CHAPTER 9

THE EXTERNAL SECTOR

The Gulf crisis, which led to a disruption in supplies and a sharp increase in prices of crude oil and petroleum products, has had a serious adverse impact on the balance of payments situation. The problems of adjustment in response to this oil shock have been accentuated by the fact that the balance of payments has been under severe pressure for the past five years, and even at the beginning of 1990-91 the situation was very difficult. The impact of the Gulf crisis is clearly reflected in the balance of trade situation. During 1990-91, imports were 21.9 per cent higher than in 1989-90, largely on account of POL imports, while exports rose by just 17.5 per cent, as a result of which, the trade deficit, at Rs. 10,644 crores, was 38 per cent higher than in 1989-90. Consequently, there was a rapid drawdown of foreign exchange reserves during 1990-91. Foreign currency assets held by the Reserve Bank of India declined by Rs. 1,399 crores during the year despite the balance of payments support received from the IMF. There has been further decline in reserves during 1991-92.

9.2 The medium-term factors identified in the previous Economic Surveys, viz., declining self-sufficiency in POL, erosion of surpluses in the invisibles account, unfavourable climate for external assistance, increasing recourse to external commercial borrowings and bunching of debt service obligations have continued to put pressure on the external payments position, while the problem has been exacerbated by a number of short-term factors. The third oil shock during 1990-91 was sudden, severe and volatile leaving little room for manoeuvre. The cost of POL imports during 1990-91 which was estimated in early part of the year at Rs. 6,400 crores, escalated to Rs. 10,820 crores. There was a decline in the approvals for commercial borrowings during 1990-91 in comparison with the preceding year.

9.3 A number of measures were initiated during 1990-91 to deal with the balance of payments situation. Efforts were directed towards conservation of energy in general, and POL in particular. Several measures were initiated to generate additional exports and moderate the pace of import growth. Economy measures were announced to reduce administrative expenditures, particularly foreign exchange expenditures. Apart from the Gulf surcharge of 25 per cent on the domestic prices of petroleum products, additional revenue measures were put in place in the sphere of both direct taxes and indirect taxes including auxiliary customs duty on a number of items. Steps were also taken to mobilise quick-disbursing external loans from multilateral and bilateral sources and to speed up the rate of utilisation of external assistance in the pipeline. In January 1991, the IMF approved immediate use of its financial resources by India totalling SDR 1,268.83 million which is equivalent of about U.S. $ 1,786 million or Rs. 3,334 crores under the Compensatory and Contingency Financing Facility (CCFF) and the first credit tranche of a Stand-by Arrangement. In view of growing external payments difficulties import licensing and credit facilities for imports were tightened during the early months of 1991-92. In order to enhance international competitiveness, improve export performance, contain imports and curb destabilising market expectations characterising a situation of growing misalignment of exchange rates, there were adjustments in the exchange rate of the rupee on 1st and 3rd July, 1991. On 4 July, 1991 the Government announced significant structural changes in the export and import policy with a view to eliminating or reducing import licensing, promoting exports and effecting import savings.

Trends in the Balance of Payments (BOP) during the 1980's

9.4 Recent developments in the balance of payments are best analysed in a longer-term perspective. As we enter the Eighth Five Year Plan period, it would be appropriate to review the trends during the Sixth and Seventh Plan periods.

BOP Trends during Sixth and Seventh Plans

9.5 Table 9.1 summarises trends in the key variables (as a proportion of GDP) during the Sixth and Seventh Five Year Plan periods. The trade deficit averaged 3.4 per cent of GDP during the Sixth Plan. It increased to 3.7 per cent of GDP in 1985-86 due to a decline in volume growth in exports and showed a declining trend during 1986-87 and 1987-88 due to an acceleration in volume growth of exports and a contraction in volume growth of imports. Net earnings on invisibles account (including official grant assistance) fell from an average of 2.2 per cent of GDP during the Sixth Plan period to less than half at 1.0 per cent of GDP in the Seventh Plan. Erosion of net invisible earnings thus exacerbated the current account deficit during the Seventh Plan period. As a percentage of GDP, the current account deficit averaged around 2.2 per cent during the Seventh Plan as against the projection of 1.6 per cent and the average of 1.3 per cent during the Sixth Plan period. Chart 9.3 presents the trend graphically. In absolute terms, the current account deficit averaged around Rs. 7,772 crores (U.S. $ 5,539 million) per annum during the Seventh Plan compared with an annual average of Rs. 2,227 crores (U.S. $ 2,334 million) for the Sixth Plan.

TABLE 9.1

Key Indicators of India's Balance of Payments
(As per cent of GDP)

Year	Exports	Imports	Net Invisibles	Trade Balance	Current Account Balance
1	2	3	4	5	6
1980-81 .	4.8	9.2	3.2	—4.4	—1 2
1981-82 .	4.9	8.7	2.4	—3.8	—1.5
1982-83 .	5.1	8.4	2.0	—3.2	—1.3
1983-84 .	4.9	7.7	1.7	—2.8	—1.1
1984-85 .	5.2	8.1	1.7	—2.9	—1.2
Average 1980-85 .	5.0	8.4	2.2	—3.4	—1.3
1985-86 .	4.4	8.1	1.4	—3.7	—2.3
1986-87 .	4.5	7.7	1.2	—3.2	—2.0
1987-88 .	4.9	7.7	0.9	—2.8	—1.9
1988-89 .	5.3	8.9	0.8	—3.5	—2.7
1989-90 .	6.4	9.3	0.6	—2.9	—2.3
Average 1985-90 .	5.1	8.3	1.0	—3.2	—2.2

Note : The ratios have been computed on the basis of the country's balance of payments data as given in appendix table 6.2 and the CSO estimates of GDP at current market prices. Official grant receipts and US embassy expenditure in India out of PL-480 Rupee Fund are taken as current account receipts in conformity with the balance of payments statistics published by the RBI.

9.6 The large and sustained current account deficits in the balance of payments had to be financed by substantial inflows of capital in the form of loans from multilateral and bilateral sources, commercial borrowings, and inflow of funds from non-resident Indians under the Non-Resident (External) Rupee Accounts (NRERA) and the Foreign Currency Non-Resident Accounts (FCNRA). Over the last two Plan periods, the average cost of multilateral assistance has been rising as IDA assistance has declined and recourse to the IBRD, which supplies funds at market rates, has risen. Net availability of assistance from bilateral concessional sources has also been declining. Though annual commitment of assistance is still quite high, most of it is tied to projects and actual utilisation has been slow. These factors have led to larger reliance on external commercial borrowings and non-resident deposits, which are costlier sources of finance to meet current account deficit during the Seventh Plan. This is amply reflected in contrasting modes of financing the current account deficit during the Sixth and Seventh Plans. During the Seventh Plan, loans under external assistance from multilateral and bilateral sources provided 29 per cent of the financing need, commercial borrowings provided 25 per cent, non-resident deposits 23 per cent and other capital transactions about 13 per cent. The balance of 11 per cent of financial need was met by the use of reserves. In contrast, the current account deficit during the Sixth Plan period was financed to the extent of 55 per cent by external assistance and 28 per cent by use of IMF resources. Non-resident deposits provided finance to meet 17 per cent of the financing needs.

9.7 The successful adjustment in the balance of payments during the Sixth Plan period in the backdrop of a dismal export performance, reflected in a volume growth of less than 3 per cent per annum, is attributed to a variety of factors. These include trebling of domestic crude oil production from around 10.5 million tonnes in 1980-81 to 30.2 million tonnes in 1985-86 with concomitant decline in net POL imports from 23.5 million tonnes to 16.5 million tonnes over the same period, good agricultural performance which

CHART 9.1

FOREIGN TRADE

RS. IN '000 CRORES

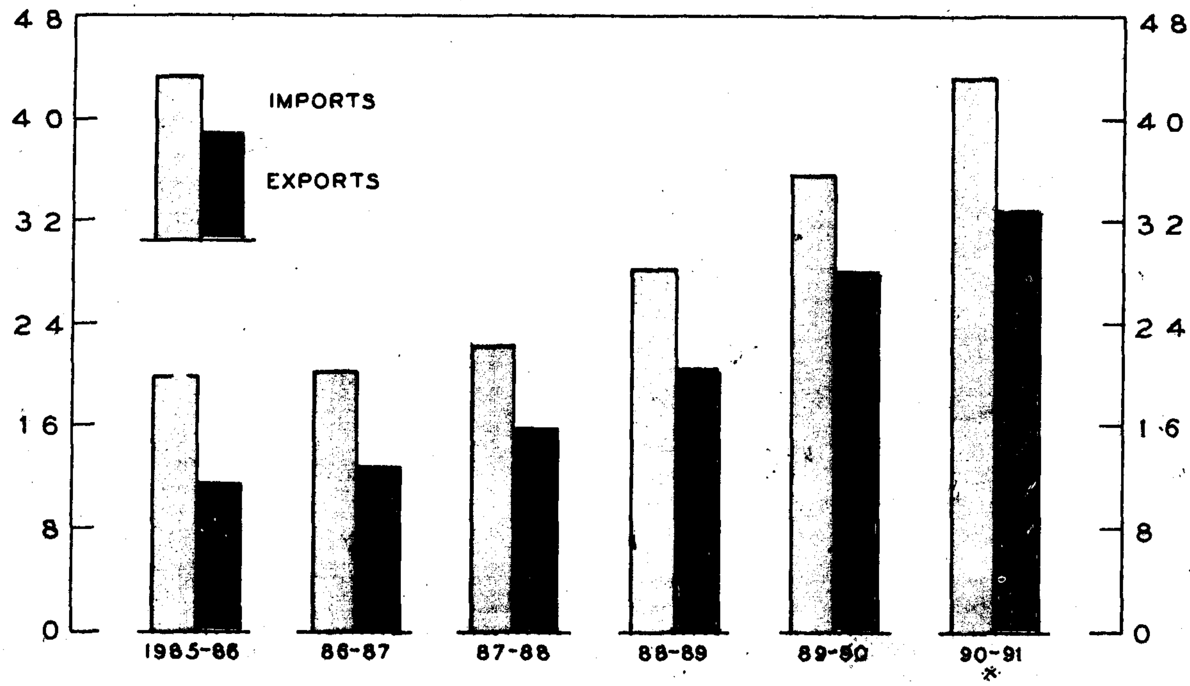
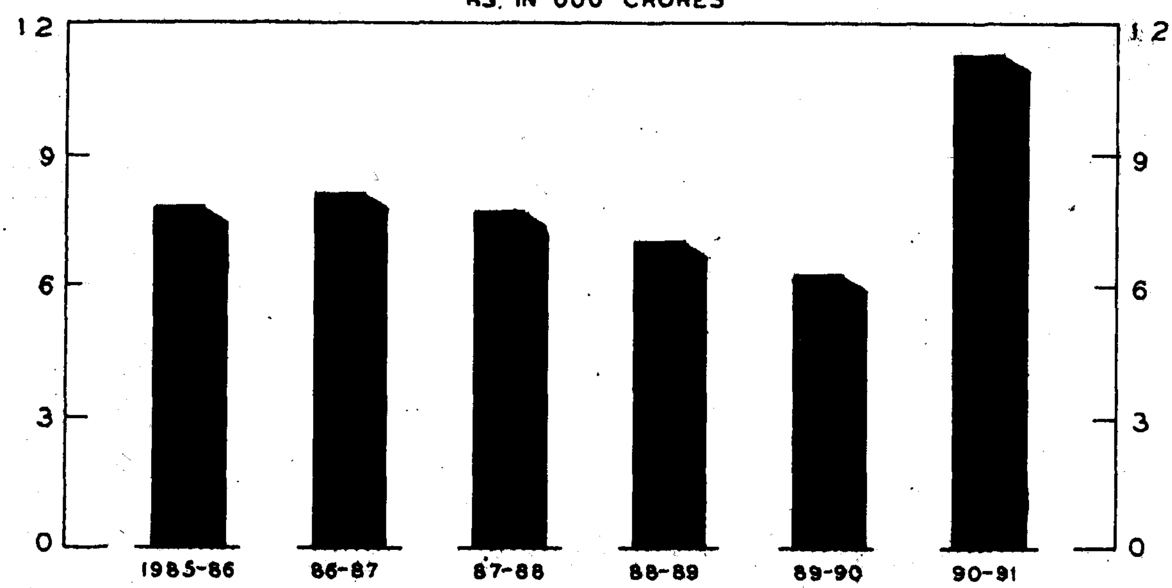


CHART 9.2

FOREIGN EXCHANGE RESERVES

(INCLUDING GOLD & SDRs)

RS. IN '000 CRORES



* PROVISIONAL

CHART 9.3

TRADE AND CURRENT A/C DEFICITS

AS PER CENT OF GDP

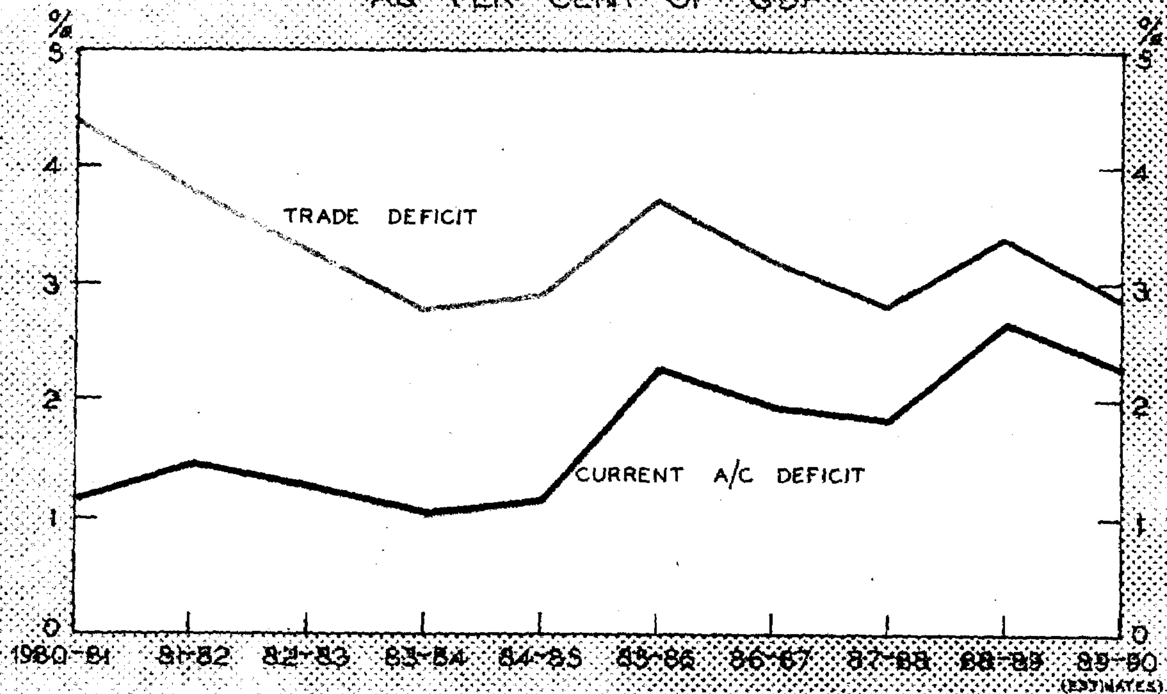
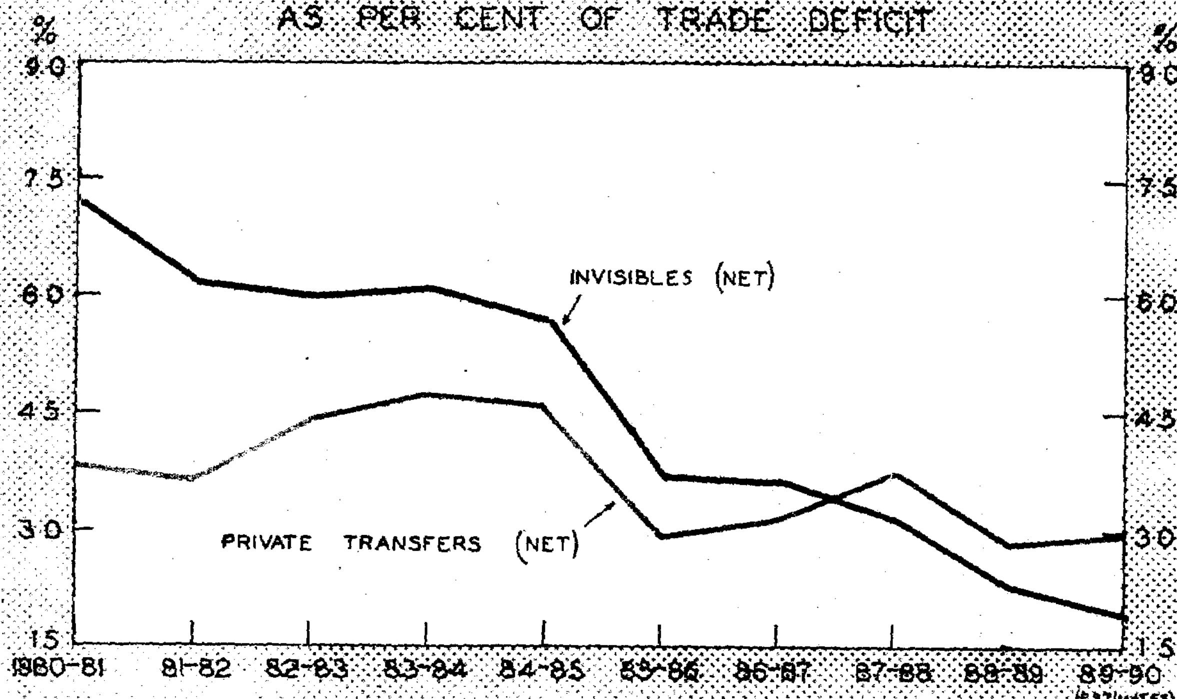


CHART 9.4

INVISIBLES (NET) AND PRIVATE TRANSFERS (NET)

AS PER CENT OF TRADE DEFICIT



obviated the need for large-scale food imports, high levels of net invisible earnings especially on account of private remittances from Indian workers in West Asia, and recourse to a large EFF loan from the IMF to tide over the financing problem.

9.8 Export performance improved substantially in the Seventh Plan with average volume growth exceeding 6 per cent. However, the balance of payments continued to be under strain on account of a combination of several medium and short term adverse factors. There was no significant growth in indigenous oil production while domestic demand for POL went on rising. The domestic production of crude oil rose marginally from around 30 million tonnes in 1985-86 to around 34 million tonnes in 1989-90 necessitating a rising volume of net imports of POL from 16.5 million tonnes to 23.4 million tonnes over the same period. The average annual growth in POL consumption during the Seventh Plan was 6.7 per cent compared with 5.4 per cent during the Sixth Plan period. There was a steep rise in debt service payments associated with earlier borrowings from diverse sources, particularly the IMF. In fact, during the Seventh Plan period SDR 2,752 millions was repaid to the IMF on account of the EFF drawings of SDR 3,900 million availed of during the preceding Plan period. The share of net invisible earnings in financing trade deficit declined from 62.6 per cent during the Sixth Plan to 29.5 per cent during the Seventh Plan as can be seen in Chart 9.4. In the sphere of invisibles, private transfers were not as buoyant as they were during the Sixth Plan period and there was a sharp escalation in interest payments on long and medium-term loans. The widening investment-savings gap over this period, which reflected the steady deterioration in the budgetary position, had the expected cumulative impact on the trade balance and overall balance of payments. The gradual import liberalisation, set in motion since 1978-79, contributed to the emergence of a trade gap in combination with other growing macro-economic imbalances. Short-term factors have also been no less important. There were substantial imports of foodgrains after the drought of 1982 and the countrywide drought of 1987-88 entailed large imports of food and other essential commodities besides constraining agricultural exports.

BOP Developments since 1989-90

9.9 Despite strong export growth, the external payments position did not improve during 1989-90 as evidenced by reserve use of Rs. 1,232 crores. During 1988-89, import growth, based on balance of payments data, was much higher than the growth in exports. Preliminary estimates suggest that this trend was reversed in 1989-90. Net income both from tourism and private transfers recorded improvements during the year but the gains were more or less offset by losses in other components of invisibles, particularly investment income. As a result of these trends, the current account deficit is estimated to have declined to 2.3 per cent of GDP in 1989-90 from 2.7 per cent in 1988-89. Movements in the country's foreign exchange reserves, given in Table 9.2, capture the net result of transactions in the external sector of the economy since 1980-81.

TABLE 9.2

Movements in Foreign Exchange Reserves

(Rs. Crores)

Year	Foreign currency assets of RBI at the end of year	Foreign exchange reserves at the end of the year@	Movements in foreign exchange reserves	Net drawals on IMF
1	2	3	4	5
1980-81 . .	4822	5544	– 390	814*
1981-82 . .	3355	4024	– 1520	637
1982-83 . .	4265	4782	758	1893
1983-84 . .	5498	5972	1190	1342
1984-85 . .	6817	7243	1271	63
1985-86 . .	7384	7820	577	– 327*
1986-87 . .	7645	8151	331	– 840*
1987-88 .	7287	7687	– 464	– 1388*
1988-89 . .	6605	7040	– 647	– 1749*
1989-90 . .	5787	6251	– 789	– 1688*
1990-91 . .	4338	11416**	5165**	– 2043*

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

*Includes Trust Fund loan drawals and repayments.

**Effective October 17, 1990 gold is revalued closer to international market price at the end of every month. For earlier periods gold is valued at official rate of Rs. 84.39 per 10 grammes.

9.10 Foreign exchange reserves comprising foreign currency assets of the RBI, gold and SDR holdings were Rs. 11,416 crores at the end of March, 1991 and showed an increase of Rs. 5,165 crores over the end-March 1990 level. This large increase in reserves reflects, *inter alia*, revaluation of gold effected on October 17, 1990. Gold held by the RBI as a part of the country's foreign exchange reserves was earlier valued at the rate of Rs. 84.39 for 10 grammes under the RBI Act 1934. Following amendment to the RBI Act to revalue gold closer to its international market price, the value of gold at the end of March 1991 stood at Rs. 6,828 crores. It needs to be emphasized that the earlier valuation of monetary gold understated India's total foreign exchange reserves and the revised valuation of gold presents a more realistic picture of the reserves.

9.11 Foreign currency assets of the RBI stood at Rs. 4,388 crores at the end of March 1991 and showing a decline of Rs.1,399 crores during 1990-91 in spite of recource to IMF resources discussed later in the chapter. The heavy drawdown of reserves in nominal terms reflects a combination of worrisome trends in current and capital sides of BOP transactions. Export growth during 1990-91 in rupee terms at 17.5 percent was lower than export growth achieved in the preceding year. Although import growth at 21.9 percent was lower than the growth during 1989-90, there was a further deterioration in the trade deficit which at Rs. 10,644 crores was higher by Rs. 2,913 crores compared with preceding year's level.

9.12 In regard to invisibles, rise in earnings from tourism is likely to have moderated during 1990-91 due to a marginal decline in tourist arrivals. Private transfers, representing mainly remittances from non-resident Indians, have also shrunk as a result of the Gulf crisis. Receipts under official transfers (including food assistance but excluding other commodity grants) during 1990-91 have provisionally been estimated at Rs. 571 crores against Rs. 665 crores during 1989-90. Interest payments on loans under external assistance during 1990-91 provisionally estimated at Rs. 1,955 crores are higher by more than 15 per cent. Outward remittances on account of fees for technicians, technical know-how and professional services are expected to be higher. On balance, net receipts from invisibles are likely to be lower during 1990-91.

9.13 In the capital account, net aid disbursements, excluding official transfers, during 1990-91 provisionally estimated at Rs. 3,694 crores were higher than net disbursements of Rs. 3,151 crores during 1989-90. According to provisional data, net inflow under FCNRA scheme during 1990-91 amounted to Rs. 255 crores only against Rs. 2,179 crores in 1989-90 and Rs. 2,230 during 1988-89. There was a net outflow of Rs. 54 crores undei NRER deposits during 1990-91 . In 1989-90 net outflow from this account had amounted to Rs. 4 crores.

BOP Impact of the Gulf Crisis

9.14 The Gulf crisis which began with the invasion of Kuwait by Iraq on August 2, 1990 lasted for about seven months with the end of combat on February 28, 1991. The crisis has had serious economic implications for both industrial and developing countries.

9.15 This Gulf crisis has been different, in terms of its impact, from the earlier two episodes of sharp spurts in petroleum prices. First, it did not have some of the compensating features of the earlier two oil shocks, viz., large inflows of remittances, surge in exports and tendency of non-fuel commodity prices to rise in sympathy with oil prices. Secondly, it imposed an additional cost of repatriating non-resident Indians from the affected countries of the region. Thirdly, the crisis is likely to adversely impact on international capital markets. This is in sharp contrast to the earlier oil shocks which required more adjustment in the goods market as a result of a rise in the relative price of oil.

9.16 The immediate impact of the conflict in the Gulf region and the events following its termination was primarily in terms of a rise in the POL import bill consequent to the rise in the price of oil; decline in workers' remittances; and an additional burden of repatriating and rehabilitating non-resident Indians from the affected zone in West Asia. Besides, there was secondary impact as well. The conflict generated adverse expectations and uncertainties inimical to the health of the world economy in general, and that of the developing countries in particular. The crisis hampered world trade flows and generated a market perception of adverse prospects for economic growth, inflation and interest rates.

It produced a flight towards more liquid, short term and safer assets leading to tightening of market conditions/access for borrowers from developing countries facing adverse balance of payments position. In addition, the prospect for larger current account imbalances would increase the financing requirements of many countries and put further pressure on interest rates. Developing countries like India are likely to face increasing scarcity of capital flows and the burden of higher rates of interest as competition for surplus funds for reconstruction and rehabilitation in West Asia and, to some extent, Eastern Europe and search for safe havens and higher returns intensifies.

9.17 The turmoil in the world oil market arose from the trade embargo on Iraq and Iraqi-occupied Kuwait, which together contributed 4.5 million barrels per day or about 7 per cent of world oil consumption. Given that in the short run the price elasticities of both supply and demand are rather low, increase in oil prices in response to supply decreases was inevitable.

9.18 The Gulf crisis had a serious impact on India's POL import bill. First, alternative sources for imports of crude oil and petroleum products had to be identified to substitute for imports earlier obtained from Iraq and Kuwait. Second, since contracts for crude oil and products were market related, higher prices entailed a sharp escalation in India's import bill of POL. The level and volatility of oil prices increased sharply after the invasion of Kuwait by Iraq on August 2, 1990. From an average of about \$15 per barrel during April-July 1990, the average prices paid by India for crude in the world market rose to \$30 per barrel during August-November 1990 and then declined to an average of \$ 19 per barrel during the remainder of the 1990-91. Similarly, the average price of petroleum product rose from about \$ 182 per tonne to \$ 354 per tonne and then declined to \$ 313 per tonne over the same, period. The prices, both of product and crude, softened during December 1990 to March 1991. However, whilst crude oil prices collapsed, product prices declined relatively slowly. The fall in crude prices was more than 36 per cent during December 1990—March 1991 over the preceding four months, while product prices declined by only about 12 per cent revothe same period.

9.19 The spurt in price of crude oil and petroleum products brought about a massive surge in the POL bill. The POL bill during 1990-91 is estimated around Rs. 10,820 crores (\$6.0 billion) as against Rs. 6,273 crores (\$3.8 billion) for 1989-90. This shows an increase of about 72 per cent in rupee terms and 58 per cent in dollar terms. Assuming that the price of oil and products had remained at the same level (\$14.77 per barrel for crude and \$ 181.5/MT for products) prevailing during April-July 1990 for the remainder of the year, the direct additional cost of POL imports would have been around Rs. 3,900 crores (\$2.2 billion). After adjusting for exports of petroleum products, the net POL burden is estimated at Rs. 3,625 crores (\$2.0 billion).

9.20 Evacuation of about 180,000 Indians working in Kuwait and Iraq is estimated to have cost \$200 million or Rs. 360 crores.

9.21 The Gulf crisis had a significant adverse impact on flows of remittances into India. From 1982 to 1986 Iraq and Kuwait accounted for 12 per cent of annual labour outflows from India. In 1987, these two countries accounted for about 14 per cent of the estimated migrant population of about one million in West Asia. In 1988-89, about 8.5 per cent and 0.2 per cent of total private transfer receipts (remittances) came from Iraq and Kuwait respectively. Based on some preliminary rough estimates the loss in private remittances from Kuwait and Iraq is placed at Rs. 490 crores (\$273 million) during 1990-91.

9.22 The Gulf crisis constrained India's export performance during 1990-91 in more than one way. In 1989-90, West Asian countries accounted for 7.2 per cent of India's exports with Kuwait, accounting for 0.7 per cent, and Iraq, about 0.5 per cent. The immediate impact of the Gulf crisis arising out of trade embargo on Iraq and occupied Kuwait and dislocation of trade to other countries in West Asia, led to significant loss in exports. The total loss of exports in the Gulf region is estimated at Rs. 500 crores, including Rs. 270 crores on account of loss of exports to Kuwait and Iraq alone. Besides, India could not realise dues to the extent of \$64 million under deferred payments arrangement and about $50 million under the projects outside deferred payments arrangement during 1990-91.

9.23 The overall impact of the recent oil shock on the industrial countries is not expected to be as severe as during the earlier shocks of 1973-74 and 1979-80 because of the reduced dependence of these countries on oil and their geographically diversified sources of energy imports. Nevertheless, some deceleration in growth rates in major industrial countries is discernible which is expected to slow down the pace of expansion in world trade. The impact of this slowing down in world trade is beginning to affect offtake of a wide spectrum of commodities from India.

9.24 Based on the above analysis, the direct overall adverse impact of the recent Gulf crisis lasting for about seven months from August 1990 to February 1991 on the current account of India's balance of payments for the fiscal year 1990-91 is estimated at $2,887 million equivalent to Rs. 5,180 crores (Table 9.3). It must be emphasized that this impact assessment is relative to a normal situation free of the Gulf crisis.

TABLE 9.3

Direct BOP Impact of the Gulf Crisis during 1990-91

Item	Rs. Crores	$ Million
1. Additional POL import bill . (net of POL exports)	3625	2020
2. Export loss to West Asia . (of which Iraq and Kuwait) .	500 (270)	280 (150)
3. Non-realisation of other export dues from Iraq . . .	205	114
4. Loss in remittances from Iraq and Kuwait	490	273
5. Foreign exchange costs of emergency repatriation . .	360	200
TOTAL	5180	2887

9.25 The Gulf crisis had adverse impact on the capital account also. The fall in capital inflows compounded the problem of financing the rising level of current account deficit. Inflows into non-resident accounts and external commercial borrowings have been the two major components of the capital account which have suffered most under the impact of the Gulf crisis.

9.26 The Gulf countries supplied about 35 percent of FCNRA flows with Kuwait contributing 2 to 3 percent of these and Iraq only negligible amount during recent years. Net inflows into these accounts from all sources declined to $142 million (Rs. 255 crores) in 1990-91 from $1,309 million (Rs. 2,179 crores) in 1989-90. The Gulf countries have in recent years supplied about 65 percent of NRERA flows with Kuwait accounting for 18 per cent and Iraq an insignificant amount. During the past two years there have been net outflows from the NRERA amounting to $2.4 million (Rs. 4 crores) in 1989-90 and $30 million (Rs. 54 crores) in 1990-91. It is estimated that the Gulf crisis might have been responsible for shortfall of atleast $500 million (Rs. 897 crores) under the non-resident accounts.

9.27 In 1990 there was a marked slowdown in borrowings from the international capital markets by the developing countries as a group. All major market sectors experienced a contraction during the year against the background, inter alia, of deteriorating global conditions and uncertainties arising from the political and economic consequences of the Gulf war. Since the second half of 1990 markets have become increasingly selective and reluctant to take on new risk, creditworthiness considerations have become of paramount interest and capital adequacy requirements have constrained banks' lending activity. These adverse conditions have persisted so far in 1991. Against the above background, India's commercial borrowings, in terms of commitments, dropped sharply to $1,903 million (Rs. 3,414 crores) in 1990-91 from $3,291 million (Rs. 5,479 crores) in 1989-90. An additional and important adverse factor in the Indian context has of course been the market's perception of the Indian risk during the year. The difficult borrowing conditions created by the Gulf crisis have nonethless played an important part in the reduced availability of commercial funds to India during 1990-91.

9.28 These estimates of balance of payments shock imposed by the Gulf crisis are based on preliminary/provisional data available. Further, the analysis is limited to attempting an impact assessment on the balance of payments in the short run —fiscal year 1990-91—and does not take into account indirect effects like higher costs of external commercial borrowings, loss in export to industrial countries and loss in tourism receipts. The loss in tourism receipts is not expected to be negligible as the Gulf crisis overlapped with the tourism season in India.

9.29 It may be pertinent to recall India's adjustment to the two earlier oil shocks. The economy was able to adjust to the first oil shock of 1973-74 in a remarkably short time. Although the import bill rose by over 50 per cent within a year during the first oil shock, it was compensated by a strong growth in exports and demand for labour from oil-exporting countries in West Asia which generated huge private remittances. As a consequence, the current account as a proportion of GDP turned from a deficit of 0.9 per cent in 1974-75 to a surplus of 1.8 per cent by 1977-78. India also drew under various IMF facilities, including the Oil Facility during 1973-74 to 1975-76. Also, the average rate of increase in wholesale price index during 1975-76 to 1978-79 was only 2 per cent per annum. The second oil shock of 1979 brought tremendous pressure on India's balance of payments as reflected in a widening of the current account deficit from 0.2 per cent in 1979-80 to 1.5 per cent in 1981-82. Thus, while the current account turned into a surplus within two years after the first oil shock, the deficit increased substantially in the two years after the second oil shock. To meet the difficult balance of payments situation in the aftermath of the second oil shock, India drew Rs. 274 crores under the IMF's Compensatory Financing Facility and Rs. 545 crores under the Trust Fund in 1980-81. In order to meet any unforseen developments, India also negotiated with the IMF an Extended Fund Facility of SDR 5 billion in November 1981 out of which only SDR 3.9 billion was actually used.

9.30 Earlier during 1990-91 India made use of the reserve tranche position in the IMF amounting to SDR 487.26 million (equivalent of Rs. 1,173 crores) from July to September, 1990. Confronted with the serious external payments situation posed by the Gulf crisis we approached the IMF for access to resources under its modified Compensatory and Contingency Financing Facility (CCFF), discussed later in the chapter, and the first credit tranche of a Stand-by Arrangement which was approved on 18 January, 1991. The Fund approved use of its resources by the Government of India amounting to SDR 716.9 million (equivalent of $1,009 million or Rs. 1884 crores) under the oil element of the amended CCFF and SDR 551.93 million (equivalent of $777 million or Rs. 1,450 crores) under the first credit tranche of a three-month Stand-by Arrangement. The entire amount of SDR 1,268.83 million (equivalent of $1,786 million or Rs. 3,334 crores) was made available for immediate drawal and was received during 1990-91. Repurchases (repayment) of these credits have to be made in five years' time in eight quarterly instalments, the first instalment falling due at the end of the first quarter after the completion of three years.

9.31 Initiatives taken by the Government to deal with the third oil shock have been discussed at length later in this chapter. Briefly speaking, measures were introduced to reduce consumption of petroleum products to contain the POL import bill. A set of measures were put in place to cut Government expenditure and, more particularly, its import and foreign exchange component. Judicious import management geared to curtailment of non-essential/low priority imports, without at the same time introducing sharp changes in existing policies governing imports, was emphasised. Measures to generate additional exports were initiated which included exports of surplus agricultural commodities and certain manufactured items. Efforts were initiated to mobilise quick-disbursing assistance from bilateral and multilateral sources, accelerate the utilisation of the authorised but undisbursed external assistance, tap surpluses in the oil-exporting Gulf countries and attract inflow of resources through special investments, particularly from NRIs. Measures were taken to raise revenue and improve fiscal balance of the Government. Short-term administrative measures were introduced to defer outflows and advance inflows in foreign exchange. During the early months of 1991-92 initiatives were taken to tighten the import regime and credit facilities for imports in the face of a worsening balance of payments situation.

Exchange Rate of the Rupee

9.32 The Indian rupee is linked to a basket of important currencies of the country's major trading partners. The major objective of exchange rate policy is to adjust exchange rates in such a way as to promote the competitiveness of Indian exports in the world market. Adjustments in the external value of the rupee are therefore made from time to time. The Reserve Bank of India effected an exchange rate adjustment on 1 July, 1991 in which the value of the rupee declined by about 7 to 9 per cent against the major currencies (the pound sterling, the US dollar, the deutsche mark, the French franc and the yen). There was another exchange rate adjustment on 3 July, 1991 in which the value of the rupee declined by about 10 to 11 per cent against the major currencies. Between 28 June and 3 July, 1991, the rupee depreciated by about 18 per cent vis-a-vis the basket of 5 currencies while this basket appreciated vis-a-vis the rupee by about 22 per cent. These adjustments had been necessitated by the growing external and internal imbalances in the economy. The balance of payments situation had become very critical and that was reflected in the sharp drawdown on, and low level of, foreign exchange reserves. Since October, 1990 there has been an appreciation in the real exchange rate of the rupee as a result of a relatively high rate of inflation in the country and a much slower rate of depreciation in the nominal exchange rate leading to an erosion in the international competitiveness of the economy. It was equally necessary to curb destabilising market expectations which were generated by perceptions of a growing misalignment of the exchange rate. It is expected that these exchange rate adjustments will stop further deterioration in the country's balance of payments in the short run and improve it in the medium term by improving the trade balance.

Imports

9.33 Imports at Rs. 35,416 crores in 1989-90 showed an increase of 25.4 per cent in rupee terms and 9.1 per cent in US dollar terms. During 1990-91 imports at Rs. 43,171 crores were higher by 21.9 per cent in rupee terms and 13.1 per cent in US dollar terms over the previous year. Analysis of import growth during 1989-90 and 1990-91 has been made after a discussion of trends in overall imports and structural changes in the composition of imports during the Sixth and Seventh Five Year Plans.

Import Trends during Sixth and Seventh Plans

9.34 Table 9.4 presents a synoptic view of import growth during the Sixth and Seventh Plan periods.

TABLE 9.4

Import Trends during Sixth and Seventh Plans

	Sixth Plan (1980-85)	Seventh Plan (1985-90)
(a) Imports as per cent of GDP	8.1	7.3
(b) Value growth (Per cent per annum)		
In Rupees	13.9	16.0
In Dollars	6.2	8.2
In SDRs	11.4	3.4
(c) Volume growth (Per cent per annum)		
Target	9.5	5.8
Actuals	6.9	9.8*
(d) Level of imports (Annual average)		
In Rupees crores	14,683	25,129
In Dollars million	15,110	17,943
In SDRs million	13,571	14,489

*Average growth in the first four years of Seventh Plan for which DGCI&S data are available.

9.35 The volume growth of imports during the Sixth Plan was much lower at 6.9 per cent as compared with the target rate of 9.5 per cent. The subdued growth in import volume to a large measure reflected the success of the import substitution effort in the petroleum sector. In contrast, import volume growth during the first four years of the Seventh Plan at 9.8 per cent was substantially higher than the target growth of 5.8 per cent envisaged for the Plan period as a whole. This to a large measure was the outcome of a near stagnation in domestic crude oil production neccessitating substantial volume of POL imports. Table 9.4 further suggests that although the rate of growth in both the value (except in SDRs) and volume of imports as well as average level of imports was higher during the Seventh Plan period as a whole than in the Sixth Plan, the ratio of imports to GDP declined from 8.1 per cent during the Sixth Plan to 7.3 per cent during the Seventh Plan period.

9.36 There was a substantial change in the composition of imports during the Seventh Plan period in comparison with the Sixth Plan as can be seen in Chart 9.5. The shares of capital goods, pearls and precious stones and chemicals in total imports increased during the Seventh Plan period while those of POL, edible oils, fertilisers and iron and steel declined in comparison with the Sixth Plan period.

TABLE 9.5

Imports by Major Commodity Groups

(Rs. Crores)

Item	1988-89 (P)	1989-90 (P)	1990-91 (P)	Percentage Change	
				1989-90 / 1988-89	1990-91 / 1989-90
1	2	3	4	5	6
I. Bulk Imports	11678.6	14684.6	19686.8	25.7	34.1
1. Cereals & cereals preparations	773.6	378.1	150.7	—51.1	—60.2
2. Pulses	383.5	227.9	473.2	—40.6	107.7
3. Edible oils	729.7	210.9	322.2	—71.1	52.8
4. Fertilisers	933.7	1776.4	1696.8	90.3	—4.5
5. POL	4357.6	6273.5	10819.7	44.0	72.5
6. Coal	419.7	562.0	780.0	33.9	38.8
7. Paper, paperboard & pulp	563.1	661.7	916.8	17.5	38.5
8. Iron and steel	1933.3	2304.5	2209.6	19.2	—4.1
9. Non-ferrous metals	776.0	1253.2	1108.7	61.5	—11.5
10. Ores & metal scrap	808.6	1036.4	1209.3	28.2	16.7
II. Non-Bulk Imports	14192.3	17896.6	19781.0	26.1	10.5
11. Capital goods	6955.6	8830.5	10415.7	27.0	18.0
12. Professional Instruments etc.	679.3	885.8	1082.1	30.4	22.2
13. Chemicals	2409.1	2774.7	3243.8	15.2	16.9
14. Plastic material & artificial resins	808.6	996.2	1096.1	23.2	10.0
15. Non-metallic minerals	164.2	168.0	211.1	2.3	25.7
16. Pearls and precious stones	3175.5	4241.5	3732.3	33.6	—12.0
III. Unclassified	2364.3	2830.7	3703.1	19.7	30.8
IV. Total	28235.2	35411.9	43170.8	25.4	21.9

(P)—Provisional.

NOTES : 1. Item (4) includes fertiliser crude, manufactured & fertiliser material.

2. Item (13) includes organic, inorganic, pharmaceutical & dyeing & colouring material.

Imports since 1989-90

9.37 Imports have been shown by major categories and commodities since 1988-89 in Table 9.5. Imports have been broadly divided into three major categories of bulk, non-bulk and unclassified.

9.38 The category of bulk imports largely consists of consumption goods as well as raw materials and some key universal intermediates. The value of bulk imports which rose by 25.7 per cent during 1989-90, went up further by 34.1 per cent during 1990-91.

9.39 Under bulk imports, energy imports comprising POL and coal have surged. POL imports showed a substantial expansion of 44 per cent in 1989-90 and a further rise of 72.5 per cent during 1990-91. The high increase in value of POL imports during 1989-90 despite a modest increase in import volume of 6.7 per cent was the result of an appreciation in the unit value of these imports by 35 per cent. During 1990-91 the massive increase in POL imports was mainly the result of a sharp upsurge in crude oil and petroleum product prices in the world market consequent to the Gulf crisis. Coal imports in recent years have shown a rising trend. Coal imports amounted to 6 million tonnes valued at Rs. 780 crores during 1990-91 compared with 4.9 million tonnes valued at Rs. 562 crores in 1989-90. The large increase of 34 per cent in the value of coal imports during 1989-90 reflected escalation in unit value of coal imports by 32 per cent. The rising trend in the import of coal continued during 1990-91 reflected by a value increase of 38.8 percent and unit value increase of about 14 percent. During 1989-90 energy imports (POL and coal) accounted for roughly one fifth of total value of imports but contributed more than one fourth of the incremental imports. During 1990-91 the share of energy imports in incremental imports rose to a high level of 61 per cent.

9.40 Imports of iron and steel increased in volume by 63 per cent but only 19.2 per cent in value during 1989-90 owing to a steep fall of 27 per cent in unit value. In 1990-91 iron and steel imports declined in value by 4.1 per cent and by about 20 percent in volume.

9.41 There was a substantial increase in the import value of fertilisers and non-ferrous metals in 1989-90 largely on account of high volume of imports of these commodities. During 1990-91 imports of both fertilisers and non-ferrous metals showed declines of 4.5 and 11.5 per cent respectively.

9.42 Substantial import saving was achieved in edible oils and pulses during 1989-90. During 1989-90 imports of edible oils and pulses, at 2.9 lakh tonnes and 4.3 lakh tonnes respectively, were at one third and half of their respective imports in the preceding year. The large increase in import bill of pulses and edible oils during 1990-91 reflects a massive increase in their import volume. Imports of pulses and edible oils at 7.9 lakh tonnes and 4.8 lakh tonnes during 1990-91 were higher by about 84 per cent and 66 per cent respectively over 1989-90. Unlike edible oils and wheat, pulses can be procured from only a few overseas sources. Large scale purchases of pulses by India has the effect of pushing up their prices in the world market. Need for a durable import substitution effort in edible oils and pulses is being felt more strongly than ever in view of the difficult balance of payments position.

9.43 Import growth in the non-bulk category decelerated from over 26 per cent in 1989-90 to 10.5 per cent during 1990-91 largely on account of a fall in the import of gems and jewellery which is export related. Import growth in capital goods also decelerated from 27 per cent in 1989-90 to 18 per cent during 1990-91.

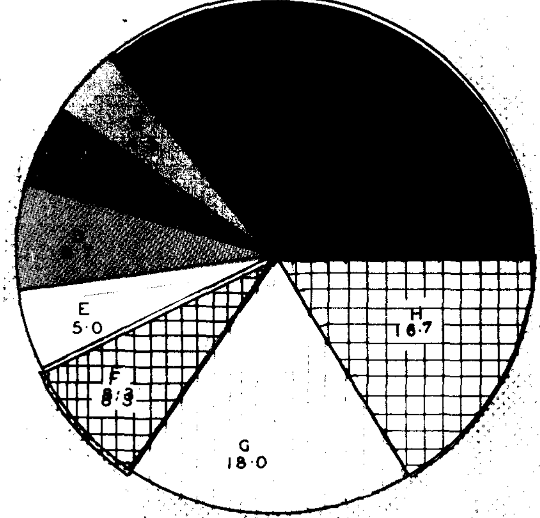
9.44 The share of bulk imports which amounted to about 41.4 per cent of total imports during 1988-89 and 41.5 per cent in 1989-90 increased to 45.6 per cent in 1990-91. The five largest items/groups of items which include POL, iron and steel, fertilisers, non-ferrous metals and ores and metal scrap together accounted for over 86 per cent of bulk imports in 1989-90 and 86.6 percent during 1990-91. Non-bulk imports constituted about half of total imports in 1989-90 and about 46 per cent in 1990-91. The three largest items in this category, accounting for over 88 per cent of non-bulk imports in 1989-90 and 1990-91, are capital goods, pearls and precious stones and chemicals.

CHART 9.5

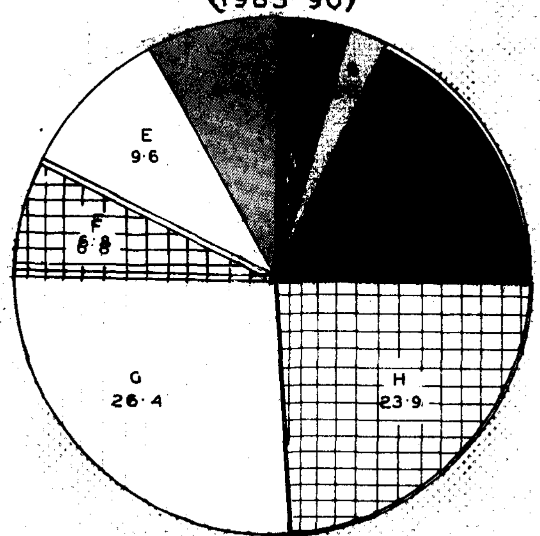
COMPOSITION OF IMPORTS

PLAN AVERAGE IN PER CENT

SIXTH PLAN
(1980-85)



SEVENTH PLAN
(1985-90)



A —— POL
B —— EDIBLE OILS
C —— FERTILISERS
D —— CHEMICALS
E —— PEARLS AND PRECIOUS STONES
F —— IRON AND STEEL
G —— CAPITAL GOODS
H —— OTHERS

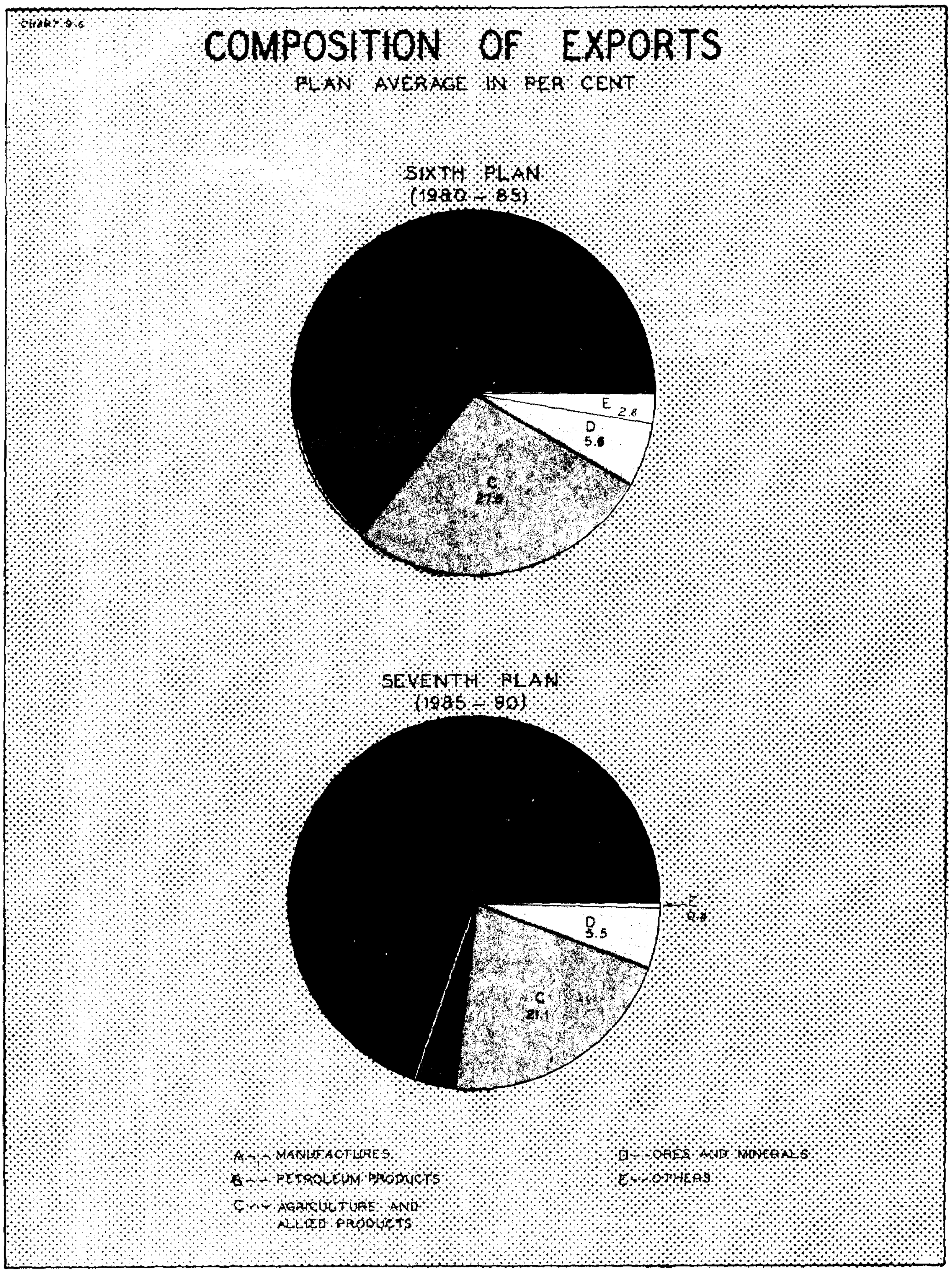


CHART 9.6
COMPOSITION OF EXPORTS
PLAN AVERAGE IN PER CENT
SIXTH PLAN
(1980 – 85)
E 2.8
D 5.6
C
SEVENTH PLAN
(1985 – 90)
E
D 5.5
C 21.1
A – – MANUFACTURES
B – – PETROLEUM PRODUCTS
C – – AGRICULTURE AND ALLIED PRODUCTS
D – – ORES AND MINERALS
E – – OTHERS

Exports

9.45 The momentum of export growth achieved in recent years was further strengthened in 1989-90 when they rose by 36.8 per cent in rupee terms and 19 percent in US dollar terms. During 1990-91, there was a marked deceleration in the pace of export growth to 17.5 per cent in rupee terms and 9 per cent in US dollar terms.

Export Performance during the Sixth and Seventh Plan Periods

9.46 Export performance in terms of volume growth of less than three per cent per annum during the Sixth Five Year Plan considerably fell short of the target annual growth of nine per cent. By contrast, volume growth in exports accelerated during the Seventh Plan and averaged 6.3 per cent per annum during the first four years as against the target annual growth of 7 per cent. The strong volume growth in exports is reflected in average additional exports of Rs. 8,420 crores (US $ 3.1 billion) per annum over the average level of exports during the Sixth Plan. Although the share of exports in GDP has shown a rising trend since 1986-87, the performance for the Seventh Plan period as a whole has not been distinctly better than during the Sixth Plan period from this perspective. As can be seen in Chart 9.6, the composition of export basket shifted further in favour of manufactures. The share of manufactures which was around 53 per cent in terms of value during the Sixth Plan rose to about 70 per cent on an average during the Seventh Plan period.

TABLE 9.6

Export Performance during Sixth and Seventh Plans

	Sixth Plan (1980—1985)	Seventh Plan (1985—1990)
(a) Exports as per cent of GDP .	4.9	5.0
(b) Value growth (Per cent per annum)		
In Rupees	13.0	19.8
In Dollars	4.5	11.6
In SDRs	10.0	6.6
(c) Volume growth (Per cent per annum) . .		
Target	9.0	7.0
Actuals	2.7	6.3*
(d) Level of exports (Annual average)		
In Rupee crores . . .	8,967	17,387
In Dollars million .	9,125	12,267
In SDRs million . .	8,251	9,821

*Growth rate for the first four years oef Sventh Plan for which DGCI& S ata are available.

Export Performance since 1989-90

9.47 Export data for 1988-89, 1988-90 and 1990-91 are given in Table 9.7. Available commodity-wise data for 1989-90 reveal that the major impetus for a good performance on the export front came from manufactured goods which showed an impressive growth of 39.2 per cent in rupee terms. Exports of manufactured products accounted for more than three-fourths of the increase in total exports during the year. Exports of agriculture and allied products rose by about 33 per cent over those in the preceding year and contributed 16 per cent of the total increase in exports. During 1990-91, agriculture and allied products showed a lower increase of 30.1 per cent and export of manufactures posted an increase of 13.6 per cent only. The lower growth in manufactures is attributed to the setback suffered in the exports of gems & jewellery and jute manufactures and deceleration in the export growth of chemicals, engineering goods and readymade garments.

9.48 Cashew exports showed a substantial increase of 33.2 per cent in earnings during 1989-90 supported by a volume increase of a similar magnitude (30.5 per cent). During 1990-91, cashew exports of about 49,876 tonnes valued at Rs. 447 crores were higher by 10.3 per cent in volume and 21.5 per cent in value. Lately, cashew exports have been facing stiff competition from Indonesia and China and other tree nuts in the world market leading to weakening of export value realisation despite robust volume growth. Export of spices which amounted to 96,700 tonnes valued at Rs. 246.5 crores in 1989-90 showed a drop in volume of 3.5 per cent accompanied by a larger fall in earnings of 9.3 per cent in comparison with 1988-89. The declining trend in export earnings from spices continued during 1990-91 with a further fall in value of 5.4 per cent in spite of a volume growth of 3.8 percent. Export of spices has suffered because of erosion of export surpluses available and fall in unit value realisation. Pepper is a major item of export from India. Small cardamom, which till recently was a coveted export item, has dipped into low levels of export due to increase home consumption and competition from other sources. Exports of rice rose from 3,49,600 tonnes valued at Rs. 331.4 crores in 1988-89 to

TABLE 9.7

Exports by Major Commodity Groups

(Rs. Crores)

Commodity	1988-89	1989-90 (P)	1990-91 (P)	Percentage Change 1989-90/ 1988-89	Percentage Change 1990-91/ 1989-90
1	2	3	4	5	6
I. Agriculture and Allied Products	**3672.8**	**4878.8**	**6345.5**	**32.8**	**30.1**
Of which :					
1. Cashew kernels(incl. CNSL)	275.9	367.6	446.8	33.3	21.5
2. Coffee	293.5	342.6	253.3	16.7	—26.1
3. Marine products	630.0	686.5	959.7	9.0	39.8
4. Oil meals	408.7	546.2	624.9	33.6	14.4
5. Raw cotton	21.4	128.4	854.7	500.7	565.8
6. Rice	331.4	426.5	440.0	28.7	3.1
7. Spices	271.9	246.5	233.2	—9.3	—5.4
8. Sugar	9.6	32.5	37.4	237.0	15.2
9. Tea & mate	609.4	904.6	1074.8	48.4	18.8
10. Tobacco	125.9	175.0	263.4	39.0	50.5
II. Ores and Minerals	**1164.3**	**1363.3**	**1686.0**	**17.1**	**23.7**
Of which :					
11. Iron ore	673.1	927.6	1049.9	37.8	13.2
III. Manufactured Goods	**14838.5**	**20659.6**	**23471.7**	**39.2**	**13.6**
Of which :					
12. Engineering goods	2311.2	3284.4	3901.6	42.1	18.8
13. Chemicals and allied products	1296.3	2157.6	2528.6	66.5	17.2
14. Cotton yarn, fabrics, made-up etc.	1133.3	1479.6	2065.2	30.6	39.6
15. Jute manufactures	235.3	297.5	299.9	26.5	0.8
16. Leather & leather mfrs.	1522.3	1950.9	2553.9	28.2	30.9
17. Readymade garments	2099.1	3224.2	4042.4	53.6	25.4
18. Handicrafts	5190.0	6284.9	6247.5	21.1	—0.6
Of which :					
19. Gems and jewellery	4392.0	5295.5	5210.0	20.6	—1.6
IV. Mineral Fuels and Lubricants	**518.0**	**713.5**	**946.7**	**37.7**	**32.7**
Of which :					
20. POL	505.0	696.7	937.8	38.0	34.6
V. Others	**38.0**	**40.3**	**92.3**	**6.1**	**129.2**
TOTAL	**20231.5**	**27681.5**	**32527.3**	**36.8**	**17.5**

(P)—Provisional.

NOTES : 1. Item 12 includes machinery, transport equipment, metal manufactures (including iron and steel), electronic goods and computer software.

2. Group IV includes coal.

3. The group totals pertaining to I, II, III, IV & V are provisional tentative estimates based on preliminary details.

4. Item 13 excludes rubber, glass, paints and other products.

5. Item 18 includes handicrafts, carpets (handmade) & gems and jewellery.

6. Group totals may not add up to the totol due to errors and omissions.

4,21,700 tonnes valued at Rs. 426.5 crores in 1989-90, which meant a 20.6 per cent increase in volume and 28.7 per cent increase in value. During 1990-91, earnings from rice exports increased by 3.1 per cent. This marginal increase in value despite a substantial volume increase of over 25 per cent was on account of a substantial drop in unit value realisation of about 18 per cent.

9.49 Earnings from tea have shown impressive increase of the order of 48.4 percent in 1989-90 and 18.8 per cent during 1990-91 valued at Rs. 1,074.8 crores. During 1989-90 there was a boom in unit value realisation of around 38 percent and a modest volume growth of 8 percent. The boom in unit value of tea exports persisted during 1990-91 with an increase of about 23 percent to sustain a high level in export earnings in the face of a 3.5 percent drop in the volume of exports. The export effort in tea has been constrained by reduced surpluses for export. The difficult law and order situation in Assam adversely affected the production and exports of tea during 1990-91. World market for coffee has been characterised by falling prices. With suspension of quotas since July, 1989 market forces have shaped the fortunes of the world coffee market. The present International Coffee Agreement has been extended upto September 1992 without any economic clause. This means there is no restriction on exports of any quantity to any destination. Despite an impressive jump of 36.5 percent in volume of coffee exported, export earnings rose by 16.7 percent only in 1989-90. Coffee exports at 86 million kgs. valued at Rs. 253.3 crores were lower by 25.3 percent in volume and 26.1 percent in value during 1990-91.

9.50 Exports of marine products have continued to grow from 1,15,600 tonnes valued at Rs.630 crores in 1988-89 to 1,24,600 tonnes valued at Rs. 686.5 crores in 1989-90. This represented an increase of about 9 per cent in earnings mainly brought about by a 7.8 per cent increase in volume in the face of almost stagnant export unit values. During 1990-91, export earnings have expanded by 39.8 per cent mainly on account of strong volume growth of 27 per cent accompanied by appreciation in unit value realisation by about 10 per cent. Marine exports are expected to perform well with the placement of sea-food processing machinery under OGL and reduction of duty thereon.

9.51 Iron ore exports during 1989-90 at 35.6 million tonnes valued at Rs. 927.6 crores showed an increase of 7.9 per cent in volume and a larger expansion of 37.8 per cent in earnings due to a spurt in unit value realisation of 28 per cent over 1988-89. However, during 1990-91 there was a modest increase in earnings of 13.2 percent because of a volume decline of 10 percent accompanied by an increase of about 26 percent in unit value realisation The main reasons for the substantial contraction in export volume have been lower offtake by Romania and the erstwhile GDR and supply dislocation from Bailadila. The cyclone in Andhra Pradesh also affected the movement of ores and minerals seriously during the year.

9.52 In the case of readymade garments, there was a substantial growth of 53.6 per cent in export earnings during 1989-90 but the pace slackened to 25.4 per cent during 1990-91 to Rs. 4042.4 crores. The bulk of Indian readymade garments is exported to countries with which India has entered into bilateral agreements under the Multifibre Arrangement (MFA). Significant and sustained increase in garment exports can come only if MFA is liberalised or phased out and efforts are directed towards non-quota countries. Diversification of fabric base leading to export of higher value-added items of synthetic and blends, silk and woollen fabrics is necessary to sustain the momentum of growth in this sector.

9.53 Exports of engineering goods continued to perform well in 1990-91 at Rs. 3,902 crores although the growth rate at 18.8 percent was much lower than in 1989-90 when it was over 42 percent. Exports of chemicals and allied products also decelerated substantially during 1990-91 to 17.2 per cent from 66.5 per cent during 1989-90. In the case of chemicals a large number of them are petroleum-based and have probably suffered owing to adverse price and supply factors. Exports of chemicals did not pick up also because of a subdued growth of India's exports to the USSR and East European countries during the year.

9.54 Exports of gems and jewellery which showed an increase of 20.6 per cent in 1989-90 suffered a setback when they declined by 1.6 per cent in 1990-91 to Rs. 5,210 crores. The reversal of trends in this area is attributed to a narrow specialisation of the Indian gem sector in small and medium-size diamonds for which the demand is slack in contrast to large size diamonds for which demand conditions are good.

9.55 The recent Gulf crisis coupled with the recessionary trends discernible in some major industrial economies has constrained our export growth during 1990-91. Besides, some of the developments affecting a large number of commodities in our export basket give ground for concern. As stated earlier, export of gems and jewellery has suffered a reversal. This export sector, though import-intensive, is highly labour-intensive in content. Therefore, a drop in its exports has adverse implications for employment and income generation for a vast majority of people engaged in the processing of gems and jewellery for export. Unit value realisation in dollar terms has also fallen during 1990-91 for a large number of commodities which include rice, spices and Jute manufactures. In commodities where international market have been buoyant, we have not been able to reap benefits due to contraction in export volumes. The world market for tea and iron ore has shown buoyancy as reflected in sharp appreciation in unit value of exports in dollar terms by about 23 per cent and 26 per cent respectively during 1990-91. Export earnings in these items would have been much larger but for the contraction in export volumes. The last one year or so has witnessed political and economic upheavals in Eastern Europe. These economics had earlier provided a sheltered market for a large variety of Indian goods. The sheltered market condition prevail no more due to opening of these economies and their ongoing transition to market-based system. The world economy was marked by recessionary conditions during 1990 and the Gulf war seriously affected world trade flows. India had its share of the impact of these adverse factors. Our export growth decelerated as a whole during 1990-91 following the simultaneous operation of a large number of adverse factors.

Direction of Trade

9.56 The direction of India's foreign trade has been presented in Chart 9.7 for the Sixth and Seventh Five Year Plans period as a whole. The shares of the EEC and North America in our exports increased during the Seventh Plan period while those of the OPEC and East European countries declined in comparison with the Sixth Plan period as a whole. As regards imports, the shares of the EEC, OECD countries other than North America, and developing countries were higher during the Seventh Plan period as a whole while those of North America, OPEC and Eastern Europe were lower in comparison with those during the Sixth Plan period.

External Capital Flows

External Assistance

9.57 External assistance constitutes the most important component of external capital flows. Gross disbursement of external assistance rose from Rs.2,162 crores in 1980-81 to Rs.5,802 crores in 1989-90, recording an annual average rate of growth of 17.4 per cent during the decade. The disbursement of assistance seems to have accelerated during the Seventh Plan period when it increased by about 20.3 per cent annually compared with an yearly growth of 14.3 per cent during the Sixth Plan. External assistance is composed of loans and grants. However, the grant component of external assistance has been declining over time. In 1980-81 grants accounted for 18.3 per cent of total assistance; in 1989-90 this proportion was 11.4 per cent only.

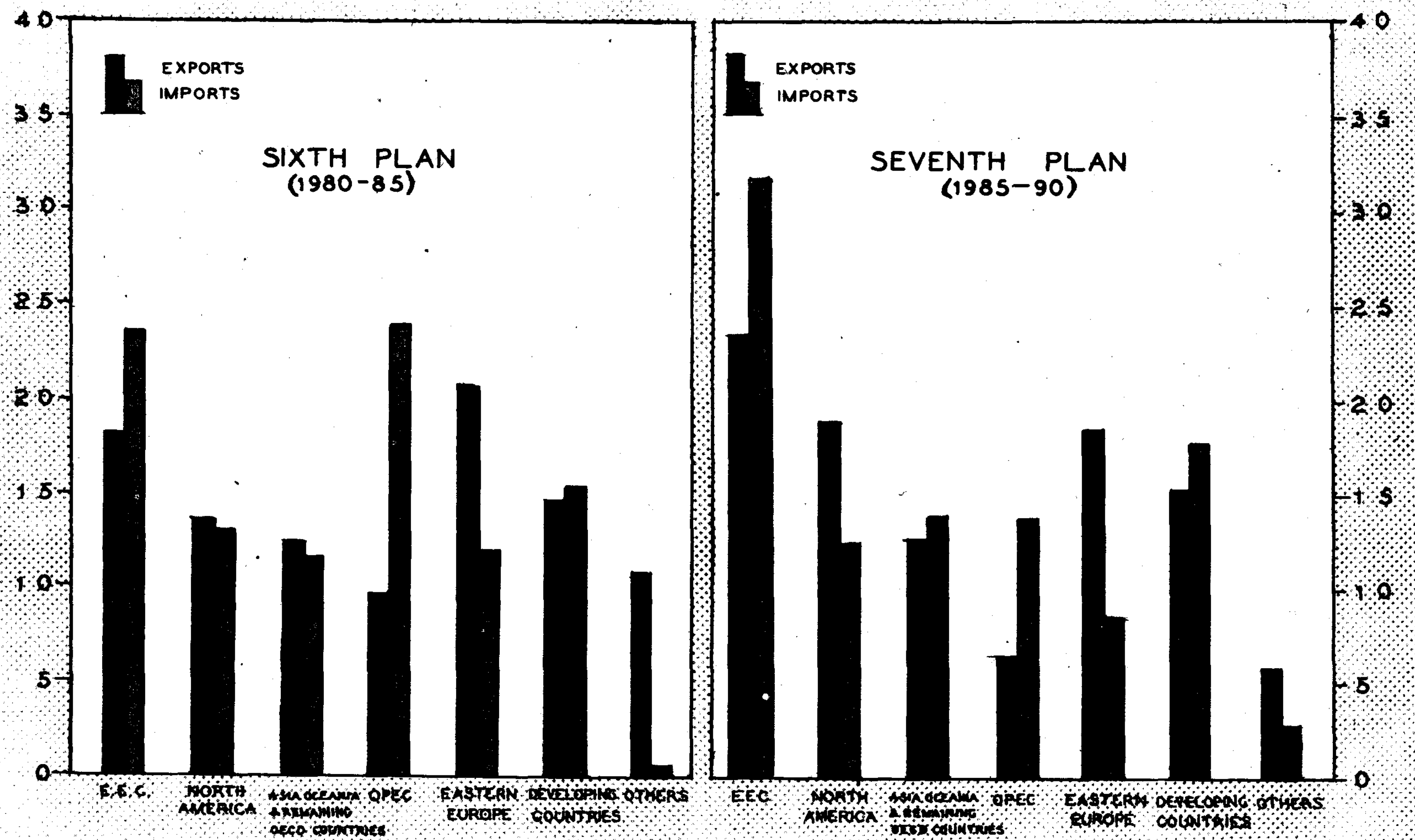
9.58 The composition of external assistance shows that roughly 60 per cent is on account of multilateral aid and the remaining 40 per cent on account of bilateral aid. The main source of multilateral aid is the World Bank which accounts for more than 90 per cent of total multilateral assistance and more than 50 per cent of total external assistance. Charts 9.8 and 9.9 show utilisation of multilateral and bilateral assistance by major sources during the 1980s.

9.59 The World Bank Group has, since its inception, committed 134 loans through the IBRD and 178 development credits through the IDA to India totalling $ 18.3 billion and $ 17

CHART 9·7

DIRECTION OF TRADE

(PLAN AVERAGE PERCENTAGE SHARE)



billion respectively for a cumulative of $ 35.3 billion upto June, 1990. While the share of India in the Bank's lending portfolio during the 1980s has been in the range of 14—16 per cent, the decade also witnessed a gradual relative hardening of the Bank's lending profile to India. This could be seen from the IBRD-IDA blend proportion which has increased from 25 : 75 in the World Bank's fiscal year (FY) 1981 to 63 : 37 in FY 1984 and further to 70 : 30 in FY 1989. There was some improvement in the ratio of IBRD-IDA loans to 57:43 during FY 1990. Additionally, since 1987 the terms of IDA assistance have become stiffer and credits are now available with a lesser maturity period of 35 years. Considering India's continuing requirements of concessional assistance for investment needs, these trends are a matter of concern to us.

9.60 Since 1986 India has started borrowing from the Asian Development Bank (ADB). Authorised borrowings from the ADB by the public sector amounted to $250 million in 1986, $ 377.6 million in 1987, $ 493 million in 1988, $ 498 million in 1989, and $699 million in 1990. Including the private sector, cumulative loan commitments by the ADB to India upto the end of calendar year 1990 has amounted to $2,361.30 million. About 47 per cent of these loans have been approved for transport and communications, a little over 32 per cent for energy, about 10 per cent for finance and around one per cent for industry and non-fuel minerals. Cumulative disbursements have totalled $ 354 million or 22 per cent of the total net effective loan amount.

9.61 Bilateral sources have been an important source of external assistance. The annual average utilisation of bilateral assistance during the past five years (1985-90) amounted to Rs. 1,780 crores compared with the average utilisation of Rs. 2,759 crores during the same period in respect of multilateral aid. The major bilateral donors during recent years have been the USSR, the UK, the FRG, France and Japan. These five countries together have accounted for over 68 per cent of total bilateral aid utilised by India during the past five years (1985-90). During the past five years, taken together, Japan has led the group of India's bilateral donors having accounted for 22.5 per cent of bilateral aid utilised by India, followed by the FRG (13.8 per cent), France and the USSR (11.2 per cent each) and the U.K. (9.6 per cent).

9.62 Details of external assistance from all sources during the Seventh Plan period and also for 1990-91 are presented in Table 9.8. The annual average commitment of aid amounted to Rs. 8,994 crores and that of utilisation (gross disbursement) Rs. 4,540 crores during the Seventh Plan period. Because of rising debt service liabilities, net inflow (defined as gross disbursement minus amortisation) averaged only Rs. 3,107 crores and net transfer (defined as gross disbursement minus amortisation and interest payments) only Rs. 2,009 crores per year. The position was somewhat better during 1990-91 in respect of aid utilisation and net inflow in comparison with the preceding year and the Seventh Plan average. However, aid commitments during the year suffered a serious setback.

TABLE 9.8

External Assistance

(Rs. Crores)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91(P)
1. Authorisations	5650	6160	9265	13070	10826	6252
2. Gross disbursements	2936	3605	5052	5304	5802	6660
3. Debt service payments	1367	2029	2624	2946	3686	4350
(a) Amortisation	776	1176	1581	1646	1987	2395
(b) Interest payments	591	853	1043	1300	1699	1955
4. Net capital inflow (2—3a)	2160	2429	3471	3658	3815	4265
5. Net capital transfer (2—3)	1569	1576	2428	2358	2116	2310

P—Provisional

Note : The data include Government and non-Government loans and grants (including food assistance but excluding other commodity grant assistance). These figures do not include suppliers' credits, commercial borrowings and IMF credits other than Trust Fund loans.

9.63 A problem often discussed in the context of external assistance is the low level of utilisation resulting in a substantial part of authorised loans being in pipeline. The main factor for under-utilisation of assistance is believed to be the time lag between commitments and conclusions of specific credit arrangements, time-consuming procedures governing procurement of stores and equipment, delays in land acquisition for construction work and domestic budgetary constraints in providing counterpart funds. Given the present shortage of foreign exchange, high priority has been given to utilisation of unused external assistance in pipeline.

9.64 In the Aid-India Consortium meeting held in Paris in June 1990, donors decided to maintain commitments for 1990-91 in the range of $ 6.1 to $ 6.5 billion. The donors also noted that given the increasing weight of debt on commercial terms in India's debt structure, it was essential that special efforts be made to increase the concessional component of assistance to the maximum possible extent. Among bilateral donors, Japan led other countries with a pledge of loan commitment totalling $ 681 million, followed by the U.K. with a commitment between $ 474 and $ 647 million, and Germany with a pledge of $ 404 million. The World Bank promised a commitment between $ 2,750 and $ 3,000 million, including $ 950 million from IDA during 1990-91 while commitment made by ADB amounted to $ 704 million. An additional amount of US $ 100 million has been allocated to India by the IDA in the wake of the Gulf crisis. Ninety per cent of the aid pledges were project-tied and the balance of the amount was accounted for by technical co-operation and non-project aid.

External Commercial Borrowings

9.65 India's reliance on external commercial borrowings as a source of external financing has increased considerably in the past few years. Public sector undertakings and financial institutions together accounted for about 90 per cent of the approvals of external commercial borrowings in recent years. Starting initially with the conventional syndicated loans managed by foreign banks, India has been raising funds in various international bond markets during the last few years. Japan has emerged as an important source of commercial credits to India both in the commercial bank loan market and bond issues in the Tokyo capital market.

9.66 Table 9.9 provides a picture of India's external commercial borrowings during the Seventh Five Year Plan and for 1990-91. External commercial borrowings are defined to include loans from commercial banks and other financial institutions, suppliers' credits, bonds, FRN and loans from semi-governmental export credit agencies, IFC(W), DEG Germany, CDC U.K. and Nordic Investment Bank. The gross disbursements rose from about Rs. 1,800 crores in 1985-86 to Rs. 4,196 crores in 1989-90. The average gross disbursements during the Seventh Five Year Plan work out to Rs. 3,000 crores per annum with an average net inflow of about Rs. 2,000 crores per annum. In 1990-91, both authorisation and disbursement, gross and net, of external commercial borrowing were low.

TABLE 9.9

*External Commercial Borrowings**

(Rs. crores)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91(P
I. Authorisations	1700	1396	2654	4314	5479	3414
II. Gross disbursements	1799	2474	2252	4069	4196	3050
III. Debt service payments	1175	1565	1736	2224	3041	4006
(a) Amortisation	565	796	871	1103	1455	2137
(b) Interest payments	610	769	865	1121	1586	1869
IV. Net capital inflow. [2—3(a)]	1234	1678	1381	2966	2741	913

P—Provisional

*Excludes borrowings upto 1 year maturity. The estimates are based on data base of the ECB Division of the Dept. of Economic Affairs, Ministry of Finance.

9.67 The increasing trend in approvals of external commercial borrowings witnessed during 1987-88 to 1989-90 was reversed in 1990-91 with approvals amounting to Rs. 3,414 crores. There were a number of contributory factors responsible for the decline in the availability of commercial credit to India. A major reason has been the fall in the overall availability of international credit due to capital adequacy requirements of the Bank for International Settlements. In order to meet the requirement, banks are diverting their attention from credit expansion to strengthening of their capital base. Another factor has been the Gulf crisis which has created an atmosphere of uncertainty in the international capital market with adverse consequences for developing countries especially those with a high dependence on imported oil, like India. A third factor has been the downgrading of India's credit rating for long-term funds by international rating agencies. By March, 1991 the credit rating of India has slipped to the bottom of the investment grade. There has since been further deterioration in the country's credit rating severely restricting its access to commercial sources of finance.

9.68 The International Finance Corporation, Washington (IFC-W) is the major multilateral agency promoting productive private investment in developing countries by providing long-term loans and risk capital at commercial rates for maturities of 7 to 12 years. Since 1959, the IFC(W) has approved investments in India amounting to about $ 925 million, bulk of which ($804 million or 87 per cent of total) has been in the form of long term loans. Investments approved for India were particularly high during 1989-90 and 1990-91 when they amounted to $ 117 million and $ 226 million respectively. IFC(W) investments in India have been mainly in sectors like power, iron and steel, automobiles, chemical and petrochemicals, and general manufacturing.

Non-Resident Deposits

9.69 Non-resident deposits have been a source of considerable support to India's balance of payments. While the annual inflow under NRER accounts has been decelerating since 1985-86 that under FCNR accounts has been higher in successive years till 1989-90. This difference is not surprising in the context of depreciation of the rupee. The NRER deposits are not protected against exchange risk whereas the FCNR deposits are. In fact, during 1990-91 there was a net withdrawal of Rs. 54 crores (excluding estimated interest element) under NRER accounts in comparison with an outflow of Rs. 4 crores in the previous year. Under the FCNR accounts, there was net inflow of Rs. 255 crores during 1990-91 as against Rs. 2,179 crores in 1989-90. As a result, the share of deposits under the NRER accounts in total non-resident deposits has been declining. The outstanding deposits under the two non-resident accounts as on 31st March, 1991 amounted to Rs. 20,542 crores of which the share of NRER deposits was only about 35 per cent. Outstanding amounts under the two deposit schemes since 1984-85 are given in Table 9.10.

9.70 A Special FCNR Deposit Scheme was introduced with effect from August 21, 1990 with facility for withdrawal of full or part of the sum deposited without notice and with provision for exchange protection for non-resident Indians as well as overseas corporate bodies resident in the Gulf region. Deposits under the scheme are designated only in U.S. dollars. These deposits are open-ended in terms of the period and, therefore, do not have a definite term. There are no restrictions on the number of withdrawals from the account. While no interest is payable on balances under the scheme, the exemptions with regard to wealth tax and gift tax as applicable to balances under the existing FCNR Scheme would also be applicable to balances held under this scheme. There has been an inflow of about Rs. 1 crore during 1990-91 under the Scheme. The second issue of NRI Bonds was launched by the State Bank of India in November, 1990, carrying interest 1 per cent above the FCNR rate on the date of opening. The issue closed on January 31, 1991 and a sum of about $215 million has been subscribed. These bonds have a validity period of 7 years from the date of opening. The first issue of NRI bonds was launched in 1988 which netted 92 million. The RBI has now started permitting, on a case by case basis, acceptance of larger deposits under FCNRA from non-NRI sources. These deposits are accorded similar treatment as the FCNRA scheme, including tax exemption for large value deposits.

TABLE 9.10

Outstanding Balances under Non-Resident Accounts

(Rs. Crores

As at end-March	NR(E)RA*	Foreign Currency Non-Resident Account					Grand Total (2 + 7)
		US Dollar	Pound Sterling	DM	Yen	Total@ (3 to 6)	
1	2	3	4	5	6	7	8
1985	2864	618 (499)	337 (218)	—	—	955	3819
1986	3461	1759 (1419)	430 (236)	—	—	2189	5650
1987	4336	3047 (2360)	464 (224)	—	—	3511	7847
1988	5107	4406 (3410)	541 (222)	—	—	4947	10054
1989	5899	6648 (4245)	535 (203)	700 (848)	372 (31571)	8255	14154
1990	6507	9304 (5409)	337 (119)	1028 (1013)	655 (60327)	11324	17831
1991**	7137	11270 (5754)	305 (89)	1005 (874)	825 (59403)	13405	20542

*Inclusive of accrued interest.

@Exclusive of accrued interest.

**Provisional.

Note : Figures in brackets are outstandng deposits in the relevent currencies in million.

9.71 Interest rates on non-resident deposit schemes continued to be kept above the rates applicable to domestic deposits of comparable maturities during the year. Some rationalisation of interest rates on the NRER deposits were made effective April 16, 1990 in line with what was already prevalent in the case of domestic deposits. The maturity range of 15 days to 45 days was abolished and a uniform rate of 8.5 per cent was made applicable on the NRER term deposits for maturities of 46 days to less than one year as against 8 per cent for domestic deposits. In alignment with increase in the maximum interest rates on domestic deposits, effective 13 April, 1991, interest rate on NRER deposits with maturities of 3 years and above but less than 5 years and of 5 years and above have been raised by one percentage point to 13.0 per cent and 14.0 per cent respectively. The rates of interest on deposits under the FCNR accounts are continuously adjusted keeping in line with prevailing interest rates in international capital markets. The last change in interest rates on term deposits in the NRER and the FCNR accounts effected in financial year 1990-91 is given in Table 9.11.

TABLE 9.11

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

(Per cent per annum)

Maturity	Rate of Interest@				
	NRER	FCNR			
		Pound Sterling	US Dollar	DM	Yen
1	2	3	4	5	6
(a) One year and above but less than two years	10.50	13.25	8.00	10.25	8.50
(b) Two years and above but less than three years . . .	11.00	13.25	8.50	10.50	8.50
(c) Three years and above but less than five years . . .	12.00	13.25*	9.00*	10.50*	8.50*
(d) Five years only	13.00	—	—	—	—

@As on February 8, 1991.

*Three years only.

CHART 9.8

UTILISATION OF MULTILATERAL ASSISTANCE BY MAJOR SOURCES

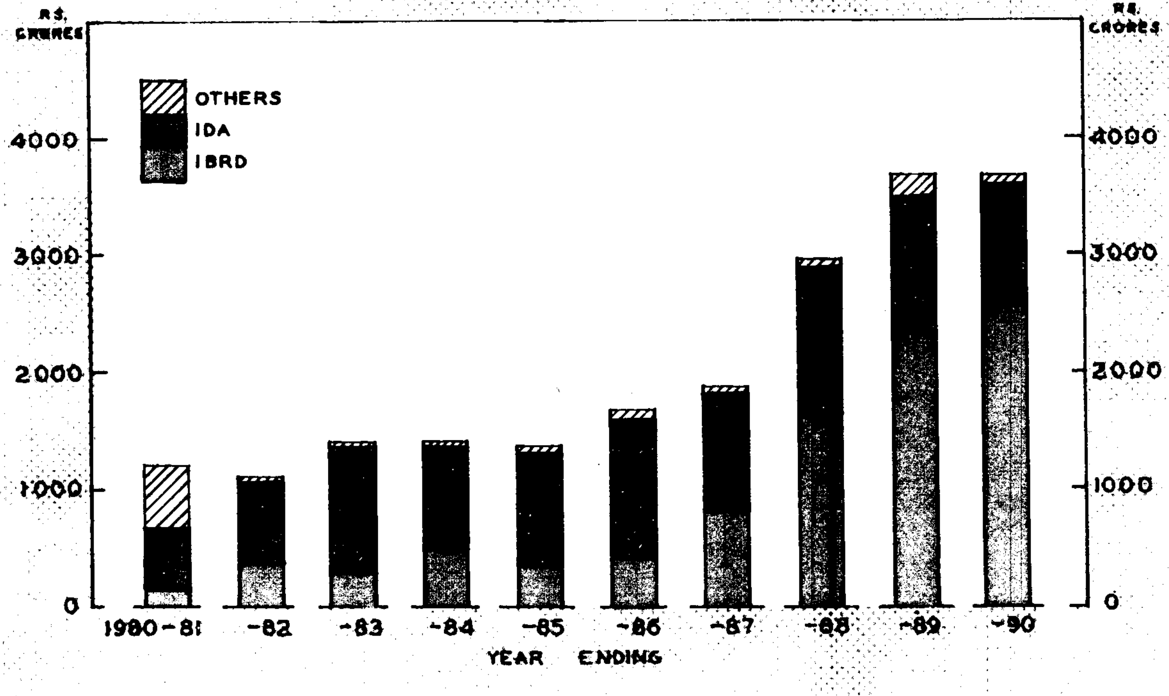


CHART 9.9

UTILISATION OF BILATERAL ASSISTANCE BY MAJOR SOURCES

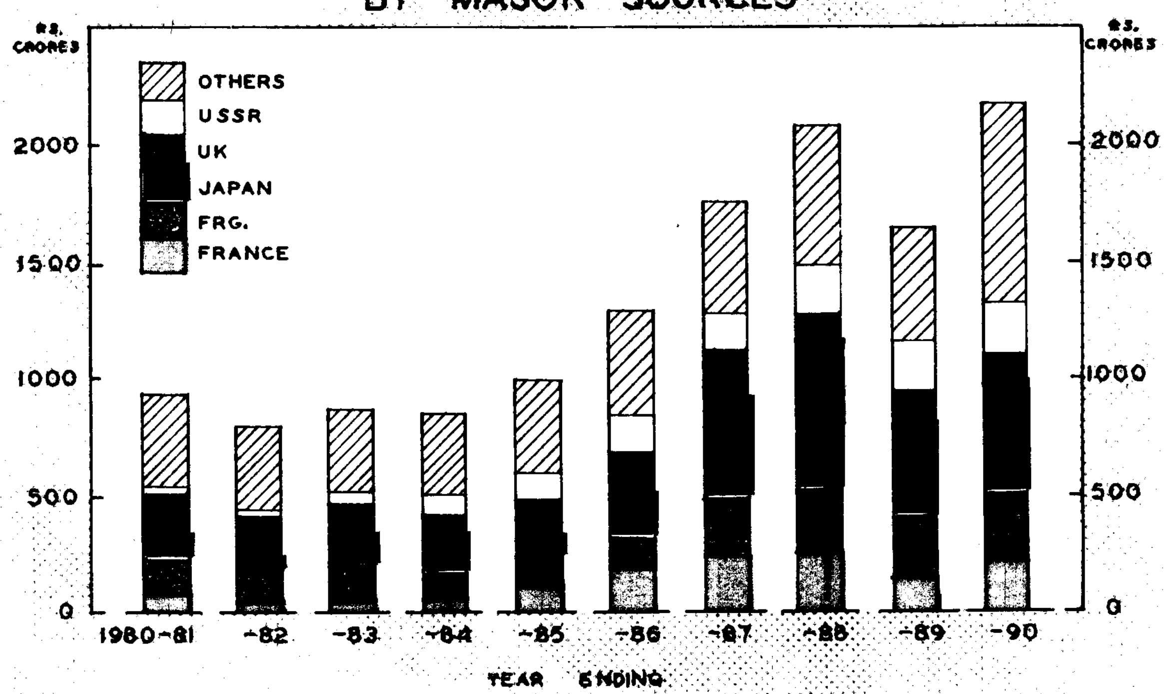


CHART 9.10

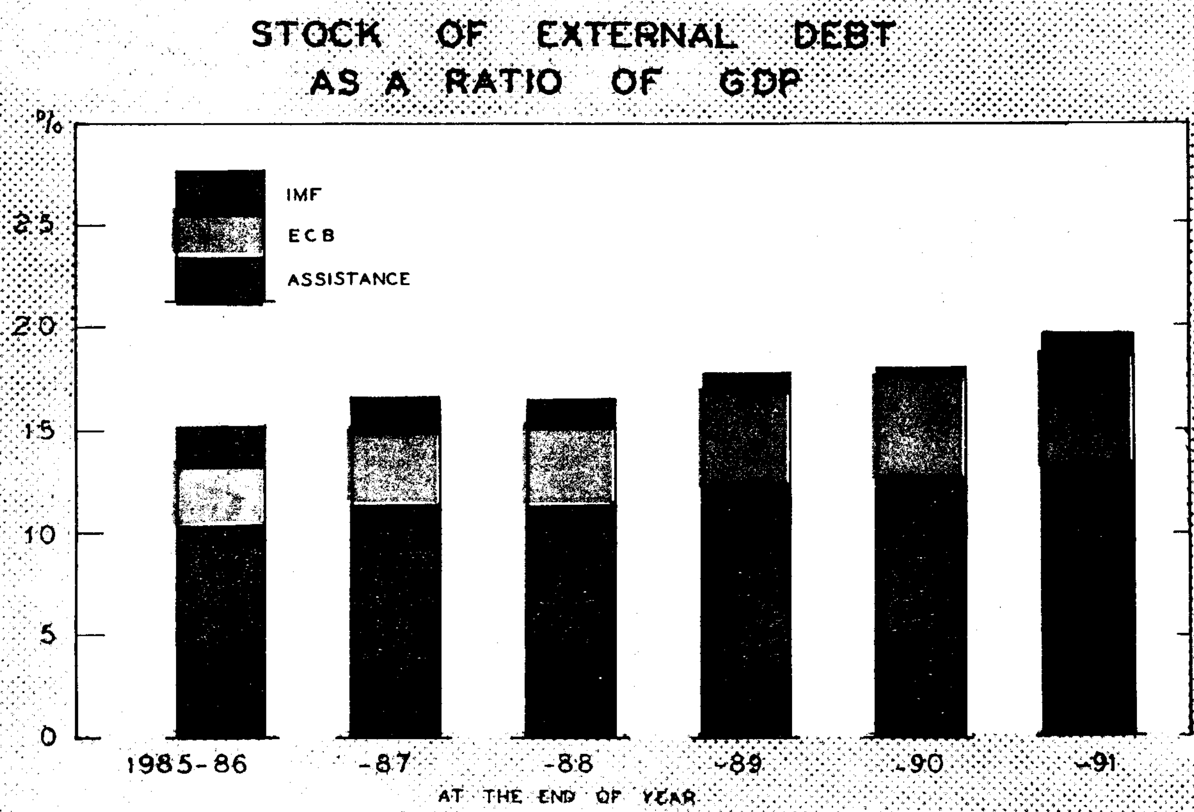
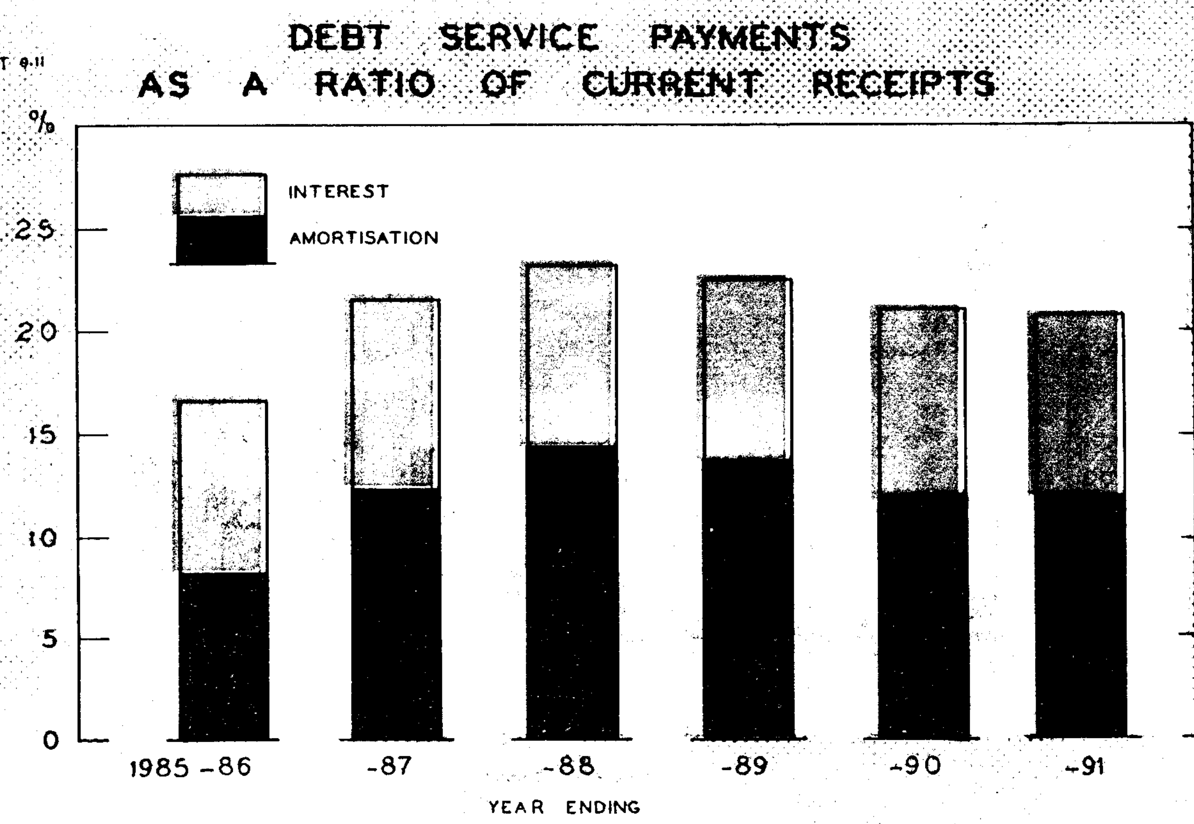


CHART 9.11



Foreign Investment

9.72 Foreign investment in India has played only a minor role as a source of external finance. The bulk of foreign capital flows to India is in the form of loans, suppliers' credits, portfolio investment in equity shares, debentures, etc. and only a very small part is in the form of direct foreign investment. As regards the policy relating to direct foreign investment, changes have been made from time to time in response to the changing economic environment. A number of procedural simplifications have been introduced in recent years. The areas of procedural liberalisation include industrial licensing, procedures for collaboration approvals, appointment of directors and technicians, visa requirements, customs procedures, repatriation of funds, etc.

9.73 In recent years, there has been a greater emphasis on encouragement of increased flow of technology from abroad and more equity participation by foreign companies. With a view to facilitating investments from some of the major investing countries, informal inter-ministerial groups have been set up. These are popularly known as "fast track" groups. Under the existing policy, foreign investments are generally welcome in areas of hi-tech, sophisticated technologies and substantial exports.

9.74 During the last six calendar years (1985 to 1990), more than 5,000 foreign collaborations were approved. Of these, 1390 collaborations (27.6 per cent of total) were financial involving foreign investment amounting to Rs. 1,025 crores. Six countries together accounted for more than 73 per cent of total foreign collaboration approvals during these six years; USA (20.4 per cent), FRG (18.5 per cent), U.K. (13.9 per cent), Japan (9.8 per cent), Italy (5.8 per cent) and France (4.9 per cent).

External Debt

9.75 India's medium and long term external debt consisting of external assistance on Government and non-Government accounts, external commercial borrowings and IMF liabilities amounted to Rs. 80,135 crores (about 18 per cent of GDP) at the end of 1989-90. Including outstanding NRI deposits, the country's aggregate debt stock stood at Rs. 97,966 crores at the end of 1989-90 amounting to over 22 per cent of GDP. Preliminary estimates suggest outstanding medium and long term debt as on 31 March, 1991 at Rs. 99,458 crores excluding NRI deposits and Rs. 1,20,000 crores including NRI deposits.

9.76 The compound growth rate of aggregate debt stock from 1980-81 to 1989-90 has been 20 per cent in rupee terms and 10 per cent in terms of US dollars. External assistance which forms a major part of the debt stock recorded a lower growth during the period amounting to 17 per cent in rupee and 7.4 per cent in dollar terms, thus implying a much faster accretion in stock of debt on account of external commercial borrowings, IMF liabilities and non-resident deposits.

9.77 There has been a notable change in the composition of debt stock as can be seen from Chart 9.10. At the beginning of the Sixth Five Year Plan, external debt stock consisted mainly of external assistance which constituted almost 90 per cent of debt stock. Since then, the share of external assistance in debt stock has declined to less than 70 per cent in 1989-90. External commercial borrowing has registered the fastest growth and accounted for 27 per cent of debt stock in 1989-90.

9.78 The declining share of external assistance in inflow of external capital, hardening of terms of such assistance and rapidly rising rates of interest in the international capital markets contributed to a 'bulge' in the debt service payments in the late 1980s. In the latter half of the decade debt stock grew at a compound rate of about 17.5 per cent whilst the growth in debt service payments amounted to about 28 per cent per annum. Also, the growth in interest payments at about 24 per cent since 1985-86 was slower than that of amortisation at about 32 per cent per annum. Chart 9.11 brings out the composition of debt service payments.

9.79 The debt service ratio, defined as the proportion of amortisation and interest payments to exports and gross invisibles, rose during the decade from about 9.4 per cent in 1980-81 to reach a peak of 23.3 per cent in 1987-88. The ratio declined thereafter and in 1989-90, it stood at about 21 per cent. Preliminary estimates for 1990-91 also indicate the debt service ratio of about the same order. The declining trend is partly on account of a substantial growth in the value of exports during recent years and partly due to progressive termination of liability towards the IMF on account of the EFF loan.

Policy Responses in the External Sector

The EXIM Policy—1990-93

9.80 The Import-Export Policy 1988-91 was terminated a year earlier than scheduled and a new Import Export Policy 1990-93 was put in place effective April 1, 1990. This policy seeks to encourage rapid and sustained export growth including export of services with special emphasis on exports which generate higher net foreign exchange, facilitate availability of necessary imported inputs for sustaining industrial growth including essential imported capital goods for modernisation and technological upgradation, simplify and streamline procedures for import licensing and export promotion, support recognised R&D institutions for building up their scientific and technological capacities for technology absorption and development and to promote efficient import substitution and self-reliance. The policy represented a substantial shift towards easing the burden of discretionary controls on actual users and exporters by allowing them to import a broad range of capital goods, instruments, raw materials and components against REP and Additional Licences which have been earned on past export basis.

9.81 One of the main features of the policy was a simplified Import Replenishment Licensing (REP) scheme endowed with greater flexibility in terms of categories of items that could be imported. Under the scheme, exporters, except those in the gems and jewellery sector, could avail of the facility of REP licences to replenish raw materials, components, consumables and packing materials used in the manufacture of products exported, so long as such inputs were in Appendices 3 (list of limited permissible items) and 5A (items of imports canalised through public sector agencies). This provision was designed to ensure greater flexibility to the exporters in the import of required inputs in line with the international marketing requirements. To encourage export of electronic products, import of restricted items was permitted on the REP licences earned against such exports made to GCA countries only.

9.82 Recognising the need for encouraging exports of higher value-added products, the replenishment rates were so modified that higher value-added products were given an advantage under the scheme. Furthermore, the number of replenishment rates were reduced to just four basic rates (i.e. 20%, 15%, 10% and 5%), excepting handicrafts and newspapers/journals/periodicals which were entitled for replenishment rate of 40% and 50% respectively. In the case of manufacturer exporters, import of second-hand capital goods (CGs), including second-hand CGs listed in the Open General Licences (OGL), were also allowed against REP licences issued to them against their own exports.

9.83 Flexibility on Additional Licences was provided so that such licences could be used for import of raw materials and components listed in Appendices 3 and 5A. The flexibility on Additional Licences was also valid for import of permissible non-OGL CGs upto Rs. 15 lakhs. The flexibility limits were also increased to 15 per cent of the value of licence in the case of Export Houses and 20 per cent in the case of Trading Houses. This enhanced scope of flexibility on Additional Licences was designed to enable the indigenous industry to import raw materials, components and capital goods through a fast track mechanism without undergoing the procedural delay in Actual Users licensing policy.

9.84 The policy continued to give special recognition to exporters exhibiting a high export performance. The concept of giving recognition to such exporters through grant of Export Trading Houses status on the basis of the net foreign exchange earnings (NFE) was continued. The threshold limit for the grant of Export House status was placed at Rs. 4 crores while that for Trading House was prescribed at Rs. 20 crores during the base period. A new scheme of Star Trading Houses for exporters exhibiting exemplary performance on export front was introduced. For being eligible for recognition as a Star Trading House, the average annual net foreign exchange earned during the base period should be not less than Rs. 75 crores.

9.85 Recognised Export/Trading Houses could avail of Additional Licences at the rate of 10 per cent of the net foreign exchange earned. Such licences were freely transferable and provided further incentives for export promotion. Recognised Star Trading Houses were eligible for Special Additional Licence for import of raw materials and components listed in Appendices 3 and 5A of the policy. Special Additional Licences were granted to Star Trading House at the rate of 15 per cent of the net foreign exchange earned and were valid for import of non-OGL capital goods upto a single item value limit of Rs. 50 lakhs.

9.86 To enable exporters to be competitive in the world market, a scheme for import of capital goods (CGs) at concessional rate of customs duty was introduced. Under this scheme, regular manufacturer-exporters are eligible to import CGs upto a value of Rs. 10 crores (cif) with an obligation to undertake additional exports of products related to the CGs imported for a value equal to three times the value of the imported CGs plus maintenance of the past average performance of exports. This scheme was further modified to include manufacturer-exporters who do not fulfil the past 3 years export performance criteria and to cover import of CGs for a value exceeding Rs. 10 crores during the licensing year, subject to specific conditions.

9.87 The Exim policy gave for the first time due recognition to the important role played by service exports in earning foreign exchange. Service exports like software exports, computer consultancy, management consultancy abroad in connection with various utility managements, were recognised for benefits under this scheme. Such exports were entitled for a REP licence at the rate of 10 per cent of the net foreign exchange earned. Furthermore, such exports are also considered, in accordance with the relevant policy, for the benefit of Export/Trading/Star Trading House status.

9.88 The Duty Exemption Scheme, introduced some 15 years ago, permits the import of raw materials, components, consumables and spares meant for export production on a duty-free basis. Over the years, this scheme has developed into an important instrument in facilitating export production. Given its importance, an attempt has been made to remove procedural irritants that have hampered the smooth operation of the scheme. To this end, the Blanket Advance Licensing Scheme in favour of established manufacturer-exporters was introduced with a greater amount of flexibility, so that such established exporters could avail of the benefit of the scheme without being subject to some of the present procedural irritants. Also, the scheme of Intermediate Advance Licensing was made operationally simpler so as to ensure that the potential industrial infrastructure of the country was fully tapped for export of higher valued-added products. With the introduction of the Blanket Advance Licensing Scheme, the Import-Export Pass Book Scheme was abolished. So as to avoid the depreciating effect of Rupee, it was decided that all licences issued under the Duty Exemption Scheme shall carry the export obligation in terms of US dollars.

Reform of Exim Policy

9.89 The new Government undertook a review of the export and import policy 1990—93 and introduced major reforms on 4th July, 1991 aimed at vigorous elimination and reduction of import licensing, export promotion and optimal import saving.

9.90 A key feature of the policy reform is the enlargement and liberalisation of the replenishment licence system (REP), which will be called the EXIM SCRIP. All exports, other than gems and jewellery, certain metal-based handicrafts, books and journals will now have a uniform REP rate of 30 per cent of the f.o.b. value of exports. This represents a substantial increase over the existing rates which range from 5 per cent to 20 per cent except for certain items which have a larger rate. Special rates for gems and jewellery, certain metal-based handicrafts, and books and journals will continue. The new scheme with a uniform 30 per cent entitlement provides maximum incentive to exports where import intensity is low. All items now listed in the Limited Permissible List (Appendix 3A and 3B), OGL items imported by units subject to the Phased Manufacturing Programme (Appendix 6) and all items listed in Appendix 4 (list of goods the manufacturers of which are eligible for special import facility) and Appendix 9 (list of machinery and equipment the manufacturers of which are eligible to import spares for after-sales service) will now be imported through the REP route. The category of Unlisted OGL has been abolished and items falling under this category may now be imported only through the REP scheme.

9.91 With this change, Supplementary Licences for raw materials/components in Appendix 3 have been abolished. However, considering the special nature of small scale industry and the producers of life-saving drugs/equipments, these sectors will continue to be eligible for Supplementary Licences for Appendix 3 items.

9.92 With the substantial liberalisation of the trade regime, and the exchange rate adjustment that occurred in early July 1991 the Cash Compensatory Support (CCS) scheme has now become redundant and was suspended with effect from 3 July, 1991. All imports actually effected until the mid-night of 2/3 July, 1991, will, however, be entitled to the benefits of CCS.

9.93 The scheme for grant of Additional Licences to Export Houses/Trading Houses/Star Trading Houses was abolished and in lieu of such additional licences, these houses will be eligible for REP licences at lower rates, 5 per cent instead of 10 per cent for Export Houses/Trading Houses and 10 per cent instead of 15 per cent for Star Trading Houses. The Advance Licensing route will remain open for exporters who wish to go through this route. The REP rate for advance licence exports is being increased from 10 per cent of NFE to 20 per cent of NFE. The policy towards canalised imports is being reviewed with a view to eliminating unnecessary canalisations.

Import Management

9.94 In spite of severe strains imposed by the Gulf crisis on the country's external payments position, recourse to discretionary and quantitative measures of import control has been avoided to the extent possible. The overall approach to import management continues to be selective and geared to curtailment of non-essential and low-priority imports, with particular emphasis to discourage inventory build-up of imported inputs through use of fiscal and monetary modes of regulation, some of them being in the nature of response to the strains imposed on the economy by the Gulf crisis.

9.95 In the realm of monetary modes of regulation, the RBI took several measures. The level of inventory holdings of imported raw materials is restricted to the levels already prescribed or upto a level of three months, whichever is less. Earlier, a maximum of six months' inventory level of imported raw materials was permissible.

9.96 In order to moderate import growth and contain outflow of foreign exchange reserves, the RBI announced some measures in March, 1991. It enhanced cash margins on imports other than capital goods effective March 19, 1991. Importers were required to deposit 133 1/3 per cent of the import value as cash margin for opening Letters of Credit (LCs) for imports under OGL, as against 50 per cent margin earlier. Margins of LCs for imports under other categories were also raised. Where the import is against a specific licence, the cash margin was specified at 110 per cent. Cash margins for imports under suppliers' credit for one year and above were maintained at 50 per cent. For imports other than capital goods, not covered by letters of credit, importers will be required to place with their banks, cash margins for a minimum period of three months at the rates prescribed for imports under letters of credit at the time of placement of orders on overseas suppliers. The new margin stipulations are applicable to all importers including public sector undertakings. Imports by Government departments, imports of petroleum oil and lubricants, fertilizers, foodgrains, edible oils, newsprint and life saving drugs, however, are exempt from the new stipulations.

9.97 Imports of all capital goods are to be allowed only under foreign currency lines of credit available with the financial institutions.

9.98 Banks were directed not to grant any additional limits to their constituents for meeting cash margin requirements. Besides, all letters of credit other than those under foreign lines of credit, for Rs. 25 lakhs and above will require approval from the Head Offices of the banks and letters of credit for Rs. 50 lakhs and above will require clearance from the Exchange Control Department of the R.B.I. Similar approval will be required for remittances in respect of imports not covered under letters of credit.

9.99 Subsequently from 22 April, 1991 the RBI raised further the cash margin requirements for imports other than capital goods under OGL and under specific licences. Thus the cash margin requirement under OGL was raised from 133.3 per cent to 200 per cent and under specific licences from 110 per cent to 150 per cent. Effective 23 April, 1991 the issue of REP licences was made conditional on realization of export proceeds and the RBI exempted the imports under such post-realization REP licences from the cash margin requirements. Further, with a view to providing incentives to exporters to repatriate export proceeds early and, at the same time, making credit costly to those who delay repatriation of export earnings, the RBI revised the interest rates on post-shipment export credit with effect from 23 April, 1991. Under the revised interest rate structure, demand bills and usuance bills upto 45 days carry an interest rate of 7 per cent only whilst usance bills beyond 45 days and upto 90 days carry an interest rate of 8.65 per cent, beyond 90 days and upto six months 18 per cent, and beyond six months 26 per cent. Again effective 9 May, 1991 the RBI imposed a 25 per cent interest rate surcharge on bank credit for imports subject to commercial rate of interest of a minimum of 17 per cent, to discourage the use of bank credit to finance imports.

9.100 Necessary relaxations regarding curbs on financing of imports by exporters have also been provided with effect from 1 April, 1991. For 100 per cent Export Oriented Units, Units located in Export Processing Zones/Free Trade Zones, 50 per cent cash margin requirement (stipulated earlier) for own consumption will not be required, where exports are made to General Currency Area (GCA) and provided that the exporter has no outstanding export bills beyond six months. If exports are being made both to GCA as well as Rupee Payment Area, then the extent to which the margin requirements will be exempt will be determined by the proportion of exports to the GCA in the total exports made during the previous year. In case of imports against advance licences, blanket advance licences, advance intermediate licences, imprest licences and special imprest licences for own-consumption, exporters will be exempt from the margin requirement of 50 per cent, provided they have no export bills outstanding beyond six months from the date of export. Cash margin requirement of 110 per cent for imports under REP licences, additional licences and special additional licences has been reduced to 50 per cent subject to the export proceeds against which the relative licences have been issued have been fully realised. These relaxations will not only soften the incidence of enhanced margin requirements on exporters but will also act as a disincentive to exporters who do not repatriate their foreign exchange earnings.

9.101 Import of components by manufacturing units which do not contribute sufficiently to the export effort is continuously reviewed. The Phased Manufacturing Programme (PMP), wherever laid down by the Ministry of Industry for any manufacturing unit, is required to be adhered to. A cut of 15 per cent in the requirement of such units for import of components as well as raw materials has been made to those in the automobiles, electronics and consumer durables sector. An additional cut of 10 per cent has been imposed in the case of passenger vehicles and consumer durables sectors. The units will have to meet this part of the requirement either from their own import entitlement or through the use of REP licences of other exporters as per the provisions of the import policy. Similarly, import-intensive and high-cost projects will be expected to meet their foreign exchange requirements through exports.

9.102 Thirty four items of capital goods and thirteen items of raw materials which were allowed under OGL have been shifted to the licensing category. The residual category of imports comprising unlisted items of raw materials, components, consumables, spares, etc. under OGL were shifted to the limited permissible list with effect from 6 November, 1990. The import of gold for use by jewellery exporters by the State Bank of India has been stopped and such gold imports are sought to be substituted by confiscated gold lying idle with the mints.

Other Macroeconomic Measures

9.103 Imbalances in the domestic fiscal situation not only affect the prospects for growth and price stability but have a vital bearing on the balance of payments situation. A strategy for ensuring a viable balance of payments requires correction of the fiscal imbalance as well. A reduction in the current account deficit amounts to a reduction in the overall savings-investment gap of the economy. With a view to ensuring a better aggregate demand management, a series of measures to contain overall government expenditure, particularly its foreign exchange content, and raise revenues were implemented during 1990-91.

9.104 The Government decided to reduce administrative expenditure by 10 per cent. Several measures to effect economy in expenditure in Central Government offices were introduced in November 1990. With a view to containing foreign exchange expenditure of Government departments, it was decided to close foreign offices of promotional agencies and India Supply Missions in Washington and London; reduce foreign travel budget of Ministries and foreign exchange expenditure of Ministry of External Affairs by 20 per cent and 10 per cent respectively. The Central Government raised auxiliary customs duty on all items, except crude oil, and basic duty on a number of items in December 1990, increased surcharge on income tax and reduced the limit of depreciation allowance which are estimated to yield additional revenue of over Rs. 1,200 crores during the current financial year.

9.105 The Gulf crisis brought about a sharp spurt in international prices of crude and petroleum products. In response to the price increases a temporary "Gulf surcharge" of 25 per cent on all petroleum products, except domestic LPG cylinders, was imposed. An additional one time surcharge of 7 per cent was levied on corporate income tax for the assessment year 1991-92. The receipts from this surcharge will go towards meeting the expenditure incurred on evacuation and the provision of other essential facilities for Indian citizens in the affected Gulf region.

9.106 With a view to containing petrol consumption, a cut of 25 per cent in petrol consumption by Central Government and public sector undertakings was imposed and several other measures to conserve the use of POL were introduced.

International Economic Developments

World Economy during 1980s

9.107 World output and trade expanded during the 1980s as a whole at a much slower pace than in the preceding decade. The IMF estimates show that during the 1980s, real output in the world economy expanded at an annual rate of 2.9 per cent against 3.9 per cent during the 1970s. For industrial countries, the growth rate was 2.7 per cent during 1980s against 3.3 per cent during 1970s and for developing countries, the respective growth rates were 3.2 per cent and 5.6 per cent. Real per capita income increased by over 2 per cent per annum in industrial countries during 1980s, but in developing countries the annual growth rate was just one per cent. During the 1970s, real per capita income in developing countries had increased by 3 per cent per annum. Disparities in the growth of real GDP and GDP per capita among various groups of developing countries widened during the decade. In fact, in a number of developing countries real per capita income declined from earlier levels.

9.108 According to the IMF Staff estimates, the growth in the volume of world trade decelerated from 6.2 per cent per annum during the 1970s to 4.1 per cent during the 1980s. For industrial countries, volume growth of exports decelerated from 6.6 per cent to 4.7 per cent and for developing countries from 4.1 per cent to 3.1 per cent per annum during the same period. Likewise, there was deceleration in the growth of import volume in both groups of countries. Dollar prices of non-oil primary commodities declined at an annual rate of 0.5 per cent during the eighties against an annual increase of over 11 per cent during the seventies. A fast growth of protectionism, with bilateral export restraints playing an increasingly important role, marked the international trading environment during the decade. According to the UNCTAD, the number of export restraints grew from about 50 in 1978 to 263 in 1989. These protective policies were introduced mainly by developed countries and applied mainly against developing countries.

9.109 A declining volume of flow of real resources to developing countries was another feature of the 1980s. In real terms, official development assistance (ODA) did not show any growth and non-concessional official finance declined substantially during the latter half of the decade. The decline in private flows, which include commercial bank loans and direct foreign investment, was particularly sharp after 1982. As a result, the net flow (gross disbursements minus amortisation) of aggregate resources to developing countries declined progressively from $ 201.9 billion in 1981 to $111.5 billion in 1989 at 1988 prices and exchange rates. Because of mounting debt service burden, there was a net transfer (gross disbursements minus debt service payments) of real long-term resources from the developing countries during the last three years of the decade.

9.110 The decade was characterised by emergence of the external debt problem of developing countries. The problem has continued to occupy the centre stage of international economic relations since 1982 and defied a satisfactory solution despite various initiatives. According to the World Bank, total stock of developing countries' debt at the end of 1989 amounted to $1,147 billion and servicing of these debts $136 billion during that year; and are projected to rise to $1,221 billion and $141 billion respectively in 1990. Major debt indicators suggest some improvement in the situation since 1986-87, yet the debt problem is likely to bedevil international economic relations during the 1990s.

Single EEC Market

9.111 The unification of the EEC into a single market by 1992 is expected to improve productivity and competitiveness and, therefore, economic growth and welfare within the Community. If integration is accompanied by strengthening of multilateralism, creation of new trade will benefit the trading partners, but if it leads to fortification of the EEC market, trade diversion is bound to harm the trading partners.

9.112 The completion of the single market will have both trade-creating and trade-reducing effects. However, the net impact, some studies suggest, on developing countries would be small. The net effects will, of course, vary widely among developing countries depending upon the product composition of their exports to the EEC market. The UNCTAD believes that the main beneficiaries of trade creation would be fuel exporters because of the high income elasticity of demand for fuel but the impact on the clothing and textiles sector will be marginal because of the advanced state of integration already achieved in this sector in the EEC countries.

9.113 It is important to note that the EEC has a complex system of trade preferences and import restrictions with developing countries. Developing countries in Asia and Latin America have a lower preferential status in the EEC market than ACP and the Mediterranean developing countries. Then, there are disparities in the application of trade barriers among EEC member countries. A unified market will naturally require fully unified import rules towards third world countries. The key issue is whether the trade policy stance of EEC will evolve in a liberal or non-liberal direction. Developing countries will gain from trade creation only if liberal tendencies dominate the trade policy of the EEC after 1992, although some redistribution of gains among developing countries may occur.

9.114 The EEC market which accounts for 37 per cent of the global trade is likely to emerge as one of the largest markets after 1992. India's share in EEC import is as small as 0 3 per cent. In order to maintain and increase our share in the EEC market in the post-1992 period, we will have to be far more competitive in price, quality, design, marketing methods, packaging, adherence to delivery schedules, etc. than now.

Economic Reforms in East Europe

9.115 In most East European countries there has, over the past one year or so, been a move towards economic reforms and a market-oriented economic system. In regard to the content, pace, sequencing and costs of economic reform measures, however, there continues to be a great deal of uncertainty among various countries in the region. These reforms are likely to have far-reaching impact on world trade and financial flows.

9.116 Economic reforms in East Europe will require new inflows of financial resources in convertible currencies on an unprecedented scale. Many OECD Governments have already formulated programmes to support economic reforms in East European countries in the form of grants, loans, debt forgiveness, technical assistance, export credits, food aid, etc. Despite reassurances from DAC Aid Ministers regarding their determination to continue to give high priority to their development co-operation with the Third World, there are apprehensions that, at least in the short run, there may be diversion of funds from development aid budgets. For the longer run, however, there is a speculation that the 'peace dividend', i.e., the reduction in arms expenditures following relaxation of East-West tensions, would ensure additionally in aid programmes.

9.117 To accommodate the need for financial resources of East European countries, multilateral institutions such as the World Bank, will need a general capital increase in the medium term so that their planned financial assistance to developing countries is maintained. Hopefully, the recently constituted European Bank for Reconstruction and Development (EBRD) will meet a large part of the expanded financial requirement of the East European economies. The extent to which economic reforms in East European countries will affect flows to developing countries of official/officially guaranteed export credits, finances from commercial banks in industrial countries and direct foreign investments is by no means easy to assess at this stage.

9.118 Developing countries may get new opportunities for trade in countries of Eastern Europe where reforms are taking place. But they may, at the same time, have to compete with these countries for their exports to the OECD markets, particularly in the EEC. Export prospects of developing countries may be affected in the medium term when structural changes are possible. The prospects will, to a great extent, depend on economic policies pursued by the OECD and the East European countries with respect to each other and towards the developing countries. The emerging trade and investment relations between Western European countries and the reforming countries of East Europe will, in particular, affect export prospects of developing countries in Western European markets.

9.119 India has had special economic and trade relations with the socialist countries of East Europe. At the beginning of the 1990-91 financial year, India had bilateral clearing arrangements providing for trade on the basis of payments in non-convertible Indian rupee and on a balanced basis with five out of eight countries in the region, namely, the USSR, Romania, Poland, Czechoslovakia and the GDR. The rupee payment arrangement with the GDR ended in December, 1990 with the unification of the Germanys. Trade with Poland also is in convertible currencies since January 1, 1991. However, to liquidiate the rupee balances remaining in favour of Poland and GDR as on 31 December, 1990 export from India of certain mutually agreed goods and commodities upto specified limits would be against payment in Indian rupees. Trade with the remaining countries, namely, Yugoslavia, Hungary and Bulgaria is being conducted on the basis of payments in any freely convertible currency. The bilateral rupee trading arrangement has avoided the balance of payments implications and provided benefits to both the partner countries. The arrangement has provided for stability, growth and diversification of the country's structure of trade. The country has been able to import critical inputs like POL, petrochemicals, fertilizers, non-ferrous metals, steel and steel products, sulphur, capital goods and newsprint from the rupee payment area.

9.120 The wave of economic reforms in Eastern Europe will have an impact on the rupee trade. Both the Governments of India and the USSR have decided to continue with the rupee trade arrangement for another five years beyond January 1, 1991. Agreement has been reached with Czechoslovakia to extend the rupee trade arrangement for a further period of two years beyond January 1, 1991 further extendable by another three years by mutual consent. An agreement of similar extension has also been finalised in the case of Romania. These bilateral trading arrangements may face considerable strain on account of internal economic changes taking place in these countries. Notwithstanding these developments, the process of change in East Europe also promises further enhancemnt of trade and economic cooperation for India in the medium and long term. These countries could open a major market for our exports of textiles, electronics, light engineering goods, consumer durables and consumer goods, provided we are able to maintain the requirements of good quality, timely delivery and competitive prices.

World Economic Situation and Prospects

9.121 According to the latest IMF staff estimates, global economic growth is expected to decline from 2.1 percent in 1990 to 1.2 percent in 1991 before picking up by about 3 per cent in 1992. For industrial countries, output growth is estimated to have slowed down to 2.6 per cent in 1990 and is projected to slide further to 1.3 per cent in 1991 and then accelerate to 2.8 per cent in 1992. In developing countries, output growth in 1990 is now estimated at 0.6 per cent. This is expected to marginally improve to 0.8 per cent in 1991 before rising by 3.4 per cent in 1992. As regards Eastern Europe and the USSR, the IMF staff estimates indicate a decline in output by 3.8 per cent in 1990 with a further fall of 4.1 per cent in 1991 and 2.2 per cent in 1992. These developments in global activity are reflected in the growth of world trade as well. The volume of world trade is estimated to have fallen from 7.1 per cent in 1989 to 3.9 per cent in 1990 and is projected to decline further to 2.4 per cent in 1991, the slowest rate of expansion since 1985, before rising to 5.5 per cent in 1992.

9.122 The slowdown in growth in the industrial countries has contributed to the recent declines in nominal and real non-fuel commodity prices. As per the IMF staff forecasts, in 1991 and 1992, prices for metals and minerals are projected to decline further in real terms, while the real prices of food, beverages, and agricultural raw materials are expected to remain broadly stable. The terms of trade for the non-fuel exporting developing countries, which declined by about 3 per cent in 1990, are not expected to turn significantly positive during 1991-92.

9.123 The economic impact of the sharp rise in oil prices arising out of the Gulf crisis has been significant for both industrial and the developing countries in the assessment of the IMF staff. Since most of the industrial countries are net importers of oil, the rise in the price of oil has led to the deterioration in the terms of trade and a decline in real disposable income which, together with the rise in interest rates, have lowered private consumption and investment. As a result, the level of real GNP in the industrial countries is estimated to have been reduced by one fourth of one per cent in 1990, and a further reduction is foreseen in 1991. Developments in the Gulf region are estimated to have reduced real GNP in the net debtor developing countries taken as a group by one fourth of one per cent in 1990 and a further reduction in output is expected in 1991. The impact on real GNP in the indebted, fuel-exporting countries other than Iraq is estimated to have been an increase of 3 per cent in 1990. In contrast, the real GNP in 1990 in the net debtor, oil-importing developing countries is estimated to have been lowered by 1/2 of one per cent in 1990, and would be lowered by 3/4 of one per cent in 1991. This reduction reflects a deterioration in the terms of trade, the deterimental effect on exports of the reduced demand for imports in the industrial countries, and the rise in debt service obligations resulting from higher world interest rates.

9.124 The IMF staff estimates of the losses in workers' remittances and exports of goods and services suffered by some developing countries as a result of the Gulf crisis are placed at around $3 billion in 1990 and $9 billion in 1991 for the group of most severely affected countries, with particularly large losses for some individual countries. Notwithstanding the sharply higher prices for imported oil in 1990, the simulated effects on the current account position of oil-importing developing countries are relatively small. This result of the IMF simulation exercise reflects the assumption that most developing countries have limited access to external finance, and therefore, an incipient deterioration in the current account would be largely offset by cutting back imports. In recognition of the difficulties some countries might face in making this adjustment, the Fund made some amendments in the CCFF (Compensatory and Contingency Financing Facility) designed to provide additional financing to member countries seriously affected by the Gulf crisis.

9.125 Simulation exercises undertaken by the IMF staff suggest that, in general, higher oil prices will raise industrial countries' producer and consumer prices and lower their domestic demand and output. For net debtor developing countries as a group, higher oil prices would have a small, net positive impact because a number of such countries are net exporters of oil. For majority of net debtor countries that import oil, however, the terms of trade deterioration would lower income, their export growth will be lower and debt servicing obligations will rise. Oil price increase will improve the terms of trade and income of net creditor developing countries which consist mainly of oil exporting countries. As a net importer of oil, a rise in oil prices have serious implications for India.

The Gulf Crisis—Multilateral Response

9.126 In response to the above developments, the Executive Board of the IMF decided to introduce an oil import element into its already existing Compensatory and Contingency Financing Facility (CCFF) for a temporary period upto the end of 1991. Access to purchases under this oil import facility is provided within the present total access limit of 122 per cent of quota for CCFF. This includes access equivalent to 40 per cent of quota under the contingency element and the remaining 82 per cent of quota under compensatory element which could be used for oil. The Fund also decided to expand the coverage of the CCFF. Whereas previously only workers' remittances and travel receipts could be included in the calculation of export shortfalls under compensatory financing, under the new policy losses resulting from shortfalls in other services such as receipts from pipelines, canals, shipping, transportation, construction and insurance could also be included. As mentioned earlier, India has been provided access to Fund resources under the amended CCFF amounting to SDR 716.9 million in January 1991.

9.127 The above measures are expected to have only a marginal impact on those developing countries which have been performing well in the export sector. This is so because the access on oil imports is netted against any export excess. Furthermore, the cost of the compensatory element for the developing countries is very high as the funds made available under this facility are on non-concessional terms. It had therefore been suggested that an interest subsidy scheme should be made an indispensable component of modified CCFF but the proposal did not receive the majority support in the IMF Executive Board.

Ninth General Review of IMF Quotas

9.128 Members of the IMF are assigned quotas which determine their subscriptions to the IMF, their relative voting power, their maximum access to Fund resources and also their shares in SDR allocations. In June 1990, the Board of Governors adopted a resolution proposing a 50 per cent increase in total quotas for the Ninth Review from SDR 90.1 billion to SDR 135.2 billion.

9.129 Under the Ninth Review, 60 per cent of the overall increase in quotas will be distributed to all members in proportion to their existing individual quotas and the remaining 40 per cent are distributed selectively on the basis of each member's share in the total of "calculated" quotas. The "calculated" quotas, in turn, are derived from a set of formulas considered to broadly reflect members' relative positions in the world economy based on variables such as GDP at current prices, annual average current receipts, annual average current payments, variability of current receipts and official reserves. The Review which has yet to be operational would lead to a decline in the share of developing countries in the IMF quotas from 36.89 per cent to 36.43 per cent, and that of India from 2.45 per cent to 2.26 per cent. As a result, India's position in the IMF quota would come down from 11th to 12th. In absolute terms, India's quota would increase from SDR 2207.7 million at present to SDR 3055.5 million.

The Uruguay Round

9.130 The Uruguay Round of Multilateral Trade Negotiations launched in September, 1986 to bring about further liberalisation and expansion of world trade cover a wide range of issues which were not part of earlier Rounds held under the auspices of the General Agreement on Tariffs and Trade (GATT). They include trade in agricultural products, and textiles and clothing, which have remained largely outside the mainstream of liberalisation in the past. The negotiations have further undertaken a thorough going review of the existing rules relating to commercial policy instruments as well as systemic issues pertaining to the functioning of the GATT system. They encompass certain new areas, *viz.*, trade-related investment measures (TRIMs), trade-related aspects of intellectual property rights (TRIPs) as well as trade in services.

9.131 In market access areas, the participating countries have proposed further reduction of tariffs which will result in global expansion of trade. On its part, India has made an initial offer envisaging 30 per cent reduction of the basic customs duty on capital goods, raw materials and intermediates covering approximately half of its annual imports. Maintenance of the offer is subject to a satisfactory overall package of results of the Uruguay Round. India has placed particular emphasis on the proposal for dismantling the discriminatory and restrictive regime of the Multifibre Arrangement (MFA) which governs world trade in textiles and clothing. There is consensus among the importing and exporting countries for the phase out of MFA and negotiations are continuing on the modalities and the time span of the phase out. With regard to agricultural trade most developing countries including India support proposals for liberalisation by the industrialised countries in which subsidy and protection of agriculture have reached phenomenal levels. India has proposed deferment of the obligation of enhanced disciplines in respect of the developing countries, until they have reached threshold levels with respect to certain criteria, *viz.*, the share of agriculture in GDP, employment and the percentage share of average household budget accounted for by the foodstuffs.

9.132 In the rule making areas, an important proposal made by the developing countries including India is to strengthen multilateralism by reaffirming the most favoured nation principle for taking emergency safeguard action and outlawing grey area measures. Developing countries have also sought to improve the rules so as to lessen the opportunity of anti-dumping and countervailing duty procedures being used as tools of protectionism. On their part the industrialised countries have made proposals to curtail the use by the developing countries of quantitative restrictions for balance of payments purposes and of subsidies for promotion of exports. In these areas India and other developing countries have proposed that the existing flexibilities in GATT rules should be continued.

9.133 New areas have received disproportionate attention in the Uruguay Round from the developed countries. On TRIMs, the industrialised countries have proposed prohibition of certain measures such as local manufacturing requirements and export obligation which are used by developing countries to promote industrialisation and technological upgradation and to help alleviate the balance of payments problem. On TRIPs, the developed countries have advocated adoption of a high level of standards for protection of intellectual property rights uniformly by all countries irrespective of their levels of development. India has taken the general position that the standards for intellectual property rights have to respond to the levels of economic and technological development of individual countries and cannot be set at a uniformly high level for all of them. In trade in services, a major problem is that while the industrialised countries have proposed to enlarge market access opportunities in sectors in which they have overwhelming superiority (e.g. banking, insurance, telecommunications and informatics) they are averse to liberalisation of labour and labour-related services where developing countries possess comparative advantage. India, like many other developing countries, also has a major difficulty with the proposal made by some developed countries for creating a unified dispute settlement machinery covering GATT and the new areas, whereby it would be permissible for them to use the leverage of access to markets in goods for obtaining changes in the domestic policies of developing countries on investment, intellectual property rights and services.

9.134 Although the Uruguay Round was scheduled to conclude in December 1990, the Ministerial meeting held at Brussels ended in a stalemate because of widely divergent positions of the United States and the EEC on the issue of domestic support to agriculture. The United States has obtained renewal of its Fast Track Authority for negotiations from the US Congress. Only technical work had been continuing at Geneva till January, 1991. Negotiations are expected to resume shortly.

Outlook

9.135 The balance of payments position continued to remain difficult throughout the Seventh Plan period. In fact, the situation turned out to be much more difficult with current account deficit averaging over 2 per cent of GDP for the Plan period as a whole against the expectations of 1.6 per cent at the time of preparing the Plan. The Gulf crisis has strained the external payments position further in the first year of the Eighth Plan. The outlook of the external sector in the short term is quite grim.

9.136 The prospect for the external sector of the economy in the short and long run will, to a great extent, depend on the outlook of the global economy in the years ahead. The growth rate of real GDP of the global economy is projected to drop further in 1991. Volume growth of world trade, and that of developing country exports, is also projected to fall further in 1991. Dollar prices of manufactures and oil rose sharply and those of non-fuel primary commodities declined in 1990; the outlook for 1991 is by no means encouraging. The terms of trade are expected to move against developing countries in 1991. A reversal in the declining trend in real financial flows to developing countries seems unlikely. Overall, the external environment is likely to be far from supportive in the short-term for the Indian economy.

9.137 It is difficult to arrest the declining role of invisibles earnings in financing trade deficit in the face of a rising burden of external debt service payments and stagnation in private remittances. It will be unrealistic to expect any substantial increase in external assistance. It will also not be by any means easy to mobilise NRI investments and external commercial borrowings on a substantial scale.

9.138 In the event, the present momentum in export growth will have to be not only sustained but further strengthened to manage the balance of payments. A close scrutiny of imports will also be necessary to contain their growth without adversely affecting export performance. Much will depend on the course oil prices take in the short term since our balance of payments is highly sensitive to oil price changes. Redoubled efforts will have to be made to utilise the committed but undisbursed external assistance in the pipeline. Greater fiscal restraint will have to be exercised. The balance of payments situation will continue to remain critical and demand careful management in the short term.