 on account of a fall in domestic production, particularly of the exportable varieties, owing to drought conditions. Export volume continued to decline during April—September 1983 but the value of exports increased by 8.2 per cent because of an increase of about 25.5 per cent in unit value realisation. Prices of tea have risen sharply in world markets after August, 1983. The sharp rise in domestic price of tea, which began in 1982-83, continued in this year. In December 1983, the Government had to resort to a ban on export of CTC tea (largely consumed domestically) in order to ease the pressure on domestic prices. However, overall value of tea exports, during 1983-84 is expected to be higher than in the previous year due to higher unit value realisation. Export earnings from coffee had declined in 1981-82 but recovered in 1982-83, showing an increase of 25.9 per cent. This was attributable to an increase of 23.2 per cent in unit value with volume growth being limited to 2 per cent. Unit value increases reflected the emergence of a shortage of coffee in the world market owing to frost damage to the Brazilian coffee crop. However, during the first six months of 1983-84, coffee exports have suffered a set back, declining by 18.6 per cent in volume and 14.9 per cent in value. Coffee exports to the USA and the EEC have declined while exports to the Rupee payment area have shown improvement. Exports of coffee to non-member countries are hampered by high prices of Indian coffee vis-a-vis major exporters which offer sizeable discounts on their prices.

Both tea and coffee exports are suffering from long term stagnation which is marked by periodic booms and slumps.

8.30 Cashew exports showed a decline of around 26.2 per cent during 1982-83 in value, although the volume at around 30,500 tonnes was the same as in the previous year. The set back in cashew exports arose from a fall in unit value realisation of 25.6 per cent, because of severe competition from other edible nuts. The USSR market had helped in sustaining cashew export prices at higher levels, and reduced purchases by the USSR in 1982-83 affected prices adversely. Export of cashew kernels during April—September, 1983 showed an increase in volume of 35.8 per cent but a smaller increase in value of 14 per cent owing to the continued fall in unit value realisation. Exports of rice declined from 872,500 tonnes valued at Rs. 367.8 crores in 1981-82 to 435,000 tonnes valued at Rs. 199.5 crores in 1982-83, registering a fall of 50 per cent in volume and 46 per cent in value. The declining trend in rice exports continued during the first half of 1983-84 with a fall of 76.5 per cent in volume and 61.2 per cent in value. The fall in export volume, in face of buoyant market conditions, was on account of a decline in domestic availability following the drought in 1982.

8.31 Export of spices amounted to 76,100 tonnes valued at Rs. 88.9 crores in 1982-83 showing a decline in volume of 2.6 per cent and a drop in value of around 10 per cent. Exports recovered in April—September, 1983 with a volume increase of 24.5 per cent this, together with an appreciation of 7.5 per cent in unit value, led to an increase of 33.6 per cent in export value. Most of the Indian spices, notably cardamom and pepper continue to face stiff competition in the world markets and the exportable surplus is getting limited because of stagnancy in production.

8.32 Exports of oil cakes showed an increase of 27.5 per cent in volume and 26.7 per cent in value during 1982-83. However, during the first six months of the current year, oil cakes suffered a set back and exports declined by 24.2 per cent in volume and 28.8 per cent in value. The decline in oil cakes during the current half year largely reflects reduction in surplus available for export following the poor crop in 1982-83. Export earnings from unmanufactured tobacco showed an increase from Rs. 204.9 crores in 1981-82 to Rs. 208.5 crores during 1982-83. There was a decline in volume from 115,400 tonnes to 98,000 tonnes over the same period but this was offset by an appreciation of 19.7 per cent in unit value. During April—September, 1983, exports of tobacco unmanufacured decreased by 46.5 per cent in volume and 47.4 per cent in value.

8.33 Exports of sugar amounted to Rs. 62.4 crores in 1982-83 as against Rs. 64.2 crores in the previous year. During April—September. 1983 sugar exports showed a marginal increase in volume by 1.4 per cent but there was a decline in export earnings of 12.3 per cent on account of a fall in unit value realisation of 13.4 per cent. India had to sell a large part of its sugar in free markets abroad where the prices were much lower than in the preferential markets open to certain leading sugar exporting countries.

8.34 Exports of marine products touched an all time high in 1982-83 increasing from 73,900 tonnes valued at Rs. 280.3 crores in 1981-82 to 94,800 tonnes valued Rs. 349.4 crores in 1982-83. This represented an increase of 28.3 per cent in volume and 24.7 per cent in value. The bulk of the country's exports of marine products consist of frozen shrimps and Japan and the USA continued to be the main markets. There has been a set back in the first six months of the current year, with a decline of 19.9 per cent in volume which has been partly offset by an appreciation in the unit value realisation of 14.3 per cent so that in value terms exports have declined by only 8.5 per cent.

8.35 The demand for iron ore fluctuates with the requirement of the world iron and steel industry, which continued to be affected by recession. Exports of iron ore during 1982-83 declined to 20.7 million tonnes compared with 23.7 million tonnes in the previous year, though export values increased by 6.3 per cent to reach Rs. 373.8 crores. This pattern has continued into the first half of 1983-84, with iron ore exports declining by 9.2 per cent in volume terms but showing an increase of 4.8 per cent in earnings, Japan is the major market for the country's iron ore exports and India continues to face tough competition from Australia and Brazil.

8.36 Exports of jute manufactures, had suffered severe setback in 1981-82 and showed a further decline in 1982-83. There was a 23.3 per cent decline in volume and exports fell by 21.2 per cent in value. The poor performance reflected stagnant world demand for jute and jute products, resulting particularly from the recession in the US market, and reduced purchases by the USSR. This trend has continued in the first six months of the current year, when exports of jute manufactures fell by 13.3 per cent in volume, but the decline in earnings was limited to 1.5 per cent, because of some recovery in prices. With the revival of the market for carpet backing, exports of jute manufactures may show some improvement over the year.

8.37 Raw cotton exports which had suffered a set back in 1981-82 improved in 1982-83. This recovery is attributed to the tightening of world market in raw cotton and prices of Indian rawcotton attaining parity with world prices. During April—September, 1983, earnings from raw cotton increased by 50.4 per cent.

8.38 Exports of both cotton fabrics and ready made garments suffered a setback in 1982-83. In case of cotton fabrics, there was a decline in volume which, in spite of some appreciation in unit value led to a fall of 9.9 per cent in value. During April—September, 1983 the volume of exports declined by 17.5 per cent but this was offset by increased unit value realisation. In the case of ready-made garments, export earnings fell by 11.5 per cent in 1982-83 reflecting depressed market conditions. During April—September, 1983 there was a further decline of 13.1 per cent. However, an improvement is expected in the second half of the current year. International trade in cotton textiles is characterised by restrictive trade practices as well as severe competition among exporting countries. Since there has been a decline in quota utilisation on the part of India in several categories and in several markets, the explanation for the relatively poor export performance of the Indian cotton textile industry in recent years may largely lie in domestic factors as much as in protectionist barriers. Price competitiveness has been seriously eroded on account of escalation in cost of inputs, inadequate modernisation and low labour productivity.

8.39 Exports of leather and leather manufactures declined by 8.3 per cent in 1982-83, but showed an increase of 3.4 per cent during April—September, 1983. Depressed market conditions for leather in the EEC countries was the major factor contributing to lower exports. This is one of the export sectors where India enjoys comparative advantage in terms of large cattle population and labour intensive character of the industry. Export performance could be considerably improved with strict adherence to quality standards.

8.40 Engineering exports which had continuously shown rising trend during the past decade, have performed poorly in recent years. There was a decline of 7.6 per cent in value during 1982-83 and an even steeper decline of 20.7 per cent during April—September, 1983. Engineering exports had received considerable boost from the high level of project exports during the seventies especially to West Asian countries. The slow down in economic activity in these countries seems to have adversely affected India's project exports. India is only a marginal supplier of engineering products in the world market and in a situation of weak demand conditions and intense competition from newly industrialised countries, price competitiveness is of crucial significance. Supply constraints on domestic producers also directly influence costs of production and price competitiveness as well as quality and reliability of Indian supplies. To some extent, Indian exports may be suffering from technological obsolescence compared with its competitors.

8.41 Exports of pearls and precious stones showed an increase of 8.4 per cent in 1982-83. During April—September, 1983 these exports amounted to Rs. 612.4 crores. This item has been better able to weather demand recession, in view of India's specialisation in small sized diamonds.

8.42 During 1982-83, India exported 4.35 million tonnes of crude oil valued at Rs. 1,023.3 crores as against 0.84 million tonnes valued at Rs. 196.2 crores in 1981-82. The oil was exported on a swap basis as it could not be refined in the country.

8.43 The detailed review of India's export performance indicates that many of India's manufactured exports were adversely affected by depressed market conditions and protectionist measures abroad. There are some signs of world economic recovery, and world commodity prices have begun to rise. These developments will have a favourable impact on India's export performance in the years ahead. However, it is important to recognise that external market conditions are not the only factors constraining export performance. In many areas India's exports are not adequately competitive because of high cost of production and quality of products. A major domestic effort is needed to overcome these constraints in the coming years.

Direction of Exports

8.44 During 1982-83, India continued to maintain a fairly diversified pattern of exports by market regions. The share in India's exports of major trading blocs as represented by the OECD, the OPEC, the Eastern European countries and Developing countries showed a decline in 1982-83 because of statistical reason of not recording the destination of the sizeable export of crude petroleum. In order of significance the OECD group of countries accounted for 40.8 per cent of India's exports in 1982-83, followed by Eastern Europe 21.6 per cent, Developing countries (excluding members of the OPEC) 15.4 per cent and the OPEC 9.8 per cent.

8.45 Within the OECD, the EEC, the USA and Japan accounted for the bulk of exports from India. The relative share of the EEC in India's exports was 16.7 per cent followed by the USA 10.8 per cent and Japan around 9.0 per cent. Exports of the EEC showed a marginal increase of 4.7 per cent from Rs. 1,409 crores in 1981-82 to Rs. 1,475 crores in 1982-83. Exports to the USA during 1982-83 at Rs. 950 crores were higher by 3.3 per cent over the level of exports of Rs. 920 crores in 1981-82 Exports to Japan increased by around 15.1 per cent from Rs. 690 crores in 1981-82 to Rs. 795 crores in 1982-83.

8.46 The OPEC countries accounted for 9.8 per cent of India's exports in 1982-83. Exports to this group showed a decline of 7.8 per cent from Rs. 940 crores in 1981-82 to Rs. 867 crores in 1982-83 Around 85 per cent of exports to this group went to countries in the West Asian region. In value, exports to these countries recorded a fall of around 3 per cent in 1982-83.

8.47 The share of East European countries in India's exports in 1982-83 was 21.6 per cent. The off-take by these countries showed a decline of 3.4 per cent from Rs. 1,975 crores in 1981-82 to Rs. 1,907 crores in 1982-83. Exports to the USSR also showed a decrease of 6.2 per cent in 1982-83, although it continued to be India's leading export market.

8.48 Exports to Developing Countries (excluding member countries of the OPEC) showed an increase of 10.3 per cent from Rs. 1,233 crores in 1981-82 to Rs. 1,360 crores in 1982-83. Among the regions in this category, exports to the Asian region showed an increase of 17.7 per cent while Latin America and the Carribean registered a small increase of 4.9 per cent. In contrast, exports to Africa showed a decline of 7 per cent.

Import-Export Policy for 1983-84

8.49 The import and export policies for 1983-84 broadly continued the policy that has been followed for the past several years allowing fairly liberal access for actual users to the import of raw materials and components needed in production, and providing specially favourable access for exporters who have to compete in world markets and, therefore, need special treatment. Modifications were made where necessary, for increasing industrial productivity and promoting utilisation of existing capacity through improved access to imported raw materials and inputs. Additional incentives were given for export-oriented production. Simplification of procedures continued to be an important objective of the policy changes.

8.50 A number of new provisions were introduced providing incentives for export oriented units. Import replenishment licences (REP) issued to exporters were made more flexible especially for those exporting 50 per cent or more of their production. The scheme for duty free import against REP licences was widened as also the one for issue of Advance Licences with duty exemption for export production. Manufacturer exporters could avail of liberal facilities for import of machinery for their own use against their REP licences without indigenous clearance, without recommendations of the sponsoring authority, and without going through the formalities of Capital Goods (CG) procedure up to a value not exceeding Rs. 20 lakhs in a year subject to the prescribed condition. This was further liberalised for those exporting more than 50 per cent of their production by allowing them to use transferred REP licences for this purpose.

8.51 Registered Exporters exporting a new product or exporting products to a new market were eligible for REP licences against exports at a rate of replenishment, ten per cent higher than the normal rate. The coverage of the OGL facility for approved 100 per cent export oriented units was enlarged by widening the list of capital goods which could be imported by these units under OGL and by permitting imports of second hand capital goods under OGL for the first time. The scheme providing tax relief to exporters during 1982-83 was simplified and liberalised during 1983-84 by removing both the minimum qualifying amount and the limit of relief. Under the new scheme, exporters became entitled to deduct 5 per cent of their incremental export turnover in computing their taxable income.

8.52 In order to minimise unintended imports of OGL items the facility of import of OGL items by Trading Houses and Export Houses without debit to the import licence was withdrawn. Besides, some new innovative provisions were made to save imports and encourage the use of indigenous sources of supply. Registered exporters earning REP licences on their exports were given the option of surrendering unutilised licences and having the value of these licences counted as export in computing export performance to determine eligibility for certain benefits available under the import policy. Indigenous manufacturers who could supply their products at competitive prices in India against valid import licences could also avail of higher rate of replenishment on such exports. The other measure pertained to provision of certain categories of steel by the SAIL at competitive prices against valid import licences, in order to save imports.

8.53 A number of provisions were made to promote growth in the decentralised sector, viz., small scale and cottage sector. Imports of raw materials required predominantly by the small scale sector were allowed under OGL for stock and sale so that small users could get their requirements off-the-shelf. Also a number of machinery items required for setting up small scale units were put on OGL. Small scale units exporting at least 25 per cent of their production of select products, subejct to a minimum of Rs. 5 lakhs, or units exporting select products of at least Rs. 1.0 crore in f.o.b. value could import prototype up to Rs. 1.0 lakh in value and not exceeding two in number automatically without the recommendation of the sponsoring authority.

8.54 Additional provisions were made in the policy to enable R and D units and exporting units to upgrade their technology. Import facilities for the purpose of energy conservation saving were also liberalised by adding more items to the OGL list.

8.55 The facilities available to Non-Resident Indians for setting up industries in India were continued. Besides, a major procedural simplification was introduced for the benefit of non-resident Indians relating to imports of machinery and raw materials. For setting up small scale industries they were allowed to import machinery under OGL. Besides, they could import under OGL their initial requirements of raw material subject to a ceiling of Rs. 5 lakhs in value.

8.56 The Import-Export policy also took into account the need to encourage progressive indigenisation of production in selected industries where heavy import dependence was unavoidable initially. A special procedure of list attestation was introduced under which units with a phased manufacturing programme would have to get the list of importable components allowed to them cleared in advanced by the DGTD so as to ensure progress in line with the phased manufacturing programme. The operation of the import policy was kept under continuous review and where necessary, appropriate steps were taken to prevent unintended adverse effects on the domestic industry.

External Assistance

8.57 Recent trends in the gross and net inflow of external assistance are shown in Table 8.4. Gross aid disbursements from all sources rose from Rs. 1,888 crores in 1981-82 to Rs. 2,250 crores in 1982-83. These are expected to rise further to Rs. 2,576 crores in 1983-84. The net inflow of assistance (that is, gross inflows net of all debt service payments) from normal sources amounted to Rs. 1,039 crores in 1981-82 and picked up to Rs. 1,302 crores in 1982-83. In 1983-84, the net inflow of assistance is expected to rise further by about 19 per cent to Rs. 1,551 crores.

TABLE 8.4

Inflow of External Assistance, Gross and Net

(Rs. crores)

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84 (April—Sept. 1983)
1. Authorisations	2336	1860	3840@	2843	2949*	1527*
2. Gross disbursements	1216	1353	2162@	1888	2250	2576**
of which : Debt relief	7	11	13	2	2	1
3. Debt servicing (including interest payments)	796	801	804	849	948	1025
4. Net inflow of assistance	420	552	1358@	1039	1302	1551

*Authorisation on Govt. account only.

**Estimated utilisation during 1983-84 includes Government, Non-Government loans, grants and food aid including commodity assistance. Figures shown here may be different from those appearing in the Budget, which show only assistance passing through the budget.

@Includes Rs. 538 crores from the IMF Trust Fund.

NOTE : The data do not include suppliers' Credits and commercial borrowings.

8.58 The Aid India Consortium which met in Paris on June 14 and 15, 1983 acknowledged the soundness of India's development policies and the prudence with which it had managed its balance of payments position. There was wide spread recognition that economic management had been highly successful and that India made effective use of aid and India's requirement for higher inflows of concessional flows was also recognised. The amounts pledged at the Consortium meeting amounted to SDR 3.4 billion (about US $ 3.6 billion) for 1983-84 which is about the same as pledged during the previous year. Pledges made at the Consortium meeting represent only broad indications of the likely levels of assistance in the year. Amounts made available depend upon bilateral agreements concluded in the course of the year. These commitments in turn differ from actual disbursements which depend upon the speed of implementation of the projects incorporated in the aid agreements.

8.59 The environment for concessional assistance to developing countries including India has been highly unfavourable. So far, this has not affected the volume of disbursements which have increased steadily because disbursements depend upon past commitments or authorisations. The average period of disbursement of the International Development Association (IDA) loans is about 10 years and the International Bank for Reconstruction and Development (IBRD) loans and bilateral credits disburse over eight years. However, there is already a marked slowing down in pledges and authorisations. The level of authorisations in 1982-83 was about the same as in 1981-82 and it is expected to stay at that level in 1983-84. If this stagnation continues, disbursements will also cease to grow in future. Quite apart from the prospects of growth in total flows, the terms of assistance are hardening considerably. An important aspect of this hardening has arisen from the difficulties experienced in the sixth and seventh replenishments of the IDA.

8.60 The level of funding for the IDA to cover the seventh replenishment period from mid-1984 to mid-1987 has now been decided by the donor countries at a size of $ 9 billion. Commitments to the previous three year replenishment (IDA-VI) which was staggered over four years ending June 30, 1984, amounted to $ 12 billion. The reduced size of IDA-VII has resulted from the decision of the USA to limit its contribution to a level of $ 750 million a year and to a share of not more than 25 per cent of the total size of the replenishment. Efforts are being made by the Bank's management to work out arrangements for contributions by other donors into a separate special fund; however, the outlook in this respect is at present uncertain. Not only is the size of IDA VII much smaller than commensurate with the needs of the developing countries, India's share will also be lower with the entry of China as an IDA borrower. The reduced availability from the IDA can be offset to some extent by additional borrowing from the IBRD, but the terms of IBRD loans are much harder than IDA credits so that the net effect is a considerable hardening of average terms without any increase in total availability.

8.61 These developments regarding concessional assistance have come at a time when India's current account deficit, although declining as a per cent of GDP, will remain large in absolute terms for some years to come. Furthermore, there are significant debt service obligations in the year which have to be met and which add to the country's resource requirement. In recognition of these factors attempts are being made to develop access to additional sources of borrowing. An important initiative in this context is the decision to start borrowing from the Asian Development Bank. India is a founder member of the Bank and has thus far voluntarily refrained from borrowing, but in the changed circumstances it has exercised its right to borrow. Negotiations are progressing in this regard.

8.62 Another source for external funds is commercial borrowings and suppliers' credits. Though these are for shorter terms and considerably costlier than the normal sources, the drying up of traditional sources of funds makes some additional recourse to commercial borrowings inevitable. Over the past three years commercial borrowings have been undertaken each year mainly to finance investment projects. The total approvals of commercial borrowings (including suppliers' credits) during 1980-81, 1981-82 and 1982-83 were Rs. 1,038 crores, Rs. 1,204 crores and Rs. 2,026 crores respectively. Disbursements from these were considerably lower. The bulge in approvals for such borrowings in 1982-83 is largely on account of three large public sector projects, i.e. the Oil and Natural Gas Commission (ONGC), the Rihand Thermal Power project and Air India. India has been able to obtain commercial borrowings at relatively better terms and conditions than many other developing countries. India's policy of selective and cautious use of commercial borrowings has proved to be effective and has prevented the emergence of acute debt servicing problems of the kind being experienced by several other developing countries. In future also, it would be essential to keep the level of commercial borrowing strictly within the limits of debt servicing. The debt service payments including those on commercial borrowing and IMF drawls in 1982-83 were about 10 per cent of the estimated total earnings from exports and gross invisibles receipts.* This ratio is likely to increase in the years ahead as repayment to the IMF and of the commercial borrowings undertaken recently fall due.

8.63 The improvement in the balance of payments position witnessed in 1983-84 is a welcome development reflecting a substantial measure of succes achieved in the country's external adjustment programme over the past three years. The external financing position is likely to ease further in 1984-85 since domestic oil production is expected to be still higher, international oil prices are expected to remain at about present levels, and non-oil imports are expected to recover only slowly from the deceleration experienced in 1983-84. No financing and liquidity problems in meeting the country's balance of pyaments requirements are expected and this has enabled the Government to terminate the IMF arrangement at the end of the present year's programme. However, this short-term improvement should not lead to complacency regarding the medium term balance of payments prospects. The economy may have to face a not very comfortable external financing problem in the Seventh Plan period and the adjustment policies initiated at the beginning of the Sixth Plan would need to be continued.

8.64 The reduced levels of concessional assistance will be reflected in a decline in these flows in net terms at a time when debt servicing of commercial borrowings and the IMF borrowings undertaken in the Sixth Plan period will fall due. Oil prices cannot be expected to remain soft beyond the next year or so and it is not clear if India could achieve continuing import saving in oil from increased domestic production in the Seventh Plan period as in the Sixth Plan period. At the same time the essential import requirements of a growing economy with high levels of investment are considerable and cannot be squeezed beyond a point. This underscores the importance of improving the export performance of the economy along with efforts to achieve efficient import substitution in a cost effective manner.

8.65 India was one of the most severely affected countries during the oil crises of 1973-74 and 1979-80. India is also one of the few developing countries which have not only weathered these storms in an extremely adverse aid and trade environment, but also improved their growth performance. The inflationary impact of these adverse developments was also contained by imaginative policies of domestic and external adjustment. The faster than anticipated improvement in the balance of payments which has enabled the country to terminate the IMF arrangement, is a testimony to the soundness of the policies pursued. In the years ahead, these would need to be strengthened as the aid climate is discouraging and there are no visible signs of reduction in protectionism in the industrial countries. The fall in availability of concessional assistance, particularly from the IDA, will pose further challanges for management of the balance of payments in the Seventh Plan period.

*The debt service payments can be expressed either as a percentage of current earnings (*i.e.* exports plus gross invisibles receipts) or as a percentage of exports only. In 1982-83, the debt service payments in respect of loans under external assistance formed about 10.7 per cent of exports.