CHAPTER 8

FOREIGN TRADE AND BALANCE OF PAYMENTS

The external payments situation, which had improved in 1984-85, weakened in the first half of 1985-86. According to preliminary data, the trade deficit during the first six months of the current financial year is estimated at Rs. 4124 crores. The available partial data show that while imports have grown by nearly 25 per cent in the first half of 1985-86, the rate of growth of exports has been below expectations. Furthermore, overall foreign exchange reserves have declined by Rs. 324 crores by the end of January, 1986. These developments indicate a significant deterioration in the external payments situation during the year. It may, however, be noted that indications are that there was a substantial deceleration in the growth of imports in the second half of the year.

TABLE 8.1

Exports, Imports and Trade Deficit

(Rs. crores)

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85*
Exports	6418 (12.1)	6711 (4.6)	7806 (16.3)	8803 (12.8)	9872 (12.1)	11555 (17.0)
Imports	9143 (34.2)	12549 (37.3)	13608 (8.4)	14293 (5.0)	15763 (10.2)	17092 (8.4)
Trade deficit	2725	5838	5802	5490	5891	5537
Trade deficit as percent of GDP	2.5	4.6	3.9	3.3	3.0	2.6

*Partially revised.

NOTE : Figures in brackets are percentage variations over the previous year. For 1984-85, percentage variations are over the corresponding partially revised figures for 1983-84.

Review of Sixth Plan Performance

8.2 The beginning of the Sixth Five Year Plan had been marked by the drought of 1979 and a sharp deterioration in India's terms of trade brought about by the further steep increase in the price of imported oil in 1979 and 1980. The world trading environment remained adverse during the course of the Plan owing to protracted recession and intensification of protectionist barriers in industrial countries.

8.3 India was, however, able to adjust to these external shocks remarkably well. The success of the country's adjustment efforts was reflected in the annual growth of GDP of over five per cent during the Sixth Plan period and a gradual reduction in both the trade deficit and the current account deficit over the period as proportions of GDP. The trade deficit as a percentage of GDP (at current prices) declined from 4.6 per cent in 1980-81 to about 2.6 per cent in 1984-85. The current account deficit, which had peaked at 1.6 per cent in 1981-82, is estimated to have declined to 1.2 per cent in 1984-85.

8.4 The Sixth Plan achieved an annual growth rate in exports of 12.5 per cent in rupee terms. But in terms of the SDR and the US dollar, the growth rate amounted to 9.6 per cent and 4.2 per cent respectively. Export growth, net of crude oil exports, amounted to 9.3 per cent per annum in rupee terms, 6.5 per cent per annum in SDR terms and 1.2 per cent per annum in US dollar terms. Figures of export volumes are available only for the first three years of the Plan which suggest that volume growth amounted to about 2 per cent per annum. Volume growth of exports during the Sixth Plan period, as a whole, is not likely to have been significantly different from the growth rate observed during the first three years of the Plan.

8.5 Imports grew, during the Sixth Plan period, at an annual rate of 13.3 per cent in rupee, 10.5 per cent in SDR and five per cent in US dollar terms. The annual growth of imports, net of crude oil exports, amounted to 11.2 per cent in Rupee, 8.4 per cent in SDR and three per cent in US dollar terms.

8.6 The balance of payments data, as compiled by the RBI, are available for the full year only upto 1983-84. The trends in foreign exchange reserves and the balance of payments financing gap upto the end

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of 1984-85 suggest that there was progressive improvement in the external payments position from 1982-83 to the end of the Sixth Plan. During the last three years of the Plan, foreign exchange reserves rose steadily and were equivalent to nearly five months of imports by the end of 1984-85.

TABLE 8.2

Movements in Foreign Exchange Reserves and Balance of Payments Financing Gap

(Rs. crores)

Year	Movements in foreign exchange including gold and SDR	Net drawals on IMF	Residual financing gap (2—3)
1	2	3	4
1979-80 . . .	+ 108	—55*	+ 163
1980-81 . . .	—389	+ 814**	—1203
1981-82 . . .	—1519	+ 637	—2156
1982-83 . . .	+ 758	+ 1893	—1135
1983-84 . . .	+ 1189	+ 1342	—153
1984-85 . . .	+ 1271	+ 63	+ 1208
1985-86 (upto January, 1986) . .	—324	—245	—79

*Includes voluntary repurchase of Rs. 20 crores and sales of Rs. 35 crores by the IMF under the General Resources Account.

**Includes Trust Fund drawings.

8.7 The improvement in the balance of payments position in the Sixth Plan is attributable to a variety of factors. First, there was considerable success in bringing about effective import substitution in the petroleum sector. Domestic production of crude oil increased from 11.8 million tonnes in 1979-80 to about 29 million tonnes in 1984-85. As a result, the net POL imports-consumption ratio declined from 73 per cent in 1980-81 to an estimated 31 per cent in 1984-85. The share of net POL imports in the total import bill, which had reached an all time high of 42 per cent in 1980-81, declined to about 21 per cent in 1984-85. Second, there was significant improvement in the functioning of infrastructure, import substitution in steel, cement, non-ferrous metals and a recovery in foodgrains production, all of which helped to check the growth in the volume of bulk imports. Third, net invisible earnings showed sustained increase during the Plan period. Fourth, financing of current account deficits by drawals under the Extended Fund Arrangement with the IMF and other sources of finance helped the country to maintain the tempo of real investment and reordering of investment priorities concomitant with effective import substitution in areas which accounted for a large share in the country's import bill. And fifth, a large inflow of funds from abroad in the form of deposits in Indian banks, in response to various incentives offered by the Government, have also lent a measure of support to the balance of payments.

Balance of Payments and Foreign Exchange Reserves

8.8 As indicated earlier, balance of payment data are not available, for the full year, beyond 1983-84. Recent developments in the balance of payments must, therefore, be assessed on the basis of available trade data, partial information on invisibles and reserve movements. The balance of payments outlook during the current year is marked by certain developments which provide grounds for concern. First, preliminary data on trade for the first six months indicate a sizeable increase in the trade deficit. Second, net invisibles receipts may cease to grow because of the less buoyant outlook for inward remittances following the slowdown of economic activity in West Asia. Third, there has been a decline in foreign exchange reserves.

8.9 Foreign exchange reserves (including gold, SDRs and foreign currency assets of the RBI) at the end of March, 1984 had amounted to Rs. 5,972 crores. They had increased by Rs. 1,271 crores to Rs. 7,243 crores by the end of March, 1985. Foreign exchange reserves have, however, declined by Rs. 324 crores to Rs. 6,919 crores during the current financial year upto the end of January, 1986.

8.10 Among the non-factor services, travel and transfer payments have emerged, in recent years, as important elements of current earnings. During the calendar year 1984 there was a fall in tourist arrivals. The potential for tourist earnings, which have a relatively large value-added component, can be substantially enhanced. With the industrial countries coming out of recession and more effective tourist promotion, tourist arrivals are expected to pick up. Transfer payments are largely on private account and reflect flow of inward remittances from Indians abroad. These remittances do not entail any cost and are superior to most other forms of invisibles earnings. Net invisibles earnings showed a sustained increase during the Sixth Plan period largely on account of continued buoyancy in remittances by Indians abroad. During 1983-84 total transfer receipts showed an increase of 9.7 per cent. However, sustained increase in remittances may not be possible in coming years owing to slowdown in the economic activity in the West Asia region.

8.11 Capital inflows to deposit accounts from non-resident Indians have lent support to our balance of payments position. The interest rates offered on these deposits enjoy a premium over those on domestic deposits. From March 1, 1982 to August 21, 1985 interest rates on term deposits of one year and above under Foreign Currency Non-Resident Accounts (FCNR) and Non-Resident (External) Rupee Accounts (NRER) enjoyed a two percentage point premium over the rates applicable to domestic deposits of comparable maturities. The rates of interest on FCNR deposits were restructured on 22 August, 1985 and again on 10 February, 1986. The premium on NRER accounts remain unchanged at 2 per cent per annum over the interest rates on domestic deposits of comparable maturities. As of February 10, the rates of interest on deposits in these accounts were as in Table 8.3.

TABLE 8.3

Rates of Interest on Term Deposits under FCNR and NRER Accounts

(Per cent per annum)

Maturity	Current rate of interest	
	NRER	FCNR
(a) One year and above but less than two years . . .	10.5	9.5
(b) Two years and above but less than three years . . .	11.0	10.0
(c) Three years and above but less than five years . . .	12.0	10.5
(d) Five years only . .	13.0	11.0

8.12 During 1984-85 accretions to these accounts were marginally higher at Rs. 950 crores compared with Rs. 938 crores during 1983-84. Capital inflows into these deposits have picked up considerably and accretions amounted to Rs. 1172 crores during the first nine months of the current year compared with about Rs. 634 crores during the same period last year. Accretions to the rupee denominated non-resident external accounts include accrued interest as well, so that adjustment for this element would imply lower fresh inflows. Table 8.4 indicates the outstanding amount under these accounts.

TABLE 8.4

Outstanding Amounts in Various Types of External Accounts

As on 31st March	Non-resident external rupee accounts* (Rs. crores)	Foreign currency non-resident accounts@				Total (Rs. crores) (2+4+6)
		US $ accounts		£ Sterling accounts		
		$ million	Rs. crores	£ million	Rs. crores	
1	2	3	4	5	6	7
1981	937.74	140.29	115.66	19.78	36.60	1090.00
1982	1259.04	107.32	100.55	27.64	46.16	1405.75
1983	1679.20	151.50	150.81	68.23	100.63	1930.64
1984	2254.26	373.81	403.04	136.19	211.78	2869.08
1985	2863.95	499.05	617.57	218.16	337.05	3818.57
1985**	3188.03	1153.16	1393.18	233.76	409.08	4990.29

@Figures do not include accrued interest.
*Figures include accrued interest.
**Provisional data as on 31 December, 1985.

8.13 The current financial year has witnessed buoyancy in the inflows into dollar denominated FCNR accounts. In fact, around two-thirds of accretions to external accounts have been accounted for by the dollar denominated FCNR deposits. This spurt is attributed to softening in interest rates on deposits in international markets. The Euro-dollar inter-bank interest rate for six months declined from 12.7 per cent in June, 1984 to 8.1 per cent at the end of November, 1985. By and large, inflows under FCNR deposits are likely to be influenced by the margin of interest rates in favour of non-resident deposits in relation to international rates on financial instruments in relevant currecies.

8.14 The external value of the rupee continued to be determined in relation to a weighted basket of currencies of India's major trading partners with the pound sterling as the intervention currency. This arrangement has existed since September, 1975. In line with changes in exchange rates of the currencies in the basket, the exchange rate between the rupee and the pound sterling has been adjusted from time to time. The latest adjustment was effected on February 11, 1986 when the middle rate was fixed at Rs. 17.60 per pound sterling.

Imports

8.15 Imports during 1984-85 amounted to Rs. 17,092 crores registering an increase of 8.4 per cent over the preceding year. This compares with a growth of 10.2 per cent in 1983-84. Imports of crude oil and petroleum products declined in volume in 1984-85, but there was a 11.4 per cent increase in receipts because of higher unit values. Non-oil imports recorded a smaller increase of 7.1 per cent, largely on account of a sharp decline in imports of food items, consequent to a comfortable domestic foodgrain position.

8.16 During the first six months of the current financial year, provisional DGCI&S information on the rupee value of imports show a substantial increase of nearly 25 per cent over the corresponding period of 1984-85. More than two-fifths of the increase is attributable to half a dozen bulk items (petroleum products, fertilizers, fertilizer raw materials, edible oils, iron and steel and sugar), the imports of which are predominantly undertaken through public sector canalizing agencies. Releases of foreign exchange for imports by Government departments and associated agencies (such as ONGC) also rose sharply in the first half of 1985-86. If such releases are taken as a rough indicator of imports, then the increase in imports for these purposes would account for about another two-fifths of the total increment in imports in the first half of the current financial year. This would suggest that about a fifth of the total increase in imports in the first half of the year may have been on account of other capital goods imports and imports of raw materials, components and other items under the import licensing system (including OGL).

8.17 Preliminary information on bulk imports by canalizing agencies points to a marked deceleration in the growth of these imports in the third quarter of 1985-86, with the increase in imports for the first nine months estimated at about seven per cent, as compared with an increase in excess of 20 per cent for the first six months of the year. Since bulk imports by canalizing agencies normally account for about half of the total import bill, it is likely that the growth of total imports also decelerated appreciably in the third quarter of the current financial year. The available information suggests that the growth in the value of imports in 1985-86 for the year as a whole, is likely to be under 15 per cent.

8.18 Table 8.5 shows the commodity composition of imports during 1983-84, 1984-85 and the first six months of 1984-85 and 1985-86. The data, compiled by DGCI&S from customs returns, are likely to be revised as and when information is received.

8.19 Chart 19 presents a graphic view of the composition of imports over the last three years. Some of the salient features in import trends warrant comment. The share of POL imports (gross) fell from 39.3 per cent in 1982-83 to 31.5 per cent in 1984-85, reflecting the success in import substitution mentioned earlier. Gross POL imports increased by about 9 per cent in the first half of 1985-86 over the corresponding period of 1984-85. Net (of POL exports) imports increased much more steeply, reflecting rapid growth in domestic demand and deceleration in indigenous production of crude oil. Imports of cereals and cereal preparations, which had risen to account for nearly four per cent of total imports in 1983-84, declined to one per cent in 1984-85. The sharp reduction in food imports was made possible by successive good harvests and abundant stocks of foodgrains.

8.20 On the other hand, imports of edible oils increased substantially in the last two years. Their share in total imports rose from 2.8 per cent in 1982-83 to 4.9 per cent in 1984-85. In 1984-85, the value of edible oil imports was 53.5 per cent higher than in 1983-84, reflecting a combination of 17.8 per cent increase in import volume and 30.3 per cent increase in unit values. Edible oil import volume has increased in recent years because domestic production has failed to keep pace with domestic demand. Recently, the Government has taken a number of measures to strengthen incentives for indigenous production of oilseeds and edible oils.

8.21 Imports of fertilizers and fertilizer raw materials increased sharply in 1984-85 to account for 5.7 per cent of total imports. In 1983-84, their share had been only 1.6 per cent. This sharp increase is attributable to a combination of factors, including the need to replenish depleting stocks and a 56.4 per cent increase in unit values. The steep increase in fertiliser imports continued in the first half of 1985-86.

8.22 The share of iron and steel imports fell from over eight per cent in 1982-83 to 4.5 per cent in 1984-85, mainly because of a reduction in import volume. The fall in iron and steel imports reflects improvements in domestic production resulting from greater availability of power and coal and better matching of domestic supply to the pattern of demand. In April—September, 1985 iron and steel imports rose markedly by 41 per cent over the corresponding period of 1984.

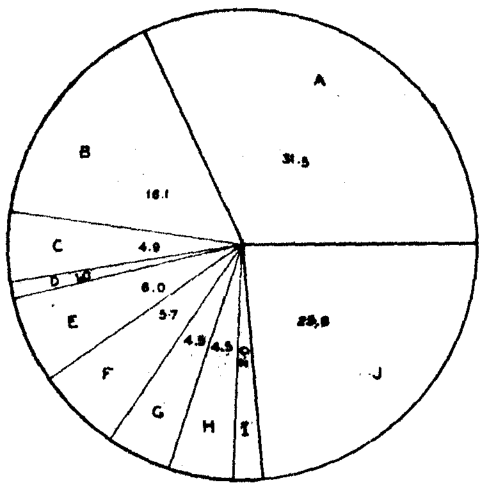
8.23 Import of capital goods increased by 9.8 per cent in 1983-84 and then declined by 7.9 per cent in 1984-85. Provisional figures for the first half of 1985-86 indicate a substantial increase in capital goods imports, which may partly reflect the buoyant climate for industrial investment. Capital goods imports, which have averaged 18 per cent of total imports in the

COMPOSITION OF INDIA'S IMPORTS

(IN PER CENT)

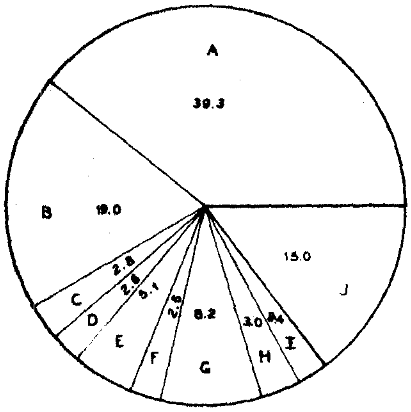
A	PETROLEUM, OIL AND LUBRICANTS
*B	CAPITAL GOODS
C	EDIBLE OILS
D	CEREALS AND CEREAL PREPARATIONS
E	PEARLS, PRECIOUS AND SEMI-PRECIOUS STONES, UNWORKED OR WORKED
F	FERTILIZER AND FERTILIZER MATERIALS
G	IRON AND STEEL
H	CHEMICAL ELEMENTS AND COMPOUNDS
I	NON-FERROUS METALS
J	OTHERS

1984-85



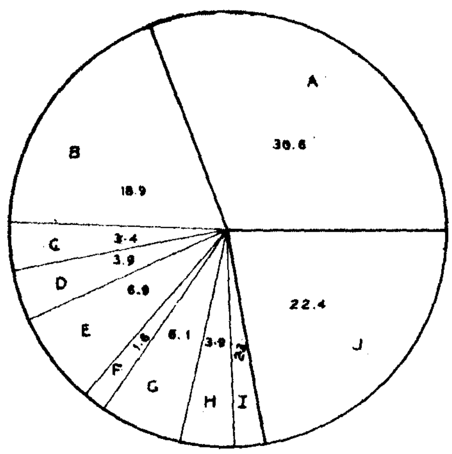
RS. 17092 CRORES

1982-83



RS. 14293 CRORES

1983-84



RS. 15763 CRORES

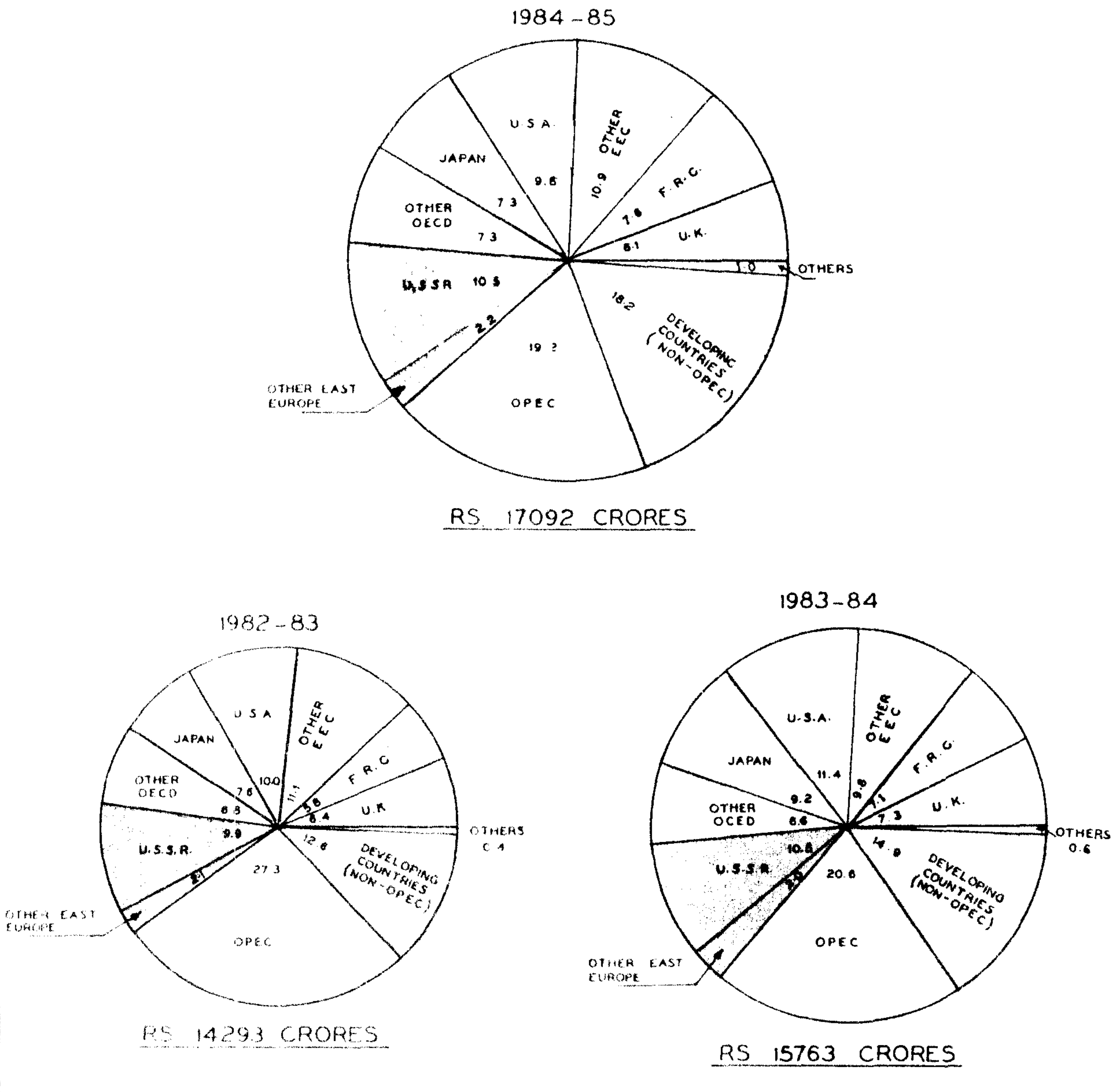
* INCLUDES MANUFACTURES OF METALS, MACHINERY (INCLUDING ELECTRICAL MACHINERY) AND TRANSPORT EQUIPMENT

MINISTRY OF FINANCE, ECONOMIC DIVISION.

GMGIPMRND-PLN-4(9)/ /Fin/85-86...Chart 9

SOURCES OF INDIA'S IMPORTS

(IN PER CENT)



MINISTRY OF FINANCE, ECONOMIC DIVISION

GMOIPMRND-PL...Chart 20

TABLE 8.5

Imports by Major Commodity Groups

(Value in Rupee Crores)

Sl. No.	Commodity	1983-84 (P)	1984-85 (P)	Percentage change 1984-85 / 1983-84	April—September 1984 (P)	April—September 1985 (P)	Percentage change April—September 1985 / April—September 1984
1	2	3	4	5	6	7	8
1.	Capital goods*	2981.4	2747.1	—7.9	1178.3	1621.2	37.6
2.	Cereals & cereal preparations	611.9	170.0	—72.2	111.4	41.8	—62.5
3.	Chemical materials & products	122.8	111.7	—9.0	46.2	42.7	—7.6
4.	Edible oils	541.0	830.2	53.5	425.3	446.2	4.9
5.	Fertiliser crude	80.7	111.0	37.5	47.6	56.1	17.9
6.	Fertiliser finished	112.5	751.0	567.7	127.4	386.1	203.1
7.	Iron & steel	962.9	777.3	—19.3	351.9	496.8	41.2
8.	Medicinal & pharmaceutical products	131.7	129.3	—1.8	53.9	59.9	11.1
9.	Non-metallic mineral manufactures excluding pearls	175.2	130.5	—25.5	40.0	34.1	—14.7
10.	Non-ferrous metals	369.1	345.1	—6.5	170.0	203.5	19.7
11.	Organic and inorganic chemicals	609.7	769.1	26.1	312.8	344.1	10.0
12.	Paper, paper board and manufactures thereof	172.6	175.1	1.4	71.7	92.1	28.5
13.	Pearls, precious and semi-precious stones	1082.4	1027.7	—5.1	491.7	538.7	9.6
14.	Petroleum, petroleum products and related materials (gross)	4830.1	5382.1	11.4	2409.1	2621.8	8.8
15.	Professional, scientific, controlling instruments, photographic optical goods, watches and clocks	280.7	240.5	—14.3	97.4	155.8	60.0
16.	Synthetic and regenerated fibres	102.6	48.8	—52.4	10.1	15.4	52.5
17.	Others	2595.7	3345.6	28.9	1400.0	1985.3	41.8
	Total Imports	15763.0(R)	17092.1(PR)	8.4	7344.8	9141.6	24.5

(P) Provisional.
(PR) Partially revised.
(R) Revised.
* Includes manufactures of metals, machinery (including electrical machinery) and transport equipment.

last three years, are not only necessary to sustain high levels of domestic investment but also for import of advanced technology necessary for modernization of industrial and infrastructure sectors.

Sources of Imports

8.24 The composition of imports, by source, in the last three years, is depicted in Chart 20. In the past two years about half of the imports have come from OECD countries, a fifth from OPEC, a little under a sixth from developing countries (non-OPEC) and an eighth from Eastern Europe. OPEC's share has fallen from higher levels in preceding years concomitant with the decline in the share of POL imports. In the last three years there has been a steady increase in the share of imports from developing countries.

8.25 Within the OECD group the share of individual countries has displayed marked variations. But the United States has remained the single most important source, with Japan, Federal Republic of Germany and the United Kingdom being the next three most important sources. In 1984-85, imports from the USA declined by 6.9 per cent, taking the share down to 9.8 per cent and placing the USA second to the USSR in the country-wise ranking by import shares.

Exports

8.26 Exports recorded a healthy increase of 17 per cent in 1984-85, the highest increase registered in any single year of the Sixth Plan*. Even excluding crude oil exports, the growth in exports was about 15.6 per cent. Viewed against the backdrop of increasing protectionist barriers in industrial countries, the export performance in 1984-85 was creditable. The increase in non-oil exports in 1984-85 was mainly due to substantial increases in exports of tea, cotton fabrics, jute

*Comparing the provisional export figures for 1984-85 to the provisional data for 1983-84. This is the appropriate comparison for assessing growth in exports.

manufactures, ready-made garments, chemical and allied products and leather and leather manufactures (including footwear).

8.27 Export growth during the first half of 1985-86 has been sluggish. According to preliminary information from the DGCI&S, total exports declined by 0.7 per cent in the first six months of 1985-86, compared with the first half of the previous year. A better assessment of the underlying export performance is provided by the trend in exports net of crude oil exports. This is because 1985-86 saw the tapering off in crude oil exports, as domestic refining capacity came on stream to refine the output of Bombay High. In the previous year crude oil exports were quite substantial, at Rs. 1,563 crores. Exports net of crude oil exports increased by 7.6 per cent in the first half of 1985-86. The commodity composition of exports, in recent years, is shown in Table 8.6 and Chart 21.

TABLE 8.6

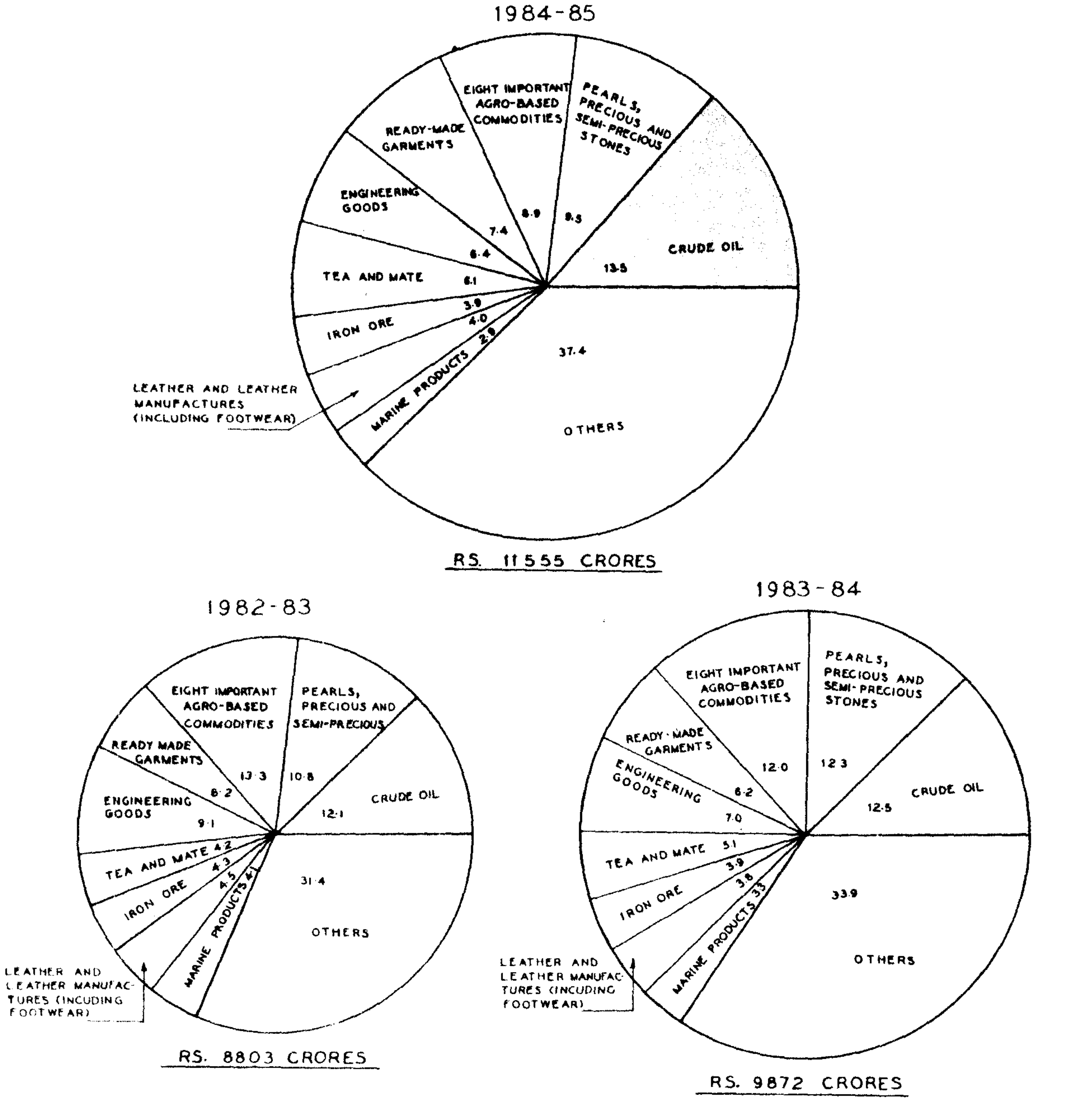
Exports by Major Commodity Groups

(Value in Rupee Crores)

Sl. No.	Commodity	1983-84 (P)	1984-85 (P)	Percentage change 1984-85 / 1983-84	April – September 1984 (P)	April – September 1985 (P)	Percentage change April—September 1985 / April—September 1984
1	2	3	4	5	6	7	8
1.	Cashew kernels	156.6	174.5	11.4	108.0	123.4	14.3
2.	Coffee & coffee substitutes	183.3	198.1	8.1	106.4	109.1	2.5
3.	Marine products	327.3	335.8	2.6	128.5	162.2	26.2
4.	Oil cakes	146.3	132.8	—9.2	62.9	45.2	—28.1
5.	Raw cotton	149.0	56.8	—61.9	48.0	46.2	—3.7
6.	Rice	147.1	121.7	—17.3	48.2	95.5	98.1
7.	Spices	109.3	174.1	59.3	91.7	61.6	—29.6
8.	Sugar	139.9	21.7	—84.5	14.8	0.2	—98.6
9.	Tea and mate	501.4	707.9	41.2	330.4	257.0	—22.2
10.	Tobacco unmanufactured	149.6	148.6	—0.7	100.2	96.3	—3.9
11.	Iron ore	385.3	447.2	16.1	142.2	221.1	55.5
12.	Engineering goods*	691.4	738.4	6.8	330.6	354.2	7.1
13.	Chemicals and allied products	277.7	370.6	33.5	164.3	157.6	—4.1
14.	Cotton fabrics	276.6	412.9	49.3	162.0	166.8	3.0
15.	Iron and steel	46.4	62.0	33.6	27.0	26.1	—3.3
16.	Jute manufactures	164.5	341.1	107.4	141.0	129.3	—8.3
17.	Leather and leather manufactures incl. footwear	373.2	456.8	22.4	251.3	260.9	3.8
18.	Readymade garments	609.6	857.8	40.7	357.2	397.6	11.3
19.	Handicrafts	1599.3	1521.4	—4.9	765.4	839.7	9.7
	Of which :						
	Pearls, precious and semi-precious stones	(1214.0)	(1093.1)	(—10.0)	(576.3)	(637.2)	(10.6)
20.	Others	3438.3	4274.2	24.3	1674.2	1464.6	—12.5
	Of which :						
	Crude Oil	(1231.1)	(1563.2)	(27.0)	(516.3)	(135.1)	(—73.8)
	Total Exports	9872.1(R)	11554.8(PR)	17.0	5054.3	5017.6	—0.7

(P) Provisional.
(PR) Partially revised.
(R) Revised.
* Includes machinery and transport equipment and metal manufactures excluding iron and steel.

COMPOSITION OF INDIA'S EXPORTS
(IN PER CENT)



1. EIGHT IMPORTANT AGRO-BASED COMMODITIES INCLUDE :- COFFEE AND COFFEE SUBSTITUTES, CASHEW KERNELS, RAW COTTON, OIL CAKES, RICE, SUGAR, TOBACCO UNMANUFACTURED AND SPICES

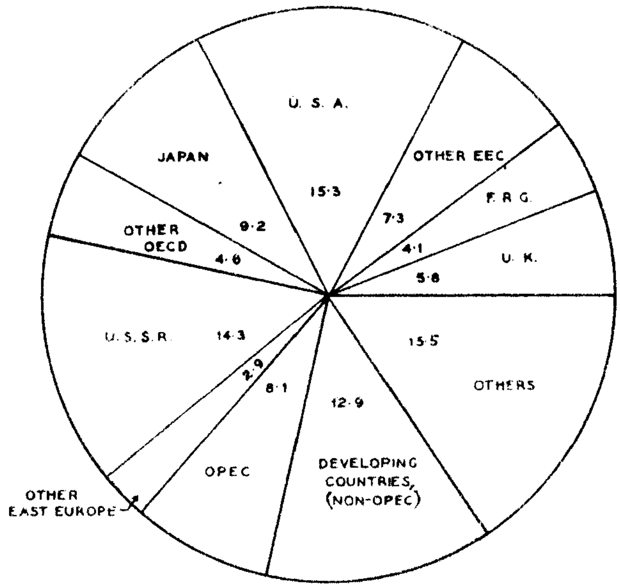
2. ENGINEERING GOODS INCLUDE - MACHINERY AND TRANSPORT EQUIPMENT AND METAL MANUFACTURES EXCLUDING IRON AND STEEL

MINISTRY OF FINANCE, ECONOMIC DIVISION

GMGIPMRND-PLW-4?9/?/Fin/8?-86...Chart ??

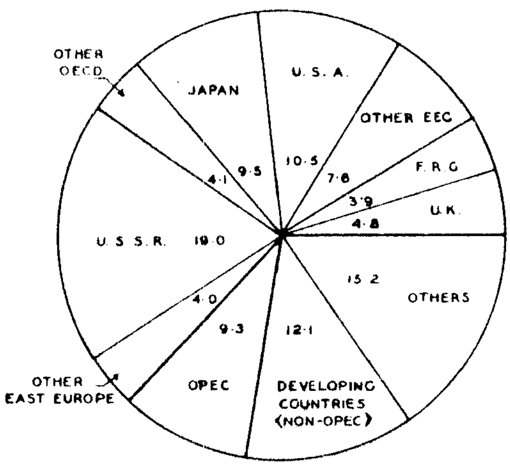
DESTINATION OF INDIA'S EXPORTS
(IN PER CENT)

1984-85



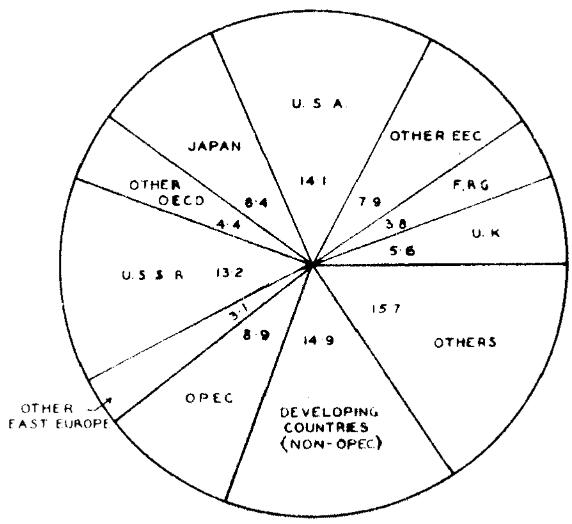
RS. 11555 CRORES

1982-83



RS 8803 CRORES

1983-84



RS 9872 CRORES

MINISTRY OF FINANCE, ECONOMIC DIVISION

GMDIPMRND-PLW-469/?/Fin/85-86...Chart 22

8.28 Exports of crude oil, under swap arrangements, have been the largest single item of export in the last three years. Exports of crude oil increased by about one million tonne in 1984-85 to a level of about 6.5 million tonnes. In value terms, these exports were 27 per cent higher than in the preceding year. These exports have been necessitated by the lack of suitable domestic refining capacity for the Bombay High crude. With the recent completion of appropriate refining capacities, no further exports of crude are anticipated after the first half of 1985-86.

8.29 Exports of pearls and precious stones (mainly diamonds) declined by ten per cent in 1984-85, bringing the share in total exports down to 9.5 per cent from 12.3 per cent in 1983-84. This fall was mainly due to recessionary conditions in industrial countries. Provisional data indicate that the decline has been reversed in the first half of 1985-86. In any case, diamonds are relatively low earners of net foreign exchange, since the entire supply of uncut diamonds has to be imported.

8.30 Tea exports increased by 41.2 per cent in 1984-85 on top of a 35.6 per cent increase in 1983-84. About three-quarters of the increase in 1984-85 was due to higher unit values, though volume also increased by about 9.5 per cent. Exports would have been even higher but for the export quota of 215 million kgs. fixed for the year to augment domestic supplies and relieve pressure on domestic prices. World prices of tea have declined steadily since the beginning of 1985 and export volumes have also fallen, suggesting that export earnings from tea in the current year will be considerably lower.

8.31 Exports of marine products, which had accounted for over four per cent of total exports in 1982-83, declined in 1984-85. These exports depend crucially on variable food habits and demand patterns in the major importing countries, the USA and Japan. Higher exports will require better fish farming practices and improved infrastructure.

8.32 Exports of eight other agro-based commodities (coffee, oil cakes, unmanufactured tobacco, cashew kernels, spices, sugar, raw cotton and rice) each accounted for between Rs. 100 to Rs. 200 crores in 1983-84. Together these eight commodities constituted nearly 9 per cent of total exports in 1984-85 compared with 12 per cent in 1983-84 and 13.3 per cent in 1982-83. The export performance of most of these commodities has been lacklustre after 1983-84. Despite a 19.2 per cent decline in volume, export earnings from cashew increased by 11.4 per cent because of higher unit values. Cashew exports have been facing growing competition from countries in Africa and are also overly dependent on a single market, the USSR. Exports of rice declined again in 1984-85 in both volume and value, partly because of the ban placed on exports of non-basmati rice to augment domestic supply.

8.33 Exports of spices spurted by 59.3 per cent to Rs. 174.5 crores in 1984-85, but have fallen sharply in the first half of 1985-86. India's share of the world spice trade has exhibited a disturbing downward trend, reflecting declining competitiveness in relation to new exporters. Exports of oilcakes fell in volume and value in 1984-85, partly because of strict import regulations in regard to quality imposed by importing developed countries. Exports of unmanufactured tobacco declined marginally in 1984-85, and have also fallen in the first half of 1985-86. Sugar exports plummeted to Rs. 21.7 crores in 1984-85 from Rs. 140 crores in 1983-84, mainly because of two consecutive years of poor domestic production. Imports of sugar, which began in 1984-85 are expected to be high in 1985-86. Coffee exports grew by 8.1 per cent in 1984-85, but the rate of increase decelerated in the first half of 1985-86. Despite a better cotton crop in 1984-85, raw cotton exports fell by 61.9 per cent mainly because of the lower level of production of raw cotton during the preceding years which had adverse effects on exports during 1984-85.

8.34 Ready-made garment exports increased sharply by 40.7 per cent in 1984-85 to account for 7.4 per cent of the total exports. The boom, which continued into the first half of 1985-86, was largely attributable to the revival of demand in the western countries. Cotton fabric exports also displayed a sharp recovery, increasing by 49.3 per cent in value and 43.9 per cent in volume in 1984-85. The increase appears to have tapered off in April—September, 1985.

8.35 Exports of engineering goods had fallen by 14.9 per cent in 1982-83 and again by 13.5 per cent in 1983-84. In 1984-85, these exports posted a modest recovery of 6.8 per cent, and are expected to rise further in 1985-86. Their share of total exports has fallen from 9.1 per cent in 1982-83 to 6.4 per cent in 1984-85. A number of factors lie behind the indifferent performance of engineering exports in recent years. These include recession in industrial countries, financial difficulties of importing developing countries, the slowdown in economic activity in West Asia, high input costs and uneconomic scales of production bedevilling engineering units, and the emergence of new competitors, such as China.

8.36 Following a pick-up in international demand, iron ore exports increased by 16.1 per cent in value and 10.8 per cent in volume in 1984-85. In the first half of the current year, these exports boomed by 55.5 per cent. However, at 23.5 million tonnes, exports in 1984-85 were still below the peak level of 24.8 million tonnes attained in 1979-80. Sustained growth in iron ore exports will require marked improvements in infrastructure facilities and aggressive marketing in key countries.

8.37 Exports of leather and leather manufactures, which had been sluggish in the two preceding years, rose sharply by 22.4 per cent in 1984-85, mainly because of the revival of overseas demand.

8.38 Overall export performance during 1984-85 was satisfactory, especially compared with the preceding four years. The target of Rs. 11,127 crores set for the year was exceeded. However, the estimated volume growth of exports was not significantly different from that of preceding years. Most of the value increase recorded was due to price and exchange rate factors. The international environment for trade continues to be precarious. Growth in world trade in 1985 is estimated to have been much lower than in 1984. The recovery of industrial countries from the recession of 1980-83 appears to have been uneven and halting. Growth of Indian exports during the first six months of 1985-86 has been unsatisfactory. These considerations suggest that the total value of India's exports in 1985-86 may not rise above the level achieved in 1984-85.

Direction of Exports

8.39 The destination pattern of India's export is similar to the source-wise distribution of her imports. The notable exception is OPEC region which accounts for a much larger share of imports than they do of exports. Chart 22 displays the composition of exports by destination, over the period 1982-83 to 1984-85. In the past two years about 45 per cent of exports have gone to OECD countries, 17 per cent to East Europe, nine per cent to OPEC, 14 per cent to developing countries and 16 per cent to others.@

8.40 In 1984-85, exports to OECD countries rose markedly by 22.5 per cent. In rupee terms, exports to the U.S.A. increased by over 26.7 per cent, partly reflecting the substantial strengthening of the U.S. dollar during the year. At 15.3 per cent of the total exports, the U.S.A. was the single largest market for India's exports, with USSR coming a close second with a share of 14.3 per cent. Exports to East European countries also recorded a strong increase of 23.3 per cent, with those to the USSR growing by 26.7 per cent. On the other hand, exports to OPEC and developing countries (non-OPEC) showed a small increase of 6.3 per cent and 1.1 per cent respectively.

@The relatively high number of "Others" is mainly attributable to crude oil exports, which have not been booked by destination.

Developments in Trade Policy

8.41 In April, 1985 the export and import policy was announced, for the first time, for a period of three years ending March, 1988 with the objective of imparting continuity and stability to the policy regime. This medium term policy should minimise year to year uncertainties and thereby help industry to plan its economic activity in a longer perspective. The present policy incorporates a number of recommendations of the Committee on Trade Policies, which was set up in July, 1984 and presented its report at the end of 1984. Some of the major recommendations of the Committee have been implemented through the current import-export policy. These include the announcement of import-export policy for a period of three years, abolition of the category of automatic licences, introduction of the import-export pass book scheme for manufacturer-exporters and canalisation of imports through enterprises not charged with manufacturing the concerned items. The Committee's recommendations favouring a greater role for tariffs in regulating imports have also been adopted in the Government's Long Term Fiscal Policy.

8.42 Apart from imparting continuity and stability to the trade policy regime, the present policy seeks to facilitate increased production through easier and quicker access to inputs, strengthen the base for export production, encourage further savings in imports through efficient import substitution, facilitate technological upgradation and modernisation in production and streamline administrative procedures.

8.43 The policy maintains the general structure of trade policies that has evolved in the country in recent years. For providing easier and quicker access to imported inputs, the category of Automatic Licensing has been abolished and the majority of items shifted to Open General License (OGL). This will eliminate avoidable delays and should be particularly beneficial to the small scale sector.

8.44 In order to meet the requirements of machinery for modernisation of export production, 201 items of industrial machinery have been included in the list of capital goods allowed for import under OGL. The major sectors to benefit from this liberalization include the machine tool industry, oil field services, leather, electronics, jute manufactures, garments, hoisery and made-ups, pen manufacturing and canning.

8.45 For providing protection to the indigenous industry, 67 items of raw materials, components, etc. from OGL and Automatic Permissible List were transferred to Limited Permissible List; 7 items from Limited Permissible List have been shifted to the Restricted List; 20 items from the Canalised List have been shifted to the Limited Permissible List; and 16 items to the Restricted List. Similarly, 4 items of capital goods have been taken out from the list of capital goods on Open General Licence.

8.46 Import Policy for computer systems has been liberalised. Import of computer system costing less than Rs. 10 lakhs (c.i.f.) has been allowed under OGL by all persons for their own use. However, in case the importer takes prior clearance of the Department of Electronics, low rate of custom duty is leviable, otherwise higher custom duty would apply.

8.47 Import of 53 items has been decanalised because the Government concluded that the basic objectives of canalisation (namely, purchase in bulk for securing better terms of trade, development of long-term sources of supply, etc.) were not being achieved in these cases. The procedure for supply of imported inputs to actual users by the canalising agencies has also been streamlined so as to eliminate avoidable delays. In consonance with the general principle that a manufacturing company should not be the canalising agency for the product it produces, import of "methanol, all types" has now been canalised through the State Trading Corporation and import of certain iron and steel items through the Minerals and Metals Trading Corporation of India.

8.48 The policy incorporates several features aimed at improving export performance. A new scheme known as 'Import-Export Pass Book Scheme' has been introduced for manufacturer-exporters to provide duty-free access to imported inputs for export production. The scheme, which is wider in its scope than the present Advance Licensing Scheme, became operational in January, 1986 and will avoid the need to obtaining advance licences repetitively. The scope of the duty exemption scheme for advance licenses for import of raw materials required for finished products as well as for intermediate products has been further enlarged.

8.49 The criterion of eligibility for additional licences based on net realisation of foreign exchange, which was introduced in the import policy for 1984-85, has been extended to the growth rate prescribed for the renewal of Export/Trading House certificates.

8.50 For facilitating better utilisation of infrastructural facilities created by Export/Trading Houses, a provision has been introduced enabling renewal of Export/Trading House certificate in the event of shortfalls in the prescribed performance, subject to specified cuts in facilities otherwise admissible. The growth rate prescribed in the scheme for Entrepreneur Merchant Exporters, exporting select products from small scale and cottage sector, has been reduced from 50 per cent to 20 per cent. The sale of gold ornaments and articles at approved exhibitions arranged by organisers other than the Handicrafts and Handlooms Export Corporation (HHEC) and its associates has been allowed. Trading Houses and Export Houses with minimum exports of Rs. one crore in the previous year have been allowed to import technical designs, drawings and other documentation required for their supporting manufacturers to the extent of Rs. 25 lakhs and Rs. 10 lakhs respectively against their own REP/Additional Licences.

8.51 The facility of import of capital goods against REP licences has also been granted to SSI/non-SSI units whose exports of select products were less than the minimum prescribed ten per cent of their production but more than Rupees one crore in value, upto Rs. five lakhs for small scale industries and Rs. 20 lakhs in the case of non-SSI. The minimum limit for import of capital goods against REP licences has also been raised from Rupees one lakh to Rupees two lakhs for Registered Exporters irrespective of their level of export performance. In order to cover foreign exchange requirements for import of balancing equipment having impact on quality and/or quantity of output, acquisition of technical know-how, foreign consultancy service etc., the value limit per unit under Technical Development Fund has been enharced from the US dollar five lakhs to the US dollar equivalent of Rs. 100 lakhs.

8.52 Special facilities for import of capital goods, raw materials, etc. shall now be available only to those non-resident Indians/persons of Indian origin who are returning to India for permanent settlement for setting up industries or investment in industries in India.

8.53 With a view to speeding up decision making through de-centralisation, more powers have been delegated at various levels. The powers of Regional Licencing Authorities and the CG Ad-hoc Licencing Committee for considering the applications for capital goods have been raised from Rs. 20 lakhs to Rs. 25 lakhs and from above Rs. 20 lakhs to Rs. one crore respectively. The Regional Licencing Authorities have now been empowered to deal with applications for Supplementary Licences for items appearing in Appendix 3, Part A, upto a value limit of Rs. five lakhs for the small scale unit and Rs. 50 lakhs in the case of large scale. To expedite issue of licences under Advance Licencing Scheme, regional Advance Licencing Committees have been set up in Calcutta, New Delhi, Madras and Bombay. Turnkey project exporters/project contractors have been allowed to import, on OGL, construction equipment, machinery, spares, tools and accessories and office equipments which were in use for their projects abroad.

External Assistance

8.54 Gross disbursements of external assistance increased from Rs. 2,258 crores in 1983-84 to Rs. 2,354 crores in 1984-85. It is estimated that during 1985-86 there may be a further increase in such inflows to Rs. 3,165 crores. Net assistance (net of debt servicing) received by India, however, showed a decline from Rs. 1,235 crores in 1983-84 to Rs. 1,178 crores in 1984-85. Net assistance is estimated to increase by about 52 per cent to Rs. 1,795 crores in 1985-86. The details are given in Table 8.7.

TABLE 8.7

Inflow of External Assistance : Gross and Net

(Rs. crores)

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
1. Authorisations	1860	3847@	2840	2949	2079	4692	3676*
2. Gross disbursements	1353	2162@	1870	2250	2268	2354	3165**
Of which :							
Debt relief	11	13	3	5	5	9	5***
3. Debt Servicing (including interest payments)	801	804	849	948	1033	1176	1370
4. Net inflow of assistance	552	1358@	1021	1302	1235	1178	1795

*Authorisation on Government account only for April—September, 1985.

**Estimated utilisation during 1985-86 includes Government, non-Government loans, grants and food aid. Figures shown here may be different from those appearing in the Budget, which show only assistance passing through the Budget.

@Includes drawings under IMF Trust Fund.

***Estimated.

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

8.55 The Aid India Consortium met in Paris on June 18 and 19, 1985 for considering India's aid requirements for 1985-86. The meeting reviewed India's recent economic development, major policy issues to be addressed in the Seventh Five Year Plan, and the country's aid requirements for 1985-86. Pledges amounting to about SDR 4 billion were made by the Consortium members for 1985-86 which were roughly the same as in 1984-85.

8.56 The international climate for official development assistance to developing countries continues to remain unfavourable. ODA from DAC countries in real terms (measured in constant prices and exchange rates) increased by six per cent in 1984. But as a percentage of gross national product (GNP) of donor countries, ODA remained stagnant at its 1983 level of 0.36 per cent. India's share of total ODA disbursement has come down from a level of 15.1 per cent in 1970 and 10.7 per cent in 1975 to 7.2 per cent in 1983, indicating a continuous decline over the years.

8.57 World Bank lending to India during fiscal year (FY) 1985 (July, 1984 to June, 1985) has shown a decline over what it was during the previous year. The IBRD lending in FY 1985 was $ 1,674 million as against $ 1,721.4 million in FY 1984, while total IDA lending is expected to decline steeply from $ 1,001 million in FY 1984 to $ 672.9 million in FY 1985. The decline in the World Bank's aggregate volume of lending is associated with a decline in India's share in total World Bank lending. India's share in total World Bank lending fell from 15.4 per cent in FY 1984 to 14.7 per cent in FY 1985 in the case of IBRD loans and from 28.0 per cent to 22.4 per cent in the case of IDA credits.

8.58 The Report of the Task Force on Concessional Flows, comprising representatives from eighteen industrialised and developing countries (including India), was presented to the Development Committee in October, 1985. The Report has concluded that most aid has been effectively used, that public support for aid has not weakened and that donor governments should exert redoubled efforts to increase aid flows to low-income countries in suppport of their extraordinary efforts to alleviate poverty, sustain investment and undertake painful structural adjustment. The Report has also reaffirmed that the primary criterion for allocating concessional assistance should continue to be poverty. These important conclusions should form the basis for sustained increase in ODA to low-income countries and a substantial quantum of replenishment under IDA-VIII.

8.59 The Report takes note of the impressive investment, savings and growth performance of the large low income countries (India and China), as also of their large populations, low per capita income levels and continued high incidence of absolute poverty. The Report has, therefore, recommended that concessional resource allocations to these countries should be based on their broader economic situation and should not, in effect, constitute a "penalty for performance." The Task Force has further recommended that since the external resources requirements of these countries are substantial, the limited concessional resources received by them should be combined with augmented flows of other official capital.

8.60 The Government has been using external commercial borrowings selectively keeping in view the availability of funds from other sources, the balance of payments position and the need to keep country's debt service burden within prudent limits. All proposals of commercial borrowings are approved by the Government of India. While the private sector has been permitted to raise funds through external commercial borrowings on a selective basis, the bulk of these borrowings have been resorted to by public sector undertakings. India's policy of selective and cautious use of commercial borrowings, coupled with close monitoring of these borrowings, has proved to be highly effective and it has enabled India to obtain increasingly finer terms for borrowings in international capital markets and tap sources hitherto open only to the top quality borrowers from developed countries. While syndicated commercial bank loans and suppliers' credits continue to account for the bulk of external commercial borowings, India has made growing use of other forms, especially bonds. In the current year, approvals for commercial borrowings are likely to amount to about Rs. 1,500 crores (actuals upto December, 1985 amounted to Rs. 1,175 crores) compared with Rs. 1,906 crores in 1984-85 and Rs. 1,085 crores in 1983-84.

8.61 India's debt service payments on external debts on Government account, non-Government account, IMF drawals and external commercial borrowings (including suppliers' credits) are estimated at 13.6 per cent of current receipts in 1984-85. Debt service ratios relating to the country's external debt have risen since 1981-82. These ratios are likely to rise somewhat faster in 1986-87 because the burden of debt service payments on IMF drawals and commercial borrowings contracted earlier will be bunched in these years. The debt-service ratio will, however, continue to remain within prudent limits.

Outlook

8.62 1985-86 is the first year of the Seventh Five Year Plan which projects net external borrowings of Rs. 20,900 crores at 1984-85 prices for the Plan period as a whole, volume growth of exports at 6.8 per cent per annum, volume growth of imports at 5.8 per cent per annum, an average current account deficit at 1.6 per cent of GDP and average debt service on external debt at 17.6 per cent of current receipts. The Plan document notes that the attainment of the balance of payments objectives will not be an easy task.

8.63 The outlook for the first year of the Seventh Plan for the external sector of the economy is not satisfactory. Exports are not expected to show a significant increase because of, among other factors, a sharp decline in crude oil exports. Even after allowing for likely deceleration in the growth of imports in the second-half of the year, import growth for the year as a whole will be higher than in the previous year. Most of this increase is on account of bulk commodities, such as fertilisers, sugar and oil, and import of equipment and materials for projects and programmes in the public sector. There may be a marked improvement in the inflow of net external assistance, largely on account of aid in the pipeline. But the increase will be more than neutralised by the rising debt service burden on past loans from the IMF and external commercial sources. Debt service as a ratio of current receipts may rise significantly and the external payments position will require careful management.

8.64 In the medium-term the external sector of the economy will have to contend with problems arising out of the declining flow of concessional resources, harder average terms of external borrowings, debt service payments on account of debts already disbursed, an increase in the import-consumption ratio for petroleum products, uncertain prospects for expatriate remittances and an international trading environment which continues to hamper promotion of exports by developing countries.

8.65 Against this background, it is imperative that measures are taken to accelerate the growth of commodity exports as well as earnings from invisibles, notably travel and tourism. It is also essential to ensure efficient import substitution, especially with regard to key bulk items such as edible oils, sugar and fertilizers. Particular attention has to be paid to curtailing the growth in consumption of petroleum products since import costs have increased by over Rs. 1000 crores in 1985-86 despite softening of oil prices. To curb the growth of oil imports, it will be necessary to adopt a multi-pronged strategy, which includes efficient production and use of non-oil energy sources, a concerted programme for energy conservation and greater efforts at exploration and production of indigenous petroleum resources.