CHAPTER 8

THE EXTERNAL SECTOR

As anticipated in the Economic Surveys of the past several years, India's balance of payments continued to be under pressure from a number of adverse medium-term factors. These included an expected deceleration in the rate of growth of indigenous oil production, protectionist tendencies in international trade, the bunching of repayment obligations to the IMF and the unfavourable climate for concessional assistance. In 1987-88, to these medium-term pressures on balance of payments, was added the problem of severe country-wide drought, which entailed substantial additional imports of essential commodities, such as, edible oils and pulses.

8.2 In anticipation of emerging pressures on balance of payments, the Government had initiated a wide range of measures to accelerate the growth of exports and check the increase in imports. Further steps were also taken during the current year. According to the DGCI&S data on foreign trade, these measures have met with considerable success. In rupee terms, exports increased by 15.3 per cent in 1986-87 (comparing partially revised data for both periods) over 1985-86, while imports grew by only 2.2 per cent. The buoyancy in exports has continued in the first nine months of the current year with the rupee value of exports displaying an increase of 24.7 per cent over the comparable period of 1986-87 (both the data on provisional basis). While imports increased by 13.5 per cent in April—December, 1987, much of this growth can be attributed to the rebound in the international oil prices. The DGCI&S data show growth of non-oil imports of only 5 per cent in the first nine months of the current year. As a result, the provisional trade deficit for April—December, 1987 at Rs. 4913 crores was lower by Rs. 297 crores than the deficit of Rs. 5210 crores over the comparable period of 1986. As a per cent of current price GDP, the trade deficit is likely to have declined significantly. However, the trade data for the first three quarters of 1987-88 do not capture the full effects of the drought, whose adverse impact on foreign trade is likely to be more pronounced in the final quarter of the year.

Balance of Payments and Foreign Exchange Reserves

8.3 Full balance of payments data are available for the fiscal year as a whole only upto 1985-86, the first year of the Seventh Plan. Table 8.1 summarises trends in the key ratios (to GDP) in the present decade. Following the second oil shock of 1979-80, the trade deficit had attained a peak of 4.4 per cent of GDP in 1980-81. It declined steadily to 2.8 per cent of GDP in 1983-84, rose marginally in 1984-85 and sharply in 1985-86 to 3.7 per cent of GDP. Net earnings on invisibles account fell from a peak of 2.8 per cent of GDP in 1980-81 to 1.2 per cent in 1985-86 reflecting the declining importance of private transfer payments and the growth of interest payments on external loans and credits. As a consequence of these trends in trade and invisibles accounts, the current account deficit rose sharply in 1985-86 to 2.5 per cent of GDP. (The ratios of net invisibles and current account deficit to GDP may be slightly different from those shown in the balance of payments statistics published by the Reserve Bank of India, because of difference in treatment of official grant receipts and US Embassy expenditures in India out of PL-480 Rupee Fund. These items are taken as current account receipts in the latter, but form part of capital receipts in aid statistics compiled by the Ministry of Finance).

TABLE 8.1

Balance of Payments : Key Indicators

(As per cent of GDP)

Item	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
1	2	3	4	5	6	7
Exports. . .	4.8	4.9	5.1	4.9	5.2	4.4
Imports . .	9.2	8.7	8.4	7.7	8.1	8.1
Trade Balance .	-4.4	-3.8	-3.3	-2.8	-2.9	-3.7
Invisibles (net) .	2.8	2.1	1.7	1.5	1.4	1.2
Current Account Balance . .	-1.6	-1.8	-1.5	-1.3	-1.5	-2.5

NOTE : The ratios have been computed on the basis of the country's balance of payments as given in Appendix Table 6.2 and the CSO estimates of GDP at current market prices (new series). The ratios of net invisibles and current account deficit to GDP indicated above may be slightly different from those shown in the balance of payments statistics published by the Reserve Bank of India, because of difference in treatment of official grant receipts and US Embassy expenditures in India out of PL-480 Rupee Fund. These items are taken as current account receipts in the latter, but form part of capital receipts in aid statistics compiled by the Ministry of Finance.

8.4 The balance of payments data for the full fiscal year 1986-87 are not available so far. The available information indicates that both trade and current account deficits reduced somewhat during the year. During the first six months of the 1986-87, for which balance of payments data are available, deficits in both trade and current accounts were lower than in the comparable period of 1985-86. According to the revised data of DGCI&S, Calcutta, exports at Rs. 12,566.6 crores have shown a healthy increase of 15.3 per cent in 1986-87 in contrast with a decline of 7.2 per cent in the preceding year. As imports rose at a low rate of 2.2 per cent against 14.7 per cent in 1985-86, the trade deficit declined from Rs. 8,763.1 crores in 1985-86 to Rs. 7,516.9 crores in 1986-87 according to DGCI&S data. The number of tourist arrivals in India rose by 23 per cent in 1986-87 to achieve a new record of 1.11 million. Consequently, travel receipts might have risen sharply during 1986-87. Payments under investment income, on the other hand, have continued to rise on account of past external borrowings. Net receipts in respect of other items of invisibles are not expected to be significantly different from those in 1985-86. Thus net invisibles receipts during 1986-87 might, perhaps, have been higher than in the preceding year. As a result, the current account deficit is expected to have been lower in 1986-87 than that in 1985-86. Net disbursement of external assistance as well as inflows into non-resident accounts increased in 1986-87. Nevertheless, trends in reserve movements point to continued pressure on the balance of payments during the year (Table 8.2). In SDR terms total foreign exchange reserves stood at SDR 5,113 million at the end of March 1987 as compared to SDR 5,728 million at the end of March 1986, indicating a decline of SDR 615 million during 1986-87.

TABLE 8.2

Movements in Foreign Exchange Reserves

(Rs. crores)

Year	Foreign exchange reserves at the end of the year@	Movements in foreign exchange reserves	Net drawals from IMF
1	2	3	4
1979-80 . . .	5934	108	—55*
1980-81 . . .	5544	-390	814**
1981-82 . . .	4024	-1520	637
1982-83 . . .	4782	758	1893
1983-84 . . .	5972	1190	1342
1984-85 . . .	7243	1271	63
1985-86 . . .	7820	577	—310**
1986-87 . . .	8151	331	—772**
1987-88 . . . (Upto January, 1988) .	6813	-1338	—1141**

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

**Includes Trust Fund loan drawals and repayments.

@Includes foreign currency assets of RBI, gold holdings of RBI and SDR holdings of Government.

8.5 The provisional DGCI&S data on foreign trade for April—December, 1987, partial information on invisibles and some items of capital account and trends in foreign exchange reserves indicate the continuing strain on balance of payments in the current year. Provisional trade data for the first nine months of the current financial year display a strong growth of exports and relatively modest increase in imports. However, net invisibles are unlikely to increase significantly in 1987-88 because of uncertain trends in net private transfers, especially from the oil exporting countries of West Asia, slower growth of tourism and steady increase in the interest payments on past borrowings. The continuation of pressure on balance of payments is reflected in the decline of foreign exchange reserves by Rs. 1338 crores between end-March, 1987 and end-January, 1988.

8.6 As compared to the turnout in foreign trade and balance of payments in a normal monsoon year, the principal effects of the drought on the current year's balance of payments are likely to be : additional requirements for imports of key commodities, such as edible oils, pulses and petroleum products, mainly to compensate for drought-induced shortfalls in domestic availability; possible increment in imports of certain categories of intermediate capital goods; a weaker export performance in drought-affected agricultural products such as coffee, cotton, rice and oilmeals; and an increase in capital inflows from several drought-specific external assistance initiatives. The overall impact is likely to be dominated by substantial incremental imports of essential commodities, which will lead to a higher trade and current account deficit than would otherwise have been the case. This additional pressure on the balance of payments will be partially offset by the speeding up of external assistance disbursements.

8.7 In order to attract deposits under different non-resident accounts, the interest rates offered on Non-Resident External Rupee (NRER) deposits continued to have a premium of 2 per cent over the rates applicable to domestic deposits of comparable maturities. The rates of interest on Foreign Currency Non-Resident (FCNR) deposits were revised four times, on May 25, October 12, November 30 and February 8, in the current financial year, keeping them in line with the interest rates in the international capital markets. The rates of interest prevailing on February 15, 1988 on deposits in NRER and FCNR Accounts are given in Table 8.3.

TABLE 8.3

Rates of Interest on Term Deposits under Non-Resident External Rupee (NRER) and Foreign Currency Non-Resident (FCNR) Accounts.

(Per cent per annum)

Maturity	Current Rate of Interest@	
	NRER	FCNR
(a) One year and above but less than two years. . . .	10.50	8.50
(b) Two years and above but less than three years. . . .	11.00	9.25
(c) Three years and above but less than five years. . . .	12.00	9.50*
(d) Five years only. . . .	13.00	—

*Three years only.
@As on February 15, 1988.

8.8 The inflows to the foreign accounts were Rs. 1370 crores during April—December, 1987 as against Rs. 1821 crores during the same period of 1986-87. About two-thirds of the inflows were accounted for by the dollar denominated deposits and accretion to NRER accounts amounted to Rs. 459 crores during April—December, 1987. As NRER deposits are inclusive of interest, if an adjustment is made for the interest included in these deposits, the inflows would be reduced to that extent. Table 8.4 shows the outstanding amounts under these accounts.

TABLE 8.4

Outstanding Amounts in Various Types of External Accounts

As on 31st March.	Non-resident external rupee accounts*	Foreign currency non-resident accounts@	
		US$ accounts	Sterling accounts
	Rs. Crores.	$ Million	£ Million
1	2	3	4
1981 . .	937.7	140.3	19.8
1982 . .	1259.0	107.3	27.6
1983 . .	1679.2	151.5	68.2
1984 . .	2254.3	373.8	136.2
1985 . .	2864.0	499.1	218.2
1986 . .	3461.4	1419.4	236.1
1987 . .	4336.2	2359.9	223.6
31 Dec., 1987**	4795.4	3072.0	221.8

@ Figures do not include accrued interest.
*Figures include accrued interest.
**Provisional data.

8.9 The external value of the Rupee continued to be determined in relation to a weighted basket of currencies of India's major trading partners and Pound Sterling remained the intervention currency. The exchange rate between Rupee and Pound Sterling has been adjusted from time to time in line with the changes in the exchange rates of currencies in the basket. The latest adjustment was made on February 15, 1988 when the middle rate was fixed at Rs. 22.80 per Pound Sterling.

Imports

8.10 The growth of imports decelerated from 14.7 per cent in 1985-86 to 2.2 per cent in 1986-87. In US dollars, imports in 1986-87 declined by 2.2 per cent as against an increase of 11.5 per cent in the preceding year. The major decline was in the imports of petroleum products which fell by 46.3 per cent on top of a decline of 7.8 per cent in 1985-86. This was due to the fall in international oil prices (relevant to India's purchases) by 43.3 per cent, on top of a fall of 4.4 per cent in 1985-86, caused by glut conditions in the world oil market. The decline in imports in 1986-87 was further contributed by falls in imports of other bulk commodities like fertilisers and fertiliser materials (by 46.1 per cent), sugar (by 49.7 per cent), non-ferrous metals (by 23.4 per cent), edible oils (by 16.7 per cent) and cereals and cereal preparations (by 57.3 per cent). Non-oil imports registered a smaller increase of 18.7 per cent in 1986-87 compared to an increase of 25.1 per cent in 1985-86. In US dollars the non-oil imports rose by 13.5 per cent.

8.11 In the first nine months of the current financial year 1987-88, imports have increased by 13.5 per cent, in sharp contrast to an increase of only 2.3 per cent in the corresponding period of 1986-87. In US dollars, the growth in imports amounts to 11.5 per cent compared to a decline of 1.6 per cent in the same period last year. The substantial rise in imports is largely attributable to a sharp rise in oil imports by 75.6 per cent due mainly to firming up of petroleum prices in the international market, and also to a higher level of imports necessitated, inter alia, by severe drought conditions in the country. Non-oil imports during this period have increased only by 5 per cent as against a rise of 24.5 per cent in the corresponding period last year. Thus, after a sharp rise in non-oil imports during the first two years of the Seventh Plan, growth of non-oil imports has slowed down in the first nine months of the current year.

8.12 During the first half of the current year, for which commoditywise details are available, imports of petroleum and related products have risen by 70.5 per cent, metalliferrous ores and metal scrap by 48.1 per cent, chemical materials and products by 45.3 per cent, textile yarn, fabrics and made-up articles by

116.5 per cent, artificial resins, plastic materials etc. by 26.3 per cent and sugar by 22 per cent. Machinery imports also increased significantly—the imports of electrical machinery were higher by 50.8 per cent and transport equipment by 48.7 per cent. Among other items that recorded growth in imports are non-ferrous metals (5 per cent), organic and inorganic chemicals (4.7 per cent), edible oils (3 per cent) and professional, scientific controlling instruments, photographic and optical goods, watches and clocks (3.5 per cent). The drought in the current year may further necessitate additional imports of some key commodities mainly to compensate for drought induced shortfalls in their domestic availability.

TABLE 8.5

Imports by Major Commodity Groups

(Value in Rs. crores)

Sl. No.	Commodity	1985-86 (PR)	1986-87 (PR)	%age change 1986-87 / 1985-86	April—September (P) 1986	April—September (P) 1987	%age change April—Sept. 1987 / April—Sept. 1986
1	2	3	4	5	6	7	8
1.	Capital goods*	4285.4	5467.3	27.6	2371.7	2878.2	21.4
2.	Cereals & cereal preparations	110.2	47.0	—57.3	17.1	10.8	—36.8
3.	Chemical materials & products	143.9	119.6	—16.9	48.4	70.4	45.3
4.	Edible oils	734.7	612.0	—16.7	323.8	333.6	3.0
5.	Fertiliser crude	162.6	131.1	—19.4	69.6	65.0	—6.6
6.	Fertiliser finished	1052.8	495.1	—53.0	249.7	55.2	—77.9
7.	Iron & steel	1394.6	1449.7	4.0	734.7	558.3	—24.0
8.	Medicinal & pharmaceutical products	177.2	158.0	—10.8	75.6	57.5	—23.9
9.	Non-metallic mineral manuf. excluding pearls	101.7	85.1	—16.3	43.8	24.4	—44.4
10.	Non-ferrous metals	541.8	414.9	—23.4	197.1	207.0	5.0
11.	Organic & inorganic chemicals	1089.4	1035.7	—4.9	438.3	459.0	4.7
12.	Paper, paper board & manufactures thereof	226.0	194.8	—13.8	108.1	93.9	—13.1
13.	Pearls, precious & semi-precious stones	1099.7	1495.5	36.0	678.8	946.7	39.5
14.	Petroleum, petroleum products & related material (gross)	4989.4	2679.6	—46.3	1098.6	1872.7	70.5
15.	Professional, scientific, controlling instruments, photographic optical goods, watches and clocks	378.9	455.6	20.2	204.3	211.4	3.5
16.	Synthetic & regenerated fibres	68.6	44.1	—35.7	24.5	11.2	—54.5
17.	Other	3100.7	5198.4	67.6	2554.9	2543.7	—0.4
	Total Imports	19657.7	20083.5	2.2	9239.0	10398.9	12.6

*Includes manufactures of metals, machinery (including electrical machinery) and transport equipment.

'P' : Provisional.

'PR' : Partially Revised.

8.13 Table 8.5 shows the commodity composition of imports during 1985-86, 1986-87 and the first half of 1986-87 and 1987-88. The data compiled by the DGCI&S from custom's returns are likely to be revised as and when additional information is received.

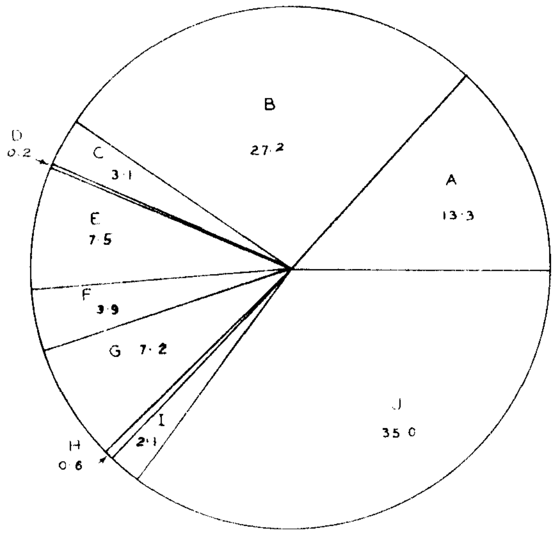
8.14 A graphic presentation of the commodity composition of imports during the last three years is given in the chart. The share of the value of petroleum, oil and lubricants (POL) imports fell from 31.6 per cent in 1984-85 to 13.3 per cent in 1986-87.

COMPOSITION OF INDIA'S IMPORTS

(IN PER CENT)

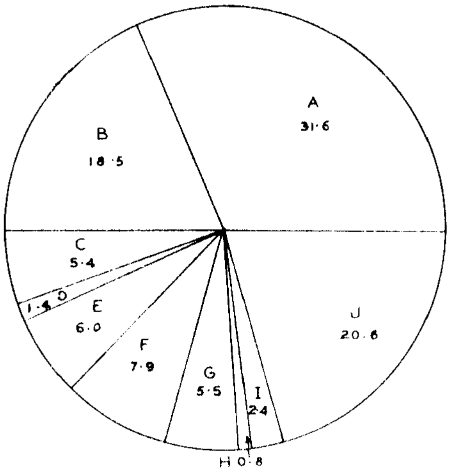
A PETROLEUM OIL AND LUBRICANTS
* B CAPITAL GOODS
C EDIBLE OILS
D CEREALS AND CEREAL PREPARATIONS
E PEARL, PRECIOUS AND SEMI-PRECIOUS STONES, UN-WORKED OR WORKED
F FERTILIZER & FERTILIZER MATERIALS
G IRON AND STEEL
H CHEMICAL MATERIALS AND PRODUCTS
I NON-FERROUS METALS
J OTHERS

1986-87



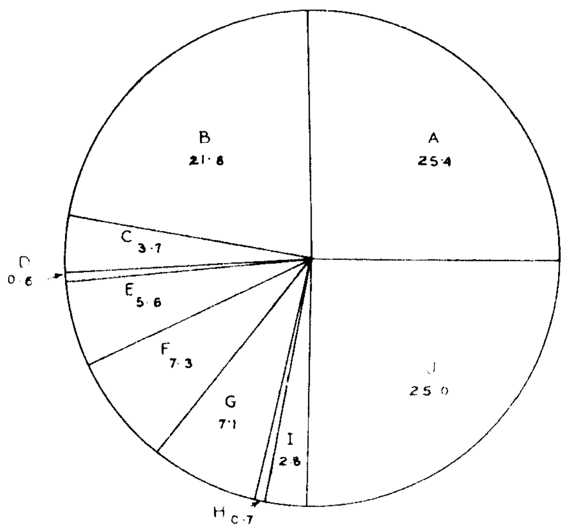
RS. 20084 CRORES

1984-85



RS 17134 CRORES

1985-86



RS. 19658 CRORES

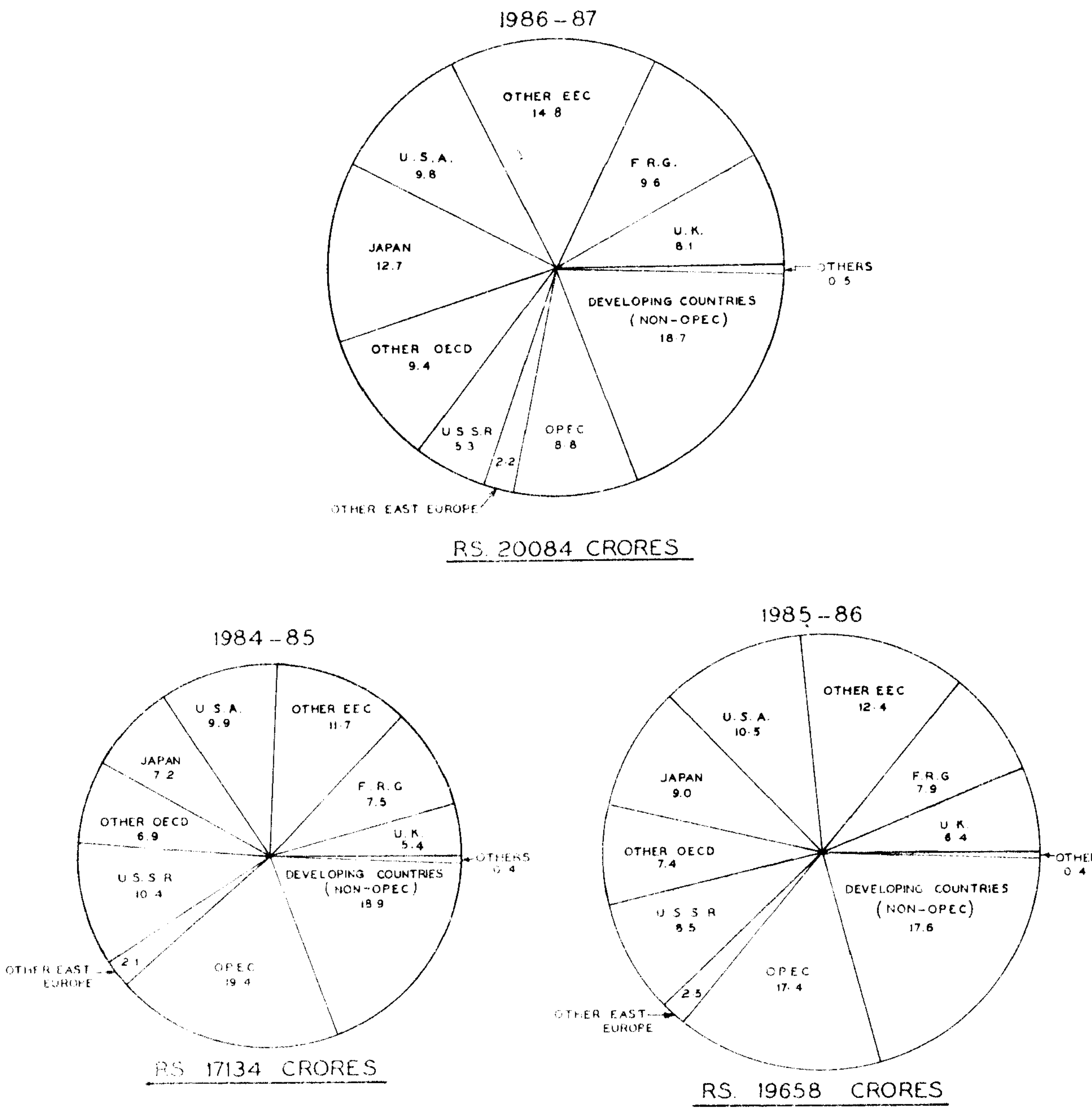
* INCLUDES MANUFACTURES OF METALS, MACHINERY (INCLUDING - ELECTRICAL MACHINERY AND TRANSPORT EQUIPMENTS)

MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP(PLU)MFND-668/1/F/87-88

SOURCES OF INDIA'S IMPORTS

(IN PER CENT)



MINISTRY OF FINANCE, ECONOMIC DIVISION

MGIP(PLU)MGND-[illegible]/F/87-88

The steep fall in international oil prices in 1986-87 resulted in a fall in the value of POL imports by about Rs. 2,300 crores during the year. The volume of POL imports in 1986-87 was also lower by 5.3 per cent. The decline in POL imports has unfortunately been reversed in the current year with the value of imports in the first half of the year rising by 70.5 per cent as against a decline of 58.1 per cent in the corresponding period of last year. While the rebound in import value is mainly due to higher unit values, import volume has also gone up.

8.15 Non-POL bulk imports (comprising edible oils, fertilisers and fertiliser materials, iron and steel, sugar, paper, paper board and manufactures thereof and non-ferrous metals) in 1986-87 declined by 23 per cent in value (as against an increase of 21.2 per cent in 1985-86), reflecting declines in the imports of edible oils, fertilisers, non-ferrous metals, sugar, and paper, paper board and manufactures thereof. Thus, the pressure on imports in 1986-87 has not been from bulk imports but rather from non-bulk imports of capital goods and various intermediate inputs for industries.

8.16 The share of edible oils in total imports declined further in 1986-87 to 3 per cent on account of a decline in value of imports by 16.7 per cent. Even though the quantum of edible oil imports increased sharply by 36.6 per cent, a substantial decline in unit value of imports by 39 per cent led to a fall in value of imports in 1986-87. Imports of edible oils in the first half of the current year were higher in value by 3 per cent over the corresponding period of last year. Increase in unit price contributed to rise in imports.

8.17 Imports of fertiliser and fertiliser materials showed a remarkable decline in 1986-87 of 46.1 per cent due to a fall in both the unit value by 17.3 per cent and in volume of imports by 34.9 per cent. The volume of imports was lower because of glut conditions in the domestic market caused by the increased supply from domestic production and imports, in conjunction with stagnant offtake following inclement weather during the year. The share of fertilisers and fertiliser materials in total imports, therefore, decreased to 3.9 per cent from a share of 7.3 per cent in 1985-86. This trend persisted in the first half of the current year also during which imports declined by 47.5 per cent over the corresponding period last year, reflecting a conscious policy of making better use of available indigenous capacity and, at the same time, running down accumulated inventory.

8.18 The share of iron and steel in total imports in 1986-87 has been almost maintained at the same level as last year. Even though the quantum of imports in 1986-87 was roughly similar to 1985-86, the value of iron and steel imports increased by 4 per cent due mainly to an increase in unit value by 4.7 per cent. However, during the first half of 1987-88, the imports of iron and steel registered a decline of 24 per cent over the corresponding period last year due, mainly, to a fall in the volume of imports which could be attributed to higher domestic production.

8.19 The share of non-ferrous metals in total imports declined from 2.8 per cent in 1985-86 to 2.1 per cent in 1986-87. There was a fall in their unit prices which resulted in the value of imports falling by 23.4 per cent in 1986-87. There was a substantial fall in the import of sugar by 49.7 per cent due to increased domestic production. The imports of paper, paper board and manufactures thereof in 1986-87 declined by 13.8 per cent as against an increase of 15.6 per cent in 1985-86. Although quantum imports during the year increased by 1.2 per cent, there was a decline in the value of imports due to a fall in unit prices by 14.8 per cent.

8.20 The imports of capital goods increased substantially by 27.6 per cent in 1986-87 on top of an increase of 35.3 per cent in 1985-86. As a result, its share in total imports grew from 18.5 per cent in 1984-85 to 27.2 per cent in 1986-87. The growth of capital goods imports in 1986-87 was mainly on account of an increase in imports of non-electrical machinery by 43.2 per cent, and of transport equipment by 19 per cent. During the first half of the current year also capital goods imports have recorded an increase of 21.4 per cent over the corresponding period last year. The buoyancy in the climate for industrial investment and the accent on modernisation and upgradation of technology explain the rising trend in the imports of capital goods in recent years. Also, a substantial proportion of these imports consists of imports of parts and components as against complete machinery/goods.

8.21 The share of pearls and precious, semi-precious stones in total imports increased from 5.6 per cent in 1985-86 to 7.4 per cent in 1986-87, as their imports registered an increase of 36 per cent in 1986-87. This was due mainly to the substantial rise in the exports of cut and polished diamonds. The share of cereals and cereal preparations in total imports declined further in 1986-87 to 0.2 per cent due to a decline in their value imports by 57.3 per cent, reflecting the comfortable stock position of foodgrains. The share of imports of chemical materials and products has been maintained at almost the same level as in 1985-86. Among the residual imports, the main items registering high growth rate include cashew nuts (unprocessed), artificial resins and plastic material, dyeing, tanning and colouring materials and professional, scientific controlling instruments, photographic and optical goods, watches and clocks.

Sources of Imports

8.22 The composition of imports by source during the last three years is presented in the chart. The share of OECD countries in total imports increased from 48.7 per cent in 1984-85 to 64.5 per cent in 1986-87, following a sharp increase in the imports of capital goods from these countries. The share of OPEC during this period declined from 19.4 per cent to 8.8 per cent due, mainly, to a fall in imports from Iran, Iraq, Kuwait, Saudi Arabia and UAE in 1986-87 caused by the decline in oil prices. The share in total imports of Eastern Europe also declined from 12.6 per cent in 1984-85 to 7.5 per cent in 1986-87. However, the share of developing countries (Non-OPEC) during these years has remained steady around 18 to 19 per cent.

8.23 The United States, which was the single largest source of India's imports in 1985-86, recorded a drop in her share to 9.8 per cent in 1986-87 due to decline in imports by 4.9 per cent in 1986-87. The imports from the USSR during this year also declined by 36.1 per cent leading to a further fall in its share of total imports from 8.5 per cent in 1985-86 to 5.3 per cent in 1986-87, in large part because of lower petroleum prices. The highest decline in imports in 1986-87 (by 48.5 per cent) was registered in imports from OPEC countries. The share of imports from the U.K. moved up from 5.4 per cent in 1984-85 to 8.1 per cent in 1986-87 and that of the Federal Republic of Germany from 7.5 per cent to 9.6 per cent during the same period. Japan became the single largest source of India's imports in 1986-87 with its share in total imports increasing from 9 per cent in 1985-86 to 12.7 per cent in 1986-87, the substantial appreciation of the Yen being an important contributing factor.

Exports

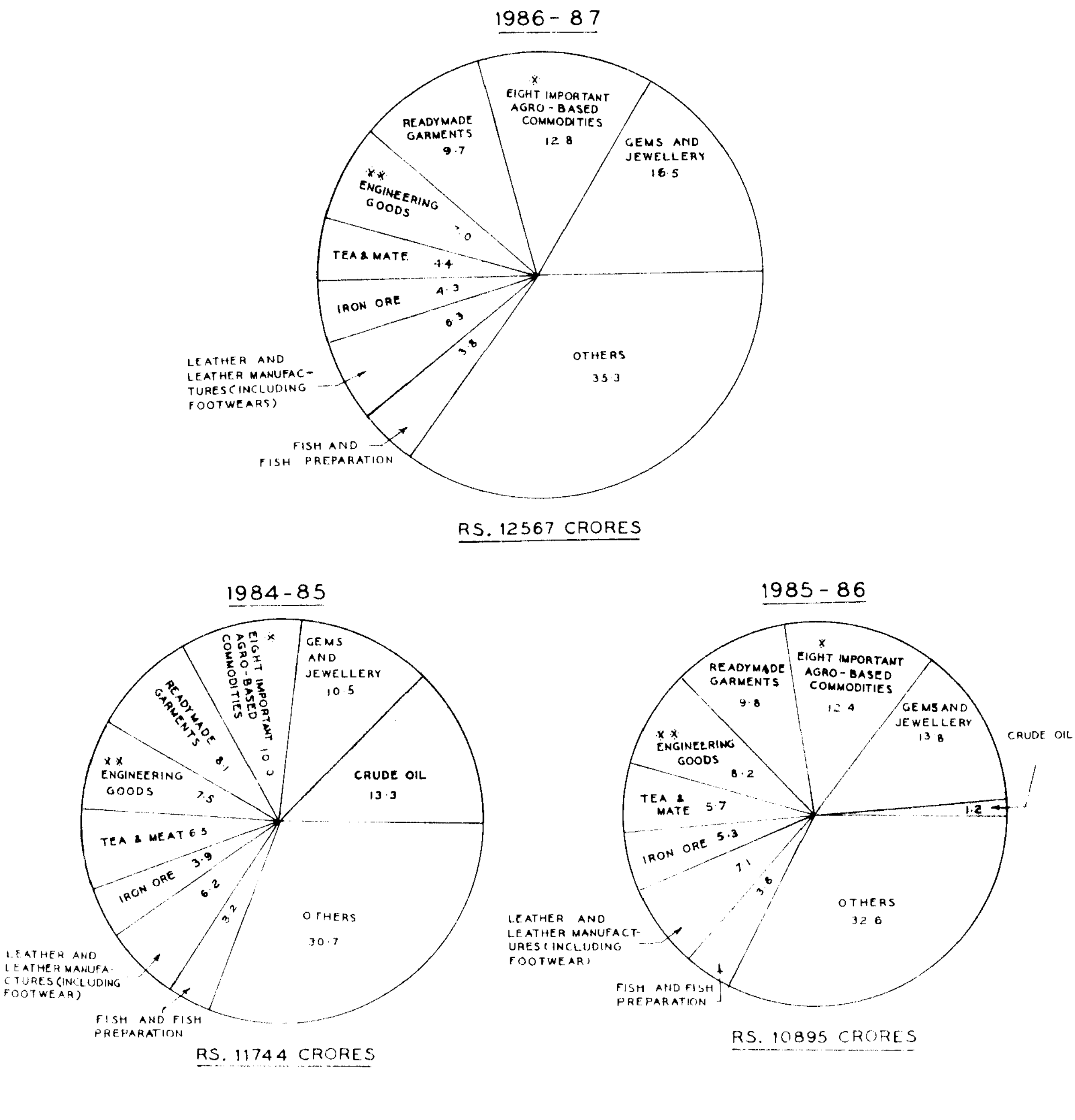
8.24 Exports increased by 15.3 per cent in rupee terms (10.4 per cent in US dollars) in 1986-87 as against a decline of 7.2 per cent (9.9 per cent in US dollars) in 1985-86. The improved performance was significant in the face of a sluggish expansion in the volume of world trade in 1986 and declining world commodity prices for many export commodities. The principal commodities which contributed to this increase in exports include gems and jewellery, leather and leather manufactures, readymade garments, oil-cakes, cashew kernels, marine products, tobacco, raw cotton and coffee. There was a decline in the exports of tea, engineering goods, chemicals and allied products, ores and minerals, rice and sugar. There were no exports of crude oil in 1986-87 as these exports ceased from April 1985 due to the commissioning of suitable domestic refining capacity.

8.25 During the first nine months of the current financial year exports, on a provisional basis, have shown a substantial growth of 24.7 per cent compared with an increase of 17.3 per cent in the same period last year. This is the highest increase in the first nine months of a year in the eighties. In terms of US dollars, exports were higher by 22.4 per cent as against an increase of 12.7 per cent in April—December, 1986. The commodities continuing to show good export growth during the first half of the current financial year (commoditywise details of which are available) are readymade garments, gems and jewellery, leather and leather manufactures, cashew kernel, iron and steel and marine products. The trend of declining exports of tea, iron ore, cotton fabrics, engineering goods and chemical and allied products during 1986-87 has been reversed during the current year. Exports of coffee, oil cakes, raw cotton, spices, unmanufactured tobacco, sugar and jute manufactures have declined during April—September, 1987.

8.26 The commoditywise composition of exports in recent years is shown in Table 8.6 and in the chart. In the plantation sector, the good performance in 1986-87 in coffee exports was largely offset by the fall in the earnings of tea. The exports of coffee in 1986-87 increased by 15.6 per cent on top of a rise of 26 per cent in 1985-86. While the increase in 1985-86 was effected through a larger volume of exports of 46.5 per cent, the growth in 1986-87 came from higher unit value realisation of 53.5 per cent in a buoyant world market. There was a fall in the value of exports of tea for the second year in succession in 1986-87. This was due to a decline in both the quantity exported (by 7.3 per cent) and lower unit value realisation in a stagnant world market (by 5.3 per cent). The share of tea in total exports thus declined from 6.5 per cent in 1984-85 to 4.4 per cent in 1986-87. In order to boost tea exports Government have constituted a committee to formulate a long term strategy for the tea industry. Initiative has also been taken to raise a 'special corpus' fund of Rs. 10 crores to help expansion of tea research activities in the country. The main effort is directed towards promotion of these exports in value-added form. The trend in the first half of the current financial year reveals a rise in tea exports by 28.6 per cent due both to increased quantity exported and

COMPOSITION OF INDIA'S EXPORTS

(IN PER CENT)



X INCLUDE COFFEE AND COFFEE SUBSTITUTES, CASHEW KERNELS, RAW COTTON, OIL CAKES RICE, SUGAR TOBACCO AND SPICES

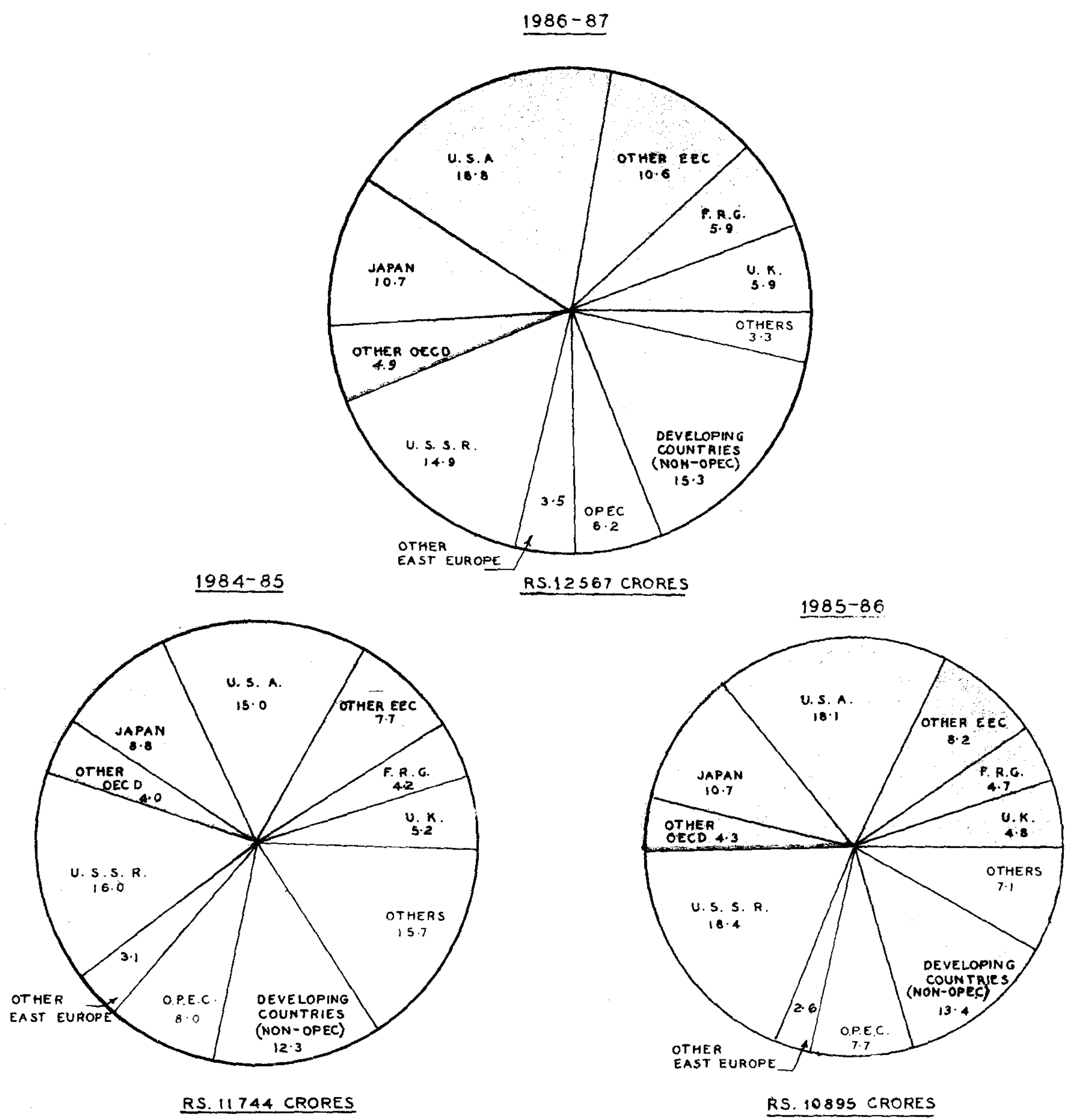
X X INCLUDE MACHINERY AND TRANSPORT EQUIPMENT AND METAL MANUFACTURES EXCLUDING IRON AND STEEL

MINISTRY OF FINANCE, ECONOMIC DIVISION

MGIP(PLU)MRND-668/1/F/87-88

DESTINATION OF INDIA'S EXPORTS

(IN PER CENT)



MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP(PLU)MRND-668/1/F/87-88

higher unit price realisation. However, exports of coffee during the same period have declined by 13.9 per cent due to lower unit price realisation of 27.8 per cent. With uncertainties clouding the quota scenario, efforts will be required to explore non-quota markets for increasing the country's coffee exports.

TABLE 8.6

Exports by Major Commodity Groups

(Value in Rs. crores)

Sl. No.	Commodity	1985-86 (PR)	1986-87 (PR)	%age change 1986-87 / 1985-86	April—September (P) 1986	April—September (P) 1987	%age change April—Sept. 1987 / April—Sept. 1986
1	2	3	4	5	6	7	8
1.	Cashew kernels	225.1	320.6	42.4	192.1	212.2	10.5
2.	Coffee & coffee substitutes	264.9	306.2	15.6	193.7	166.7	—13.9
3.	Fish and fish preparation	409.0	478.5	17.0	180.5	258.0	43.0
4.	Oil cakes	134.0	187.2	39.7	89.9	80.1	—10.9
5.	Raw cotton	68.2	182.1	167.1	84.1	83.8	—0.4
6.	Rice	196.3	164.8	—16.0	85.5	145.6	70.3
7	Spices	277.8	269.1	—3.1	163.1	146.6	—10.1
8.	Sugar	15.8	0.9	—94.5	0.5	0.2	—52.9
9.	Tea & mate	626.3	549.7	—12.2	207.7	267.1	28.6
10.	Tobacco	169.6	174.3	2.8	130.1	103.9	—20.2
11.	Iron ore	578.8	543.2	—6.1	226.1	251.0	11.0
12.	Engineering goods*	897.9	875.0	—2.6	416.2	540.3	29.8
13.	Chemicals & allied products	497.5	474.5	—4.6	216.5	329.7	52.3
14.	Cotton fabrics	573.7	562.1	—2.0	271.2	466.3	72.0
15.	Iron & steel	56.2	56.9	1.2	31.3	66.6	112.6
16.	Jute manufactures	261.8	265.0	1.2	108.9	101.3	—7.0
17.	Leather & leather manufactures incl. footwear	769.9	787.2	2.2	317.0	491.3	55.0
18.	Readymade garments	1067.0	1218.3	14.2	501.0	779.4	55.6
19.	Handicrafts	1881.4	2501.7	33.0	1084.3	1522.5	40.4
	Of which : Gems and jewellery	1502.7	2069.3	37.7	880.3	1251.2	42.1
20.	Others *Of which :*	1923.5	2649.4	37.7	1357.8	1398.7	3.0
	Crude oil	135.2	—	—	—	—	—
	Total Exports	**10894.6**	**12566.6**	**15.3**	5857.4	**7411.3**	26.5

*Includes machinery and transport equipment and metal manufactures excluding iron and steel.
'P' : Provisional.
'PR' : Partially Revised.

8.27 The share of exports of eight important agro-based commodities taken together (coffee, oil cakes, tobacco, cashew kernels, spices, sugar, raw cotton and rice) in total exports increased from 10 per cent in 1984-85 to 12.8 per cent in 1986-87. Exports of cashew kernels have more than doubled in the last three years from Rs. 150.8 crores in 1983-84 to Rs. 320.6 crores in 1986-87 due to both enhanced quantum of exports and higher unit prices over these years. During 1986-87, exports recorded an increase of 42.4 per cent contributed by a 25.6 per cent rise in volume of exports and 13.4 per cent increase in unit prices. After a decline of 2.1 per cent in 1985-86, exports of oilcakes registered an increase of 39.7 per cent in 1986-87, on account of increases in export volume by 22.7 per cent and unit prices by 13.9 per cent. There was almost a three-fold increase in the exports of raw cotton in 1986-87 attributable to an almost five-fold increase in its volume of exports. Exports of rice and sugar declined by 16 per cent and 94.5 per cent respectively, due to fall in the quantum of their exports.

8.28 In spite of a volume growth of 6.5 per cent, exports of spices have declined in 1986-87 by 3.1 per cent in value due to a drop in unit price realisation by 9.1 per cent. Growth in exports of spices had more than doubled in the two years from Rs. 116.7 crores in 1983-84 to Rs. 277.8 crores in 1985-86 due to a steady rise in volume of exports and higher price realisation. Tobacco exports in 1986-87 registered a growth of 2.8 per cent as against a decline of 4.9 per cent in 1985-86, due mainly to a rise in volume of exports by 10.7 per cent. Global consumption of tobacco continues to be restrained by demand-related factors like anti-smoking curbs and restrictions and manufacturing developments which lessen the amount of leaf required per unit of product. In the first half of 1987-88 these agro-based commodities have displayed a mixed trend. While a rising trend is witnessed in the exports of cashew kernels and rice whose exports have increased by 10.5 per cent and 70.3 per cent respectively, exports of spices, oil cakes, raw cotton, sugar and tobacco have declined by 10.1 per cent, 10.9 per cent, 0.4 per cent, 52.9 per cent and 20.2 per cent respectively.

8.29 Exports of marine products, a comparatively new and dynamic sector, recorded an impressive growth of 17 per cent in 1986-87 as against an increase of only 7.2 per cent in 1985-86. Its share in total exports has risen from 3.2 per cent in 1984-85 to 3.8 per cent in 1986-87. The quantum of exports from this sector has been rising steadily and the increase in 1986-87 has come from both higher volume of exports by 13.6 per cent and increased unit value realisation of 3 per cent. The decisions of the Government on deep sea fishing, specially for 100 per cent export oriented units, has thus elicited a good response from the exporters. In order to encourage exports of value-added products the Marine Products Exports Development Authority (MPEDA) has introduced a scheme for extending subsidy assistance (25 percent) to seafood processors for the acquisition of machinery and equipment required for production of value-added shrimp. The rising trend continued during April—September, 1987, with exports recording a substantial increase of 43 per cent.

8.30 Iron ore exports in 1986-87 declined by 6.1 per cent as compared to a rise of 26 per cent in 1985-86. The fall in the value of exports was mainly due to reduced volume of exports by 6.6 per cent. A major breakthrough was achieved by the Minerals and Metals Trading Corporation (MMTC) in securing a foothold in China in the exports of iron ore and in the exports of iron ore concentrates to Japan. The decline in world steel demand and output and technology shifts against the use of metals, in general, are factors militating against strong growth of export earnings from minerals and ores. A major problem of the iron ore exporters is the high cost of mining equipment which has affected the viability of mining operations and made exports uncompetitive. The Government is, therefore, working out a new strategy to boost the exports from this sector, which is an identified thrust sector. The strategy covers the development of new mines, improvement and expansion of mining operations as well as port facilities, exploration of new markets, increase in exports to the traditional markets and making long-term arrangements with the importers. The trend in exports during April—September, 1987 shows an increase in exports by 11 per cent over the same period last year, due mainly to an increase in the quantum of exports.

8.31 Exports of engineering goods recorded a marginal decrease of 2.6 per cent in 1986-87 as against an increase of an almost similar order in 1985-86. Exports at Rs. 875 crores in 1986-87 were thus lower than the peak level performance of Rs. 938.9 crores achieved in 1981-82. The share of engineering exports in total exports has declined from 8.2 per cent in 1985-86 to 7 per cent in 1986-87. The trend in the current financial year is quite encouraging with exports during April—September, 1987 rising by 29.8 per cent. To step up exports of this key sector, Government has identified 35 engineering industries as thrust industries on the basis of existing production capabilities and export potential.

Detailed export strategies for each of these products are being developed.

8.32 Exports of chemicals and allied products in 1986-87 decreased by 4.6 per cent, as against an increase of 3 per cent in 1985-86. The exports in 1986-87 at Rs. 474.5 crores were marginally lower than the highest level of Rs. 497.5 crores achieved in 1985-86. The exports in 1986-87 were restrained by lower exports of rubber manufactures due primarily to lower offtake from the USSR. There were lower exports also of refractory and processed minerals which is attributable to a sharp drop in baryte prices due to severe recession in the world drilling activities. Other factors which affected exports are import ban by Bangladesh on cycle tubes, and labour trouble and lockout in two major tyre manufacturing plants, affecting the overall exportable surpluses of the tyre industry. However, there has been retrieval of grounds in the current financial year with exports during April—September, 1987 recording an increase of 52.3 per cent over the corresponding period last year.

8.33 Leather and leather manufacture exports also showed commendable growth over the last four years when these exports increased from Rs. 414.6 crores in 1982-83 to Rs. 787.2 crores in 1986-87. Improved performance during the last few years was partly due to the changes brought about by the Government in providing improved access to imported inputs needed in this sector. The increasing trend has continued during April—September, 1987 with exports recording an impressive growth of 55 per cent over the corresponding period last year. A significant feature of the rise in exports of leather and leather manufactures has been the change in the composition of these exports with growing emphasis on finished leather and leather products. This has helped in realising higher unit prices for these exports. To give a fillip to these exports Government have set up a high powered committee for providing single window clearance for export-oriented proposals of finished leather products. It is also proposed to set up a hides and skin development fund to be financed and operated by the Leather Export Promotion Council for promoting development, fabrication and distribution of improved tools for tanning, etc.

8.34 The performance of readymade garments, another dynamic growth sector, has been remarkable in the recent years. Their exports in 1986-87 increased by 14.2 per cent on top of an increase of 31.4 per cent in 1984-85 and 11.9 per cent in 1985-86. Readymade garment exports in the last two years have increased from Rs. 953.3 crores in 1984-85 to Rs. 1218.3 crores in 1986-87. The world market for cotton garments has become active during the last few years, perhaps on account of emergence of renewed consumer preferences for cotton made clothing. This trend in revival of garment exports has continued in the first half of current year also when exports have recorded an increase of 55.6 per cent. Exports to the European Common Market and other quota countries have shown significant expansion, reflecting the more liberal market access as a result of the bilateral agreements negotiated under the latest Multi-Fibre Agreement (MFA) for 1987—92. It is hoped that the various innovative measures announced by the Government in October, 1987 under the revised quota distribution policy for garments will strengthen export performance.

8.35 Gems and jewellery is an important thrust sector in exports. These exports have more than doubled in the last four years from Rs. 1014.8 crores in 1982-83 to Rs 2069.3 crores in 1986-87, with exports in 1986-87 registering an increase of 37.7 per cent. The share of gems and jewellery in the total exports has thus gone up from 13.8 per cent in 1985-86 to 16.5 per cent in 1986-87. The rising trend has continued during April—September of the current financial year, when exports of gems and jewellery increased by 42.1 per cent. This impressive performance reflects, in part, good response of the industry to the measures aimed at improving access and terms for import of machinery and equipment. The facility for bulk import of diamonds has also been eased with bulk import licence being thrown open to the entire diamond trade. The first 100 per cent export-oriented gems and jewellery complex in the country in Santacruz Electronic Export Processing Zone (SEEPZ) went on stream and the publication of an international monthly magazine on gems and jewellery was started during the year. As cut and polished diamonds continue to play a dominant role in the exports of gems and jewellery, the move by the MMTC to enter into joint exploration and mining of rough diamonds with African states is a step in the right direction in view of the indigenous industry's vulnerability to price changes of rough diamonds. Steps are being taken to increase exports of jewellery because of their relatively high value-added nature. A jewellery school has been set up in Bombay, while free trade zones in Delhi and Bombay have now modern jewellery manufacturing units. Further, the Government are also taking a close look at the provisions of the Gold Control Act and its administrative machinery with a view to remove bottlenecks in exports of gold jewellery.

8.36 Projects and services have also been identified as one of the thrust industries having a good export potential. Exports of projects and services, which comprise construction and civil engineering projects, industrial turnkey projects and consultancy services, have been quite important in the recent past. However, the boom in construction projects experienced after the oil price increases of the seventies has declined, because of the fall in oil revenues of OPEC members, intense competition in the Gulf and African countries and foreign exchange problems faced by many African countries. Nevertheless, the value of projects secured in 1986 at Rs. 525 crores was almost double the value of contracts secured in 1985 at Rs. 265 crores.

8.37 For turnkey projects the market is more diversified but the total value of contracts secured by Indian companies is very small. One of the major problems faced by Indian companies has been their inability to offer credit terms in line with those offered by developed countries. Similarly, the share of India in consultancy services in the international market is very small, though our companies have made a beginning in developed countries also.

8.38 With a large endowment of technical manpower, India is in a position to offer total range of services, including process design, engineering, procurement, construction, supervision, commissioning, project management, training, etc. in diverse fields like power generation and transmission system, petrochemicals, steel plants, textiles, infrastructure, etc. There are about 200 consultancy organisations in the country, both in public and private sectors, which can provide consultancy for a very broad range of activities. Indian companies can also undertake operation and maintenance contracts. As a part of overall strategy to increase projects and consultancy exports, Government have announced various incentives like project assistance of 10 per cent of net foreign exchange earnings from service portion of the contract, market development assistance, information support and guidelines for export of services on deferred payment terms.

8.39 Overall export performance during 1986-87 and the first nine months of the current financial year has thus been very strong. The export-import ratio increased from 55.4 per cent in 1985-86 to 62.6 per cent in 1986-87. However, in view of the disappointing export performance in 1985-86, exports in subsequent years will have to rise at a rate even higher than stipulated in the Seventh Plan of 6.8 per cent per annum in volume terms. The drought in the current year may also affect adversely exports of certain agricultural commodities. This has to be countered by an export push in other sectors. Improvement in export performance is essential not only to finance critical imports but also to keep trade deficit within manageable limits.

Direction of Exports

8.40 The composition of exports by destination from 1984-85 to 1986-87 is given in the chart. The destination-wise pattern of exports over these years has remained almost unchanged except for the 'other' category which declined to 3.3 per cent in 1986-87 from 15.7 per cent in 1984-85 due to stoppage of crude oil exports which were not booked by destination. A little over half of the exports have gone to OECD countries in the last two years, a shade less than a fifth to Eastern Europe, about a seventh to developing countries (Non-OPEC) and a sixteenth to OPEC.

8.41 Exports to OECD countries increased from 50.8 per cent in 1985-86 to 56.7 per cent in 1986-87 due to increase in exports to these countries by 28.8 per cent in 1986-87. The share of exports to the USA in total exports increased to 18.8 per cent in 1986-87, reflecting growth in exports to the USA during the year by 19.5 per cent. Exports to the USSR in 1986-87 fell by 6.6 per cent leading to a decline in her share of exports from 18.4 per cent in 1985-86 to 14.9 per cent in 1986-87. Consequently, the share of Eastern Europe in total exports also showed a fall from 21 per cent to 18.4 per cent during the same period. Similarly, there was a fall in exports to the OPEC region by 6.9 per cent in 1986-87. On the other hand, exports to developing countries (Non-OPEC) increased by 31.6 per cent in 1986-87, thus increasing their share in total exports from 13.4 per cent in 1985-86 to 15.3 per cent in 1986-87.

Export Promotion Measures and Developments in Trade Policy

8.42 The Government have implemented a number of measures to facilitate capacity expansion for export production, to upgrade technology, to make export sector more competitive through improved access to capital goods and raw materials at or near international prices, and by providing fiscal and monetary incentives for exports. Greater attention is also being paid to strengthening the marketing capacity of exporters and the infrastructure necessary for the export effort. Also, vigorous efforts are being made to effect efficient import substitution particularly in the area of bulk imports of commodities and to discourage imports of non-essential items.

8.43 The Government's multi-pronged strategy for a renewed thrust to exports has adopted a certain degree of selectivity in identifying products, sectors and industries with good export potential and in providing a policy framework conducive to export growth. A series of new initiatives were taken to promote

exports of various items, including those of 14 thrust commodities, by preparing action plans keeping in view their medium and long term prospects. These measures are designed to generate surpluses for exports, to induce the production of goods contemporary in technology and competitive in prices and to make exports profitable. Several changes have been made with these objectives in view in the areas of fiscal policy, industrial policy and import policy which are summarised below :

Fiscal and Financial Measures

(a) The Cash Compensatory Support Scheme, which allows a remission of unrebated indirect taxes on inputs of exported products, was modified in February 1987 with the revision of CCS for a number of items including some engineering goods, agricultural goods and cotton grey fabrics. The policy of making proportionate reduction in CCS rates in individual cases where advance/imprest licences are issued for a value higher than normal REP has been discontinued from July 1987. The existing policy of restricting the CCS ratio to the cut off point of 25 per cent of value-added was continued and strictly enforced during the year. During the current financial year CCS has been granted on nine additional items.

(b) A comprehensive review of the Duty Drawback schedule was made in April-May, 1987 and a new drawback rate schedule has been brought into effect from June 1, 1987. The new schedule gives special attention to thrust industries which have considerable exports or export potential and which suffer significant duties on their inputs. Some of the basic features of the revised drawback schedule are indicated below :

— significant improvements in rates have been effected for a number of export products taking into account the increased incidence of duties on various inputs suffered by a number of industries as compared to the average duties assessed last year. Items where enhanced rates have now been fixed (with increase of more than 10 per cent over the earlier rates) include a large number of products of engineering industry, a number of specified bulk drugs, certain paints and pigments and a number of other miscellaneous products.

— To give a boost to export of electronic items and for a number of identified products All Industry rates of Drawback have been fixed for the first time.

— A number of other new export products have been added to the list of items covered by All Industry Rates.

(c) The MODVAT introduced in 1986-87 Budget covered 38 chapters of the Excise Tariff. The Budget of 1987-88 has extended MODVAT to all the remaining chapters except those relating to textiles, tobacco and the petroleum products. The MODVAT has now been extended to cover food products, mineral products, leather and leather goods, footwear, paper and paper board, wood and cork products, asbestos, cement products and precious metals. The MODVAT system, which aims at minimising the incidence of taxation on inputs, would reduce the distortions in the production structure, mitigate the cascading effect of taxes on inputs, make the incidence of indirect taxation more transparent and help in reducing costs and prices which would make our exports more competitive in the international markets.

(d) Government have decided that units exporting 25 per cent or more of their production and which have installed captive power generating sets will be supplied diesel oil for this purpose at prices comparable to international prices. The compensation will be through reimbursement of the difference between the market price of diesel and its international price on a proportionate basis and will be provided to the exporting units at the end of the financial year after reckoning the export performance.

(e) Government has relaxed the debt-equity norms to finance projects upto 4 : 1 against the prevailing 2 : 1 for 'thrust' industries having a great export potential, economic viability and debt servicing capability.

(f) It has been decided to extend the Export Credit and Guarantee Corporation (ECGC) cover on concessional terms to 'deemed exports'. Exporters will now have the option of availing the ECGC insurance cover for deemed exports on deferred terms. The ECGC has also announced in August 1987 a reduction in the premium rate for export finance guarantee.

(g) A new Blanket Exchange Permit Scheme, replacing the two existing schemes, has been introduced since June 1987. The new scheme is more broadbased and flexible both as to eligibility of exporters and the purposes for which exchange can be drawn by holders against their blanket permits. The salient features of the scheme are as follows :

— The minimum qualifying annual amount of foreign exchange earning for issue of blanket exchange permit is not less than Rs. five lakhs for export of products in the select list and Rs. 20 lakhs for other products.

— For determination of quantum of exchange the products have been divided into three categories. Exporters engaged in the exports of products covered by list A (which contains 24 products/product groups under thrust area) will be eligible for release of foreign exchange upto 10 per cent, exporters of products covered by list B upto 2 per cent (on a discretionary basis) and exporters of products not covered under lists A and B will fall under list C and will be eligible for 5 per cent. The percentage entitlement in the three categories will be on the f.o.b. value of their annual exports realised and repatriated to India.

— The purposes for which blanket exchange permit can be utilised has been made more liberal and 18 items as approved purposes have been identified. Items include travel abroad, participation in trade fairs abroad, market studies, setting up/maintenance of branches/offices or warehousing outside India, legal charges in connection with exports, advertisements abroad, etc. Besides, exporters eligible for assistance from the Export Marketing Fund of EXIM Bank will also be permitted to draw exchange against the blanket permits issued to them for expenditure towards various purposes approved.

— The aggregate expenditure during the entire year towards travel abroad (including entertainment allowance where admissible) would normally be subject to a ceiling of 75 per cent of the amount of blanket permit in the case of permits for Rs. 50 lakhs or less and 50 per cent for amounts exceeding Rs. 50 lakhs. Expenditure on entertainment abroad, which has been made liberal, should not exceed 10 per cent of the amount of the blanket exchange permit or Rs. 5 lakhs, whichever is less, within the overall ceiling of 75 per cent or 50 per cent as the case may be.

(h) In a drive towards further liberalisation of exchange control procedures, RBI has permitted the EXIM Bank to grant pre-bid clearance upto Rs 20 crores (instead of prevailing limit of Rs. 5 crores) for bids/offers for export of engineering goods on deferred payment basis.

(i) Under the International Price Reimbursement Scheme (IPRS), the exporters of engineering goods are reimbursed the difference between domestic and international price of steel used in the manufacture of export items. This reimbursement, effected through the Joint Plant Committee (JPC) fund, involves a time lag. It has, therefore, been decided to permit banks to grant advances to exporters against such receivables from the Government. The advances will carry concessional rate of interest as applicable to short term credit and will be eligible for interest subsidy.

(j) The Government have announced liberalised norms with regard to agency commission payment by exporters—upto seven and half per cent in the case of non-select products and twelve and half per cent for select products. Even higher agency commission payments may be allowed on approval by the concerned export authority or the Government.

(k) Customs duty on goods imported for offshore drilling operations by ONGC or OIL or by service contractors on their behalf has been withdrawn as such operations are conducted in many cases outside the territorial limits of the country and require specialised equipment and services.

(l) The 1987-88 Budget included the following incentives for exports :

— Customs duties on 46 additional items of tools and machinery, etc. for gems and jewellery were reduced.

— Three additional items for marine products industry and 31 additional items of machinery for leather industry were allowed concessional import duty.

— Export duty on mica products was abolished, except for mica waste and scrap.

— Import duty on tyre moulds and flax and ramie fibres was reduced.

(m) Export duty on coffee was reduced from Rs. 6000 per tonne to Rs. 1700 per tonne in May 1987.

Measures relating to Industrial Licensing Policy

(a) It has been decided in principle that export production will not be taken into account for purposes of establishing dominance under the MRTP Act, and it will be kept outside the licensed capacity.

(b) IDBI has introduced in August, 1987 a Technology Upgradation Scheme for selected capital goods industries for a period of three years upto the end of current Plan with the objective to induct the latest technology in these sectors, improve indigenous R&D facilities for constant upgradation and reduce cost.

(c) To liberalise the industrial licencing policy for export of manufactures, Government have decided that undertakings who have a firm export order may be exempted from the requirement of obtaining industrial licence for fulfilment of a one-time export order.

Measures relating to Import-Export Policy

(a) Keeping in view Government's policy to promote exports, specially in the identified thrust areas, it has been decided to allow import of machinery and raw materials liberally. In 1987-88 so far, 19 items of machinery required for leather processing or leather goods manufacturing industry have been placed on Open General Licence (OGL). Twenty eight items of machinery for manufacture of sports goods and 27 items of machinery for manufacture of bicycle and bicycle components have also been placed on OGL. In addition, 5 items of machinery required for manufacture of garment/hosiery/made-ups, 10 items of machinery required for the manufacture of forged handtools and 9 items of machinery required for gem and jewellery industry have been placed on OGL. Thirteen items of life saving and anti-cancer drugs have been placed on OGL for stock and sale. Import of Polyurethane leather for manufacture of footballs has been placed under OGL.

(b) Exports made under the barter deals have been made eligible for grant of replenishment benefits. Supplies made to projects in Bhutan aided by the Asian Development Bank have also been made eligible to qualify for import replenishment purposes. Similarly, supplies made to the projects aided by the Asian Development Bank within the country would also now qualify as 'deemed exports' for import replenishment purposes.

(c) The value limit for grant of import licence for raw material and components to new/proposed units in the small scale sector has been raised from Rs. 50,000 to Rs. 2.5 lakhs.

(d) Additional licences granted to Export Houses/Trading Houses have been made more attractive by allowing import of about 600 items of raw materials and components which were normally allowed for import by Actual Users (Industrial) only.

(e) For the promotion of exports of jewellery, besides the existing scheme for the promotion of export of gold jewellery, new schemes have been introduced for silver jewellery and articles. Under these schemes, silver jewellery and articles can be exported against the silver supplied by the foreign buyer in advance or to be replenished subsequently.

(f) The scope of Duty Exemption Scheme for Advance licence which was hitherto limited to only 145 groups of items, as specified in the policy, has been enlarged to cover all the items of inputs including consumables and spares required for export production. In order to service the needs of the smaller exporters, STC, MMTC and other public sector agencies as designated, have also been allowed the facility to import the inputs required for export production, duty free, in bulk, for off-the-shelf supply to individual advance licence holders. Further, the scheme has also been extended to cover export of plain and studded jewellery.

(g) The Import-Export Pass Book Scheme has been revamped to make the scheme simpler and wider in scope. Important modifications made are :

- The scheme, which was applicable only for manufacturer exporters who have been regularly exporting for a minimum period of three years, has been extended to Export/Trading Houses who are otherwise eligible for issue of import licences.
- A special pass book known as 'Special Imprest Import-Export Pass Book' is to be issued for deemed exports. This will cover only the imports of raw materials and components.
- The pass book holder is to be allowed to import mandatory spares if he is a registered manufacturer—exporters subject to a ceiling of 5 per cent of the overall value of the pass book.
- Exports through third party to be allowed in which case manufacturer-exporters would be required to indicate in advance of the exports, the name of such exporters/trading houses.
- Flexibility has been introduced in the use of input-output norms.
- The pass book holder can obtain his supplies through designated public sector agencies also.
- Switch-over from Advance licence to pass book has also been made easier subject to certain conditions.
- For certain products, the rates of import entitlements have been increased.

(h) In cases where increase in c.i.f. value of an advance licence becomes necessary due to exchange fluctuations only, the licensing authority has been empowered to enhance the value of advance licence without insisting on a corresponding enhancement in the export obligation, provided the stipulated minimum addition is achieved.

(i) For making the 100 per cent Export-Oriented Units (EOU) and the Free Trade Zones (FTZ) units more attractive, following concessions were given in October, 1987 :

— Case by case, on merits, 100 per cent EOUs, including the units located in the Export Processing Zones, would be permitted to sell upto 25 per cent of their production in the domestic market in respect of items other than sensitive products, subject to payment of appropriate customs duties.

— 100 per cent EOUs would have the benefit of tax holiday as is admissible to the units located in the Export Processing Zones i.e. for a block of 5 years during the first 8 years from the commencement of production.

— 100 percent EOUs would be permitted to sub-contract part of their production for job work to units in the domestic tariff area, on a case by case basis, to establish linkages with industry and installed capacity in the domestic tariff area.

— 100 per cent EOUs may be exempted in suitable cases from operation of Export Control Order applicable to the domestic tariff area.

— In order to reduce the cost of bonding concessional charge will be made where there is cluster of EOUs. Elsewhere the charge will be reduced to 100 per cent of salaries and emoluments of the staff provided.

(j) Government have decided to fix a minimum annual export turnover of Rs. 5 crores for each project while clearing proposals for setting up 100 per cent EOUs. The only exception is software where the minimum export will be Rs. 2 crores annually.

(k) For the maximum utilisation of the annual restraint level and orderly development of export trade, the Export Entitlement Distribtuion Policy for garments and fabrics has been announced in October 1987. For the first time, the policy will be a long term policy applicable for three years as against an annual policy; this will bring about some stability in the export trade. The innovative features of this policy are :

— The allotment of past performance quota will be made on the basis of value instead of on the basis of quantity. This would result in allotment of a higher quota for exporters realising higher unit values and would encourage higher realisation of foreign exchange.

— In order to provide, inter alia, opportunities to new exporters, including small scale entrepreneurs, Government have introduced, on an experimental basis, an innovative 'Open Tender System' for superfast categories. A category will be identified as superfast if exports were consistently 91 per cent or more of the level earmarked during three years preceding the allotment year. Fifteen per cent of the superfast categories, which work out to roughly 5 per cent of the total garment exports at present, will be brought under the 'Open Tender System'. The remaining 85 per cent of the superfast categories will be allocated to other systems like past performance (PPE), Manufacturer Exporter (MEE), Non-Quota Exports (NQE), etc. The amount collected under the Open Tender System would be funded into a separate Export Promotion Fund and would be used for export promotion purposes. For categories other than superfast, First come First Served (FCFS) system along with other systems are being continued.

— A new direction has been given for manufacturer-exporter system with increased allocation and a minimum stipulation of number of machines in order to upgrade the technology of garment manufacturing.

— In order to diversify exports the allocation for non-quota exporters system has been increased substantially and exports of non-quota items exported to quota countries will also be counted for allocation under this system.

— The policy has been further simplified. Under the FCFS system, there is no need for providing the letter of credit at the time of application. The cut-off date for applying under the system has been removed. Under the Open Tender System, no restriction whatsoever is being placed on exporters applying under the system. The number of periods has been reduced to two from three.

- The policy for fabrics and made-ups is being continued more or less on the same lines as in the previous year. There will be three systems for allocations—PPE, FCFS contract reservation system and FCFS ready goods with allocation. As in the case of garments, the number of periods has been reduced to two. All the bank guarantees have been increased to ensure better performance. The base period for determining past performance will now be two years and the allotment will be done on the basis of value rather than quantity.

Other Measures

(a) An Agricultural and Processed Food Products Export Development Authority and a Spices Board have been set up in addition to the existing institutions for export promotion.

(b) Coordination committees have been set up with representatives of the Ministries, export promotion agencies and trade to look into operational and policy problems and boost exports for sectors such as agriculture, leather, engineering and chemicals.

(c) Government are evolving a package of measures for the Trading Houses to make their functioning more effective and to give them a key role in country's export drive.

(d) It has been decided in principle to set up export monitoring cells in the state capitals, under the Commerce Ministry, to ascertain to what extent import liberalisation and duty concessions and other incentives extended to the various industrial units all over the country have been utilised in boosting exports.

External Capital Flows

8.44 Gross disbursement of external assistance increased from Rs. 2938 crores in 1985-86 to Rs. 3596 crores in 1986-87. It is anticipated that during 1987-88 there may be a further increase in such flows to around Rs. 4500 crores. Net assistance (net of debt servicing) received by India, however, showed a marginal decline from Rs. 1571 crores in 1985-86 to Rs. 1567 crores in 1986-87. Net assistance is expected to increase sharply by around 50 per cent in 1987-88. The details are given in the Table 8.7.

TABLE 8.7

Inflow of External Assistance : Gross and Net

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88**
1. Authorisations	3847@	2840	2949	2079	4692	5399	5804	2406*
2. Gross disbursements	2162@	1870	2250	2268	2354	2938	3596	4489
Of which : Debt relief	13	3	5	5	9	11	8	39
3. Debt servicing (Including interest payments).	804	849	948	1033	1176	1367	2029	2085
4. Net inflow of assistance (2 — 3)	1358@	1021	1302	1235	1178	1571	1567	2404

@Includes drawings under IMF Trust Fund.

*Authorisation on Government account only for April—September, 1987.

**Estimated.

NOTE : The data include Government and non-Government loans and grants (including food assistance grant but excluding other commodity grant assistance). They do not include suppliers' credits and commercial borrowings.

8.45 The Consortium of Governments and institutions interested in development assistance to India met in Paris on June 22-23, 1987. The meeting reviewed the progress in the Seventh Five Year Plan, and the country's aid requirement for 1987-88. The consortium members applauded the country's economic achievements and acknowledged the efforts India is making towards the goals of full employment and poverty alleviation by maintaining the growth of the economy at 5 per cent a year achieved in recent years, which makes a significant step up over the historical growth rate of 3.5 per cent. The aid indications given at the meeting pointed to a commitment level of about US $ 5.4 billion in 1987-88 as against last year's indications of US$ 4.4 billion.

8.46 World Bank group lending to India during Bank's fiscal year 1987 (July 1986 to June 1987) was US$ 2806 million as against US $ 2368 million in the previous year (See Table 8.8). The IBRD lending to India in FY 1987 was US $ 2128 million against US $ 1743 million in FY 1986, and the IDA lending in these years was US $ 678 million and US $ 625 million respectively. India's share in total IDA credits, however, fell from 19.9 per cent in FY

1986 to 19.4 per cent in FY 1987 thus hardening the terms of over-all lending by the Bank.

TABLE 8.8

World Bank Group Lending to India

	Million US Dollar		Per cent. India's share in World Bank lending.	
	1985-86 July-June	1986-87 July-June-	1985-86 July-June	1986-87 July-June.
I.B.R.D. .	1743	2128	13.2	15.0
I.D.A. .	625	678	19.9	19.4
Total . .	2368	2806	14.5	15.9

External Commercial Borrowings

8.47. India has been enjoying excellent credit rating abroad, which has been earned through our prudent approach in the matter of external commercial borrowings, and excellent record in debt servicing. After peaking at Rs. 1906 crores in 1984-85, approvals for external commercial borrowings declined to Rs. 1700 crores in 1985-86 and further to Rs. 1396 crores in 1986-87. However, the trend may reverse during 1987-88 as in the first nine months of the year (April—December, 1987) approvals of external commercial borrowings have amounted to Rs. 1354 crores against Rs. 814 crores during the comparable period of 1986-87. It is to be noted that official approval of terms and conditions of a commercial borrowing proposal does not necessarily mean that it has fructified into actual borrowing in that year.

8.48 In view of the rising trend in India's debt service ratio, it is essential to continue the selective and prudent approach in contracting fresh external liabilities. It is estimated that the country's debt service in 1986-87 on external debts on Government account, non-Government account, IMF drawals and commercial borrowings (including supplier's credits) amounted to about 22 per cent of current receipts. This is likely to increase to 23 to 24 per cent in 1987-88 because of higher IMF repayments and debt service on commercial borrowings contracted in earlier years.

International Economic Developments

World Economic Situation

8.49 According to the projections made by the IMF staff in October, 1987 the industrial countries were likely to achieve an average growth rate of 2.4 per cent in 1987, while output in developing countries was expected to expand by 3.3 per cent. 1987 would thus be the third consecutive year of decelerating output growth for the industrial countries and second consecutive year for the developing countries. Their estimates also indicated that the outlook for 1988 is for growth to be somewhat higher than in 1987 in most of the major industrial countries and in many developing countries. The expectations for 1988 would have to be revised in view of the major upheavals that have taken place in the world stock and currency markets since these forecasts were made. Thus, according to the OECD Economic Outlook published in December 1987, real GNP growth rate in OECD countries was estimated at 2.8 per cent in 1986 and 2.75 per cent in 1987 while the growth rate is projected to substantially decline in 1988 and 1989 to 2.25 per cent and 1.75 per cent respectively.

8.50 The volume growth of world trade improved in 1986, according to OECD, to a level of about 4.5 per cent over the preceding year. However, it is estimated that in 1987 the growth rate may be significantly lower : 3.6 per cent according to IMF staff and 3.8 per cent according to the OECD Economic Outlook. Developing countries were estimated to have suffered heavy terms of trade loss of about 17 per cent in 1986. In 1987 they are estimated to enjoy marginal gains in terms of trade as prices of most primary commodities have posted increases during the year.

8.51 According to the World Bank, there has been no improvement in the third world debt situation in 1987. It has in fact worsened with the third world debt totalling US dollar 1.19 trillion. For the fourth year running the debtor countries are estimated to have spent more money in repayments and interest payments to the richer countries than they got in the form of new loans. According to World Bank estimates, such negative transfers amounted to US dollar 29 billion in 1987. The World Bank report points out that the banker's attitudes towards providing new loans were hardening and that consumption and investment in debtor developing countries had declined to the levels of 1970s.

Upheavals in Stock Markets

8.52 On 'Black Monday', the 19th October 1987, the New York stock market suffered an unprecedented decline in stock prices. The Dow Jones Index of leading industrial stocks fell by 508 points from 2246 to 1738, a drop of 22.6 per cent. Similar reaction took place in some of the leading markets of the world. The markets firmed up subsequently, but the near-term prospects for the major international stock markets remain uncertain. Policy initiatives of the major industrial economies for correcting their macro economic imbalances will shape the medium term prospects of these economies and will determine, in large measure, the extent to which the short and medium term trends in the production and international trade are affected by the upheavals in the stock market The present market crash comes after a decade of rising protectionism practised by major industrial economies. If the response to the recent developments is further protectionist actions, it could gravely jeopardise the world economic environment. Developing countries cannot escape from the adverse consequences of any setback in the world trade that would follow the slow-down or recessionist trends in the major industrial economies. The severity of the impact of global economic difficulties on developing countries can be minimised if measures are taken by industrial countries and multi-lateral institutions to maintain or enhance the levels of real financial flows to these countries. Resumption of periodic allocations of SDRs would also be conducive to international financial liquidity and help restore stability.

8.53 At this early stage it is difficult to precisely assess the implications of the stock market crash in industrial countries on the rest of the world. In the short term, the financial crash of 1987 is likely to lead to slower growth in world output and trade. The consequences of this are likely to include lower prices for crude oil, and perhaps for machinery and metals in international markets than might otherwise have been the case. Such outcomes might, conceivably, result in modest terms of trade benefits for India in the short run. In the medium term, however, the international environment for economic development is likely to be less congenial Any significant slowdown in the growth of the world output and trade, because of turbulence in the world financial markets, is likely to entail adverse consequences for growth of exports of developing countries, including India, specially if such an outcome is accompanied by intensification of protectionist actions in industrial countries. Thus, in the medium term, such adverse volume effects on India's exports could outweigh any beneficial, short term terms of trade effects.

Exchange Rate Volatility

8.54 The 1980s have witnessed unprecedented volatility in the exchange rates of the major world currencies. The appreciation of the US dollar relative to other major currencies which started in the third quarter of 1980 continued upto February 1985. During the month of February, 1985 the effective exchange rate of the dollar stood at a level 50 per cent higher than its average over the decade 1974—83. Beginning March 1985, the dollar started its downward plunge. Between early 1985—when it peaked—and April 1987, the US dollar had already depreciated in real effective terms by 35 per cent. The Plaza Accord of major industrial countries in September, 1985 emphasised the need to achieve exchange rate relationships that better reflects economic fundamentals. The Louvre Accord of February 1987 stated the participating countries' intention of stabilising exchange rates around the then prevailing levels. The Accord outlined the commitments of the surplus countries to strengthen domestic demand, reduce external surpluses and maintain price stability. It also outlined the commitments of deficit countries to encourage steady growth with low inflation while reducing domestic and external imbalances. Subsequent developments, however, raise doubts about the extent of active willingness on the part of G-7 countries to support the US dollar within the exchange rate ranges implicit in the Louvre Accord. In the event, the downward journey of US dollar has continued and the currency has gone below the 40 year low against the Yen.

8.55 The imbalances in the international financial system in recent years have been characterised by massive and persistent trade and budget deficits of the United States, and large current account surpluses of Japan and Germany. The current account imbalances of the three largest industrial countries have become a matter of increasing concern to the international community, as these are perceived to be the major underlying cause of volatility of exchange rates.

The World Bank

8 56 The issue of a general capital increase of the World Bank was discussed by the Development Committee at its meeting held in September, 1987. The Committee agreed that a general capital increase was urgently needed so as to support a growing lending programme and it called on the Executive Directors of the Bank to complete their deliberations on such an increase expeditiously.

8.57 The Eighth Replenishment of the International Development Association (IDA) is scheduled to cover the period July 1987—June 1990. Though the donors had initially agreed to provide resources for a basic replenishment of $ 11.5 billion, this was subsequently enlarged through commitments for supplementary contributions, bringing the total resources to over $ 12.4 billion. It is proposed to allocate a minimum of 45 per cent of these resources to Sub-Saharan African countries, stretching to 50 per cent, if warranted by progress with their economic adjustment programme. Allocations to China and India will not be reduced in nominal terms, though in percentage terms these would be reduced to about 30 per cent of the total IDA-8 resources as against 38 per cent under IDA-7. For projects approved from 1st July, 1987 onwards, the period of maturity of IDA credits has been reduced from 50 years to 40 years for least developed countries and to 35 years for other recepient countries. India will come under the latter category, with maturity of 35 years. This reduction in maturity period would entail a decline in the grant element of IDA credit, as conventionally computed, to 74 per cent from the existing level of 81 per cent.

The IMF

8.58 The Eighth General Review of IMF quotas which became effective on April 20, 1984 provided for an increase of 47.5 per cent in the Fund quotas, which would have raised the total quotas to SDR 90,035 million. The Ninth General Review of the IMF quotas is currently due and discussions are being held in the IMF on this issue.

8.59 The IMF had set up, in March 1986, a Structural Adjustment Facility (SAF) to provide additional balance of payments assistance on concessional terms to low-income members eligible for IDA credits. The SAF was to be financed by about SDR 2.7 billion of repayments becoming available during 1985—91 from loans previously made under the Trust Fund. In order to augment the availability of concessional resources to low income members, the IMF has established in December 1987 the Enhanced Structural Adjustment Facility (ESAF) which is expected to provide new concessional resources totalling SDR 6 billion, financed by special loans and contributions from a wide range of countries. The ESAF is designed, like SAF, to help poorest member countries undertake strong macro-economic and structural programmes to improve their balance of payments positions and foster growth. Financial terms applying under the ESAF will be the same as under SAF—repayments in ten semi-annual instalments beginning after five and half years of disbursements and interest rate of 0.5 per cent. At present, 62 members of the IMF, including India, are eligible to seek assistance under the ESAF.

Role of G-24

8.60 The Intergovernmental Group Of Twenty Four on International Monetary Affairs (G-24), of which India is a member, has from time to time been representing and projecting the views of the developing countries on various international monetary and financial issues. In 1985 the Group had submitted a report on the "Functioning and Improvement of the International Monetary System". In 1987, it presented another important report focusing on "Role of the IMF in Adjustment with Growth". The proposals and reforms advocated by G-24 have included "target zones" for major international currencies, a substantial fresh allocation of SDRs, better coordination of macro-economic policies by industrial countries and greater emphasis on growth in programmes and policies of the IMF.

8.61 With a view to reducing instability in the exchange rates of major currencies the G-24 has recommended the proposal of "target zones". The target zone proposal was devised to overcome the rigidities of a par value system and the destablising uncertainities of the floating exchange rates. Adoption of this proposal along with greater policy coordination among major industrial countries could help achieve the objectives of exchange rate stability and sustainable levels of payment balances. The Group has emphasised that there is at present a long term global need for a substantial allocation of SDRs in relation to expected growth of world trade, financial transactions and output. It has further pointed out that an allocation of SDRs at this time would relieve the stringency in the reserve position of a large number of developing countries, promote economic recovery in several low-income countries, reduce dependence on costly borrowed resources, help orderly adjustment and also go a long way in solving the current debt crisis. The G-24 has also reiterated the considerable impact of major industrial countries' national policies on the world economy and called for coordination of their policies with active participation of developing countries in discussions that affect them. In this connection, the Group has welcomed the move to introduce indicators as a guide in the process of Fund surveillance.

8.62 The G-24 report on "The Role of the IMF in Adjustment with Growth" notes that the IMF has generally insisted on heavy reliance on demand management policies for correcting maladjustments in external repayments leading to a substantial loss of output and severe curtailment of investment in many developing countries. Devaluation has also not served its intended purpose and has aggravated inflationary pressures. As an alternative, the report has recommended that in order to provide a growth perspective to Fund programmes, a set of growth exercises should be performed prior to the financial exercises. Foreign credit inflows and their terms should be consistent with growth targets, and also with a sustainable debt service burden that the country could bear over the long run. An assessment of debt servicing capacity should be an integral part of the growth exercises. The Report has stated that growth targets in developing countries should also be related to other objectives such as improving income distribution and alleviating poverty.

Uruguay Round of Multilateral Trade Negotiations

8.63 The Ministerial Meeting of the GATT (General Agreement on Trade and Tariffs) Contracting Parties held at Punta-del-Este (Uruguay) in September, 1986 decided to launch a new round of Multilateral Trade Negotiations encompassing both goods and services. The negotiations on services are being held outside the framework of the GATT. During 1987 India participated actively in the series of meetings held at Geneva to consider proposals made by participants for liberalisation of trade. The main interest of India and other developing countries in these negotiations is to seek ways and means of strengthening the multilateral trading system. For this purpose, they attach special importance to adherence to the commitment for a standstill on and rollback of measures, inconsistent with the principles of the GATT. They would also like early results to be obtained on systemic issues such as dispute settlement and safeguards in order to ensure that the major trading countries do not retreat from multilateralism. Additionally, they would like to secure liberalisation of trade in such sectors as textiles and tropical products in which they have significant export interest. However, the industrialised countries have been showing much greater interest in the new areas of negotiations, such as, trade in services, trade related investment measures and trade-related intellectual property rights. Industrialised countries as well as several developing countries, which export agricultural products, have been very active in seeking liberalisations of trade in these products.

UNCTAD-VII

8.64 The Seventh Session of the UN Conference on Trade and Development (UNCTAD) concluded at Geneva on August 3, 1987. The Conference recognised the serious problems confronting the present day world economy, such as increasingly unpredictable trading environment, mounting debt burden, high real interest rates, inadequate net flow of financial resources to the developing countries, volatility and misaligned exchange rates, etc. The Conference noted that many member countries proposed an international conference on money and finance for development with universal participation. It was agreed that major market economy countries would adopt co-ordinated policies to promote stable, sustainable, non-inflationary growth, consistent with their declared aims and strengthen the mechanism for on-going process of multilateral surveillance of economic policies. Developing countries, on their part, agreed to strengthen the policies and measures to mobilise domestic financial and human resources to provide a suitable policy environment for external financial resources, public and private, as appropriate. In regard to debt problem, the Conference recognised the shared responsibility of the main parties, and the need for a co-operative and growth oriented strategy, including flexibility in debt restructuring and rescheduling operations. It called for fully implementing the Trade and Development Board Resolution, 1978 in respect of ODA debt of 'poorer' developing countries.

8.65 On the question of external resources, for development, the UNCTAD Conference agreed that the multilateral financial institutions should be strengthened by endowing them with adequate resources to fulfil their tasks. The Final Act also stated that members of World Bank should support a substantial and early general increase of its capital. It expressed concern about the plight of the low income countries, recognised the need for concessional finance and urged the conclusion of discussion on the proposal of the IMF's Managing Director to triple the resources of the Structural Adjustment Facility. The Conference also recognised the need for a stable exchange rate environment as conducive to balanced trade, investment and an open multilateral trade system. The Conference reaffirmed the Integrated Programme for Commodities (IPC) and noted the improved prospects for entry into force of the Agreement on Common Fund, following notifications and signatures by additional countries, including the USSR.

8.66 In the area of international trade, the role of the UNCTAD was reinforced. The Conference enunciated the principle that commitments with respect to trade in goods should not be made conditional on receiving concessions in other areas. The critical role of the Uruguay Round of Multilateral Trade Negotiations (MTN) in the world trading system was reaffirmed. The Conference called for respecting the commitments on 'standstill' and 'rollback'. It agreed on the need for full and expeditious implementation of the Substantial New Programme of Action (SNPA) for the Least Developed Countries (LDCs). In recommending the policies and measures, the Conference took care to protect the interests and concerns of the developing countries in all the areas.

The South Commission

8.67 The international economic situation that faces the developing countries is very adverse. The North-South dialogue is stalemating, though the South has shown its willingness for co-operative search of solutions. This situation has reinforced the need for

South-South economic cooperation. The announcement to set up an independent international South Commission was made at the Non-Aligned Summit meeting in Harare in September 1986, under the Chairmanship of Shri Julius K. Nyerere, former President of Tanzania. The membership of the Commission was announced in July 1987 and it has begun functioning in Geneva with Dr. Manmohan Singh, former Deputy Chairman of India's Planning Commission, as member and Secretary General. The Commission is expected, according to the Chairman, to attend to specific issues of prime importance and unambiguous and positive proposals for action on some of the more urgent and fundamental questions confronting the developing countries. It is hoped the conclusions and recommendations of the Commission would be a significant input for work of the Non-Aligned countries and Group of 77. The Commission which is expected to undertake its work over the next three years had its first meeting in October 1987. The Commission's terms of reference and work programme are to be finalised at its next meeting scheduled to take place in March 1988.

South-South Cooperation : GSTP

8.68 India has played an important role in promoting the concept of Global System of Trade Preferences (GSTP) to encourage trade between developing nations. The country participated actively in the preparatory work for the drawing up the basic guidelines and principles of GSTP which resulted in the adoption of a declaration by the Ministerial Meeting of the Group-77 held at New York in October, 1982. The New Delhi Meeting of July, 1985 provided further political impetus to GSTP negotiations and the Ministerial Meeting of the participating countries in GSTP in May, 1986 at Brasillia marked the launching of the first round of GSTP negotiations. By common agreement it has been decided that participation in GSTP shall be reserved for the developing countries which are members of the Group-77. Mutual 'Request Lists' have so far been exchanged by 45 countries. Bilateral and multilateral consultations are taking place between these countries and a Ministrial Meeting is likely to be held at Belgrade in April, 1988 to finalise the first round negotiations of GSTP. India has received request lists from 26 countries and has filed requests on 27 countries. It has already been agreed that GSTP should be based on the principle of mutuality of advantages and should benefit equitably all participants.

SAARC

8.69 In the field of regional economic cooperation, an important development was the signing of the agreement establishing the SAARC Food Security Reserve, which marks a significant step towards collective self-reliance in the region. The reserve is to consist of 2,00,000 tonnes of foodgrains of which India's share will be 1,53,200 tonnes. A member country is entitled to draw on the reserve in an emergency, after notifying the other member countries directly about the existence of the emergency and requesting the foodgrains required. The terms of supply are to be negotiated bilaterally. A SAARC Food Security Reserve Board, consisting of a representative from each member country, is to monitor the organisation and operation of the reserve.

8.70 The Kathmandu Summit of the SAARC held in October 1987, decided that studies should be undertaken in the areas of trade regimes vis-a-vis industrial protection policies of the member countries, quantification of benefits of intra-regional trade, establishment of a mechanism for financing short duration trade imbalances, joint ventures and national systems of industrial regulation.

Outlook

8.71 More than any other aspect of the economy, the balance of payments is shaped by developments in the international economy. India's balance of payments difficulties in the last two and half years reflect, to some extent, the progressive slowing down in growth of world output leading to sluggishness in trade since 1985. It was earlier expected that after three years of deceleration, growth of world output and trade would pick up, at least marginally, in 1988. The stock market crisis of 1987 has undermined this expectation. Although it is too early to assess the impact of the stock market crisis of October 1987, some analysts believe that the world economy could suffer recessionary conditions in 1988 because of financial crisis. A global economy in recession would imply constraints on trade-related and other financial flows to developing countries leading to increased external problems.

8.72 The world foreign exchange market continues to be in turmoil with US dollar declining against majority of the currencies. Uncertainty in the exchange market is bad both for trade and investment. Exchange rate volatility generates destablising uncertainity, discourages investment and trade, leads to misallocation of resources and increases reserve needs.

8.73 POL continues to be the single most important item in our import bill and the movement in its price plays a major part in determining the size of our trade deficit. In 1985-86, net imports of POL constituted 22.8 per cent of our total imports; the share fell to 11.5 per cent in 1986-87 owing to a sharp but temporary fall in international prices of POL. These imports accounted for as much as 42.4 per cent of our export earnings in 1985-86 and 18.7 per cent in 1986-87. Our dependence on imports of petroleum products (net) to meet domestic consumption needs which had declined progressively from about 76 per cent in 1980-81 to about 32 per cent in 1984-85, increased to about 41 per cent in 1985-86 and 37 per cent in 1986-87 following the slowing down in the domestic production of crude oil since the beginning of the Seventh Plan. In 1986, the average nominal price of crude oil was about US $ 13.8 a barrel. In 1987, it has been more than US $18 a barrel. Oil has been the one thing to show stability and quiet strength during the October stock market upheavals. In the near future, the price of oil is likely to remain potentially very unstable and will be influenced primarily by the degree of production restraints exercised by the major oil exporting countries, the growth in the world output and the exchange rate developments. In their Vienna meeting of December 1987 OPEC States agreed to keep their 18 dollar oil price for the first half of the 1988 and set a 15.05 million barrels per day ceiling on production to defend it. The pressure on our balance of trade will be reduced to the extent POL prices decline in 1988 from their existing levels.

8.74 The unprecedented drought of 1987 has caused additional strains on the balance of payments. It has necessitated additional imports of essential items like edible oils, pulses, POL, etc. On the other hand, it has potentially reduced exports of agro-based commodities. Additional disbursements of external assistance from multilateral and bilateral sources on account of drought relief are unlikely to fully compensate for the deterioration in the current account caused by the drought.

8.75 Balance of payments projections based even on fairly optimistic assumptions regarding growth of exports of goods and services point to a difficult outlook in the medium term. For a successful management of the external payments position in the medium term, we will have to ensure a substantial and sustained growth of exports of both goods and services. The balance of payments position is sensitive to the growth of imports also. The growth of imports would need to be moderated through efficient import substitution in key bulk commodities, energy conservation, reduced investment in import intensive projects and gradual reduction of imports of components in sectors like automobiles and electronics. It is also essential to keep borrowings on commercial terms within prudent limits. As indicated in last year's Economic Survey, adverse factors would continue to exert pressure on balance of payments during the rest of the present decade and the situation demands continuous and careful management.