VI—THE BALANCE OF PAYMENTS AND FOREIGN AID

80. India's balance of payments, which came under severe strain in 1966-67, remained weak during the major part of 1967-68. In the last four months of 1967-68, there was, however, some addition to reserves as the trade deficit narrowed with a pick up in exports. The improvement has continued through the current year, there being a considerable narrowing of the trade deficit due to a substantial increase in exports and some fall in imports. However, with the rising debt service charges and the repayments to IMF, this improvement will not be reflected in any significant variation in reserves.

81. India's foreign exchange reserves showed a nominal increase of $ 12 million in 1966-67. But there was a net drawing of $ 130 million from the IMF to replenish the country's rapidly declining liquidity and if adjustments are made for this the reserves show a net fall of $ 118 million in 1966-67. In contrast, in 1967-68 reserves showed a net increase of $ 48 million, the increase in reserves being $ 80 million and net assistance from IMF being $ 32 million.

82. The increase in reserves in 1967-68 occurred in the last four months of the year. In the previous eight months there was, on the other hand, a fall in reserves of $61 million, from $638 million at the end of March 1967 to $577 million at the end of November 1967. India, therefore, secured from the IMF in December, 1967 an assistance of $ 90 million under its compensatory financing facility. The object of this scheme is to extend help to members who are encountering payments difficulties as a result of a temporary export shortfall. The drawing under the compensatory financing facility has to be repaid as soon as possible; after the end of each of the four years following the drawing, repurchases should be made of an amount approximately equal to one half of the increase in the export proceeds over the medium term trend of exports. Accordingly, on the basis of the increase in exports during the twelve month period ended 31st August, 1968 India repurchased $ 30·5 million in January, 1969.

83. Reserves continued to increase over the first seven months of 1968-69. At the end of October, 1968, they were $ 776 million as compared to $ 718 million at the end of March, 1968. In recent months, there has been a fall in reserves due to a repayment of $ 70·5 million against the compensatory financing facility*. At the end of January, 1969 India's foreign exchange reserves were estimated at $ 678 million as compared to $ 701 million a year ago.

84. The improvement in the balance of payments in 1967-68 was on account of a substantial decline in imports, a modest increase in

*A repurchase of $7·5 million against drawings from IMF will be made in March, 1969.

exports and an improvement in aid utilisation. Imports declined by $139 million (Rs. 104·1 crores) or 5 per cent from the level of $2771 million (Rs. 2078·3 crores) in 1966-67. Exports rose modestly by $ 56 million (Rs. 42·2 crores) or 3·7 per cent from the level of $ 1542 million (Rs. 1156·5 crores). As a result the adverse trade balance was reduced from $1229 million (Rs. 921·8 crores) in 1966-67 to $1034 million (Rs. 775·5 crores) in 1967-68. This improvement on the trade account was, however, partly offset by higher debt servicing charges. Aid utilisation was, higher during 1967-68 as compared to 1966-67. Aid, other than PL 480 and other food aid, amounted to $ 1111 million (Rs. 833·0 crores) in 1967-68 as compared to $934 million (Rs. 700·5 crores) in 1966-67. PL 480 and other food assistance, however, declined from $573 million (Rs. 429·8 crores) in 1966-67 to $475 million (Rs. 356·3 crores) in 1967-68. There was a drawing of $90 million (Rs. 67·5 crores) from the IMF under its compensatory financing facility in 1967-68 but a repurchase of $58 million (Rs. 43·5 crores) against normal drawings earlier reduced net assistance from the IMF to $32 million (Rs. 24·0 crores). The consequence of all these operations was a net increase of $48 million (Rs. 36 crores) in foreign exchange reserves.

85. The continued improvement in 1968-69 is due primarily to a striking growth in exports. Export earnings in the first half of the current fiscal year amounted to $896 million (Rs. 672·0 crores) or $133 million (Rs. 99·8 crores) more than in the corresponding period of the previous year. Imports also are running lower; at $1278 million (Rs. 958·5 crores) during April-September, 1968 they show a fall of $ 79 million (Rs. 59·3 crores) compared to April-September, 1967. Interest and amortisation payments also are higher during the half year and the volume of aid utilisation is running at a lower level. Foreign exchange reserves rose by $ 36 million (Rs. 27·0 crores) between April and September, 1968.

86. Certain important changes have taken place in the past 18 months in the direction of India's imports and exports. In 1966-67 about 11 per cent of India's imports came from East European rupee payment countries. While the overall imports declined by 5 per cent between 1966-67 and 1967-68, the imports from East European rupee payment countries declined by 12 per cent. The decline from all other countries excluding Eastern Europe was only 4 per cent. On the other hand in the first six months of the current fiscal year while imports from all other areas declined by 10 per cent imports from East European rupee payment countries actually rose by over a third of the level during April-September, 1967. India's exports to East European rupee payment countries were slightly under 20 per cent of her total exports in 1966-67. They remained more or less at the same absolute level in 1967-68 while exports to all other countries increased by 4·5 per cent. In the first half of the current fiscal year exports to Eastern Europe increased by 10 per cent, but exports to all other countries increased by 19·5 per cent.

Imports

87. The principal reason for the decline in imports in 1967-68 was the reduction in food imports to $ 691 million as compared to $ 868

million in 1966-67. In 1966-67 food imports had been abnormally high in view of low domestic output; the improvement in agricultural production in 1967-68 facilitated the reduction in imports.

TABLE 11

Imports: Broad Commodity Groups

(In $ million)

Commodity	1965-66	1966-67	1967-68	1967-68		1968-69
				April-Sept.	Oct.-March	April-Sept.
Food	676	868	691	364	327	267
Cotton	97	75	111	79	32	87
Jute	12	28	2	2	..	Neg.
Animal and vegetable oils	32	20	45	30	15	10
Fertilizers and fertilizer materials	108	166	273	110	163	151
Petroleum products	143	84	100	43	57	66
Machinery and transport equipment	1033	768	662	326	336	360
Others	857	762	748	402	346	337
TOTAL	2958	2771	2632	1356	1276	1278

Source: D.G.C.I. & S.

88. Imports other than foodgrains were slightly higher in 1967-68 than in 1966-67. This was due to a steep increase in the imports of fertilizers and fertilizer materials in pursuance of the new agricultural strategy. Imports of fertilizers and fertilizer materials increased by $ 107 million or 64 per cent.

89. The imports of petroleum and petroleum products rose by $ 16 million between 1966-67 and 1967-68. The composition of petroleum products imported into the country has been undergoing a rapid change due to the increasing refining capacity that is being set up in the country. The imports of crude oil increased between the two years in order to match the increasing output of the refineries in the country. Similarly the import of lubricants also went up sizably. On the other hand, because of the increase in manufacturing capacity in the country a number of products, formerly imported, like aviation fuel, kerosene, high speed diesel oil, furnace oil, etc., were either not imported or imported in substantially reduced quantities. Part

of the increase in the value of imports of petroleum products was also due to an increase in freight rates, consequent upon the closure of the Suez Canal.

90. Imports of several agricultural raw materials rose because of two successive poor crops. Raw cotton imports increased by $36 million or nearly 50 per cent. Imports of animal and vegetable oils were higher at $ 45 million, and, therefore, slightly more than double, in order to meet the requirements of the vanaspati and soap manufacturers. On the other hand, the very good jute crop in 1967-68 resulted in a virtual elimination of raw jute imports, which had amounted to as much as $ 28 million in 1966-67.

91. Imports of capital goods, metals, components and spare parts were subdued, reflecting slack industrial output, the progress of import substitution and possibly some reduction in inventories. Imports of complete non-electrical plant and equipment declined by 23 per cent from $ 282 million to $ 217 million. The imports of components and spares of non-electrical equipment fell by $ 32 million or 12 per cent. The imports of both complete electrical equipment and component and spares thereof fell by 20 per cent to $ 112 million. However, imports of complete equipment and components of transport equipment, which had declined by about 44 per cent between 1965-66 and 1966-67 rose in 1967-68 by about 25 per cent to $ 102 million. The import of steel which had fallen by a little less than 40 per cent between 1965-66 and 1966-67 rose by about 10 per cent to $ 142 million.

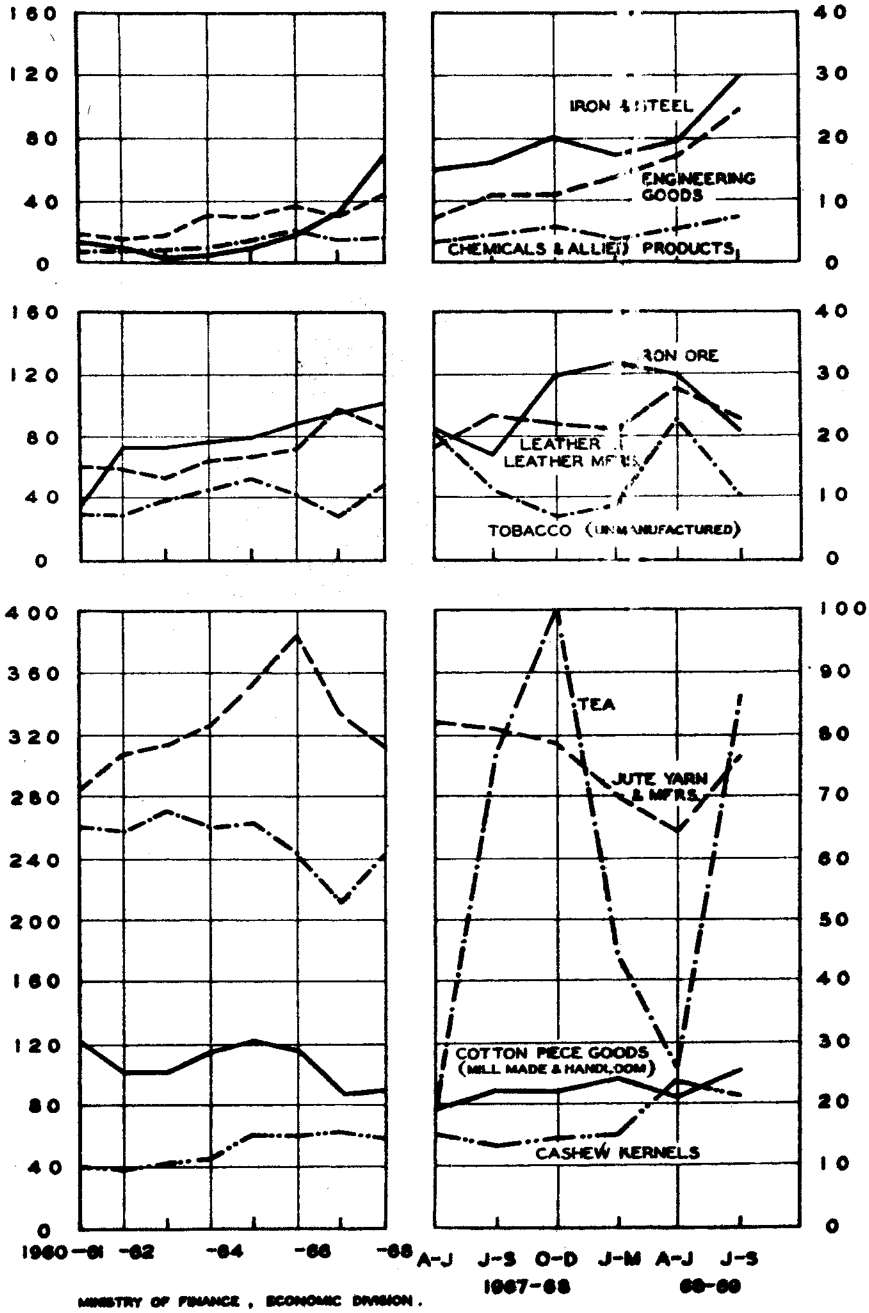
92. During the current year so far the demand for imports has continued to be weaker than during the same period last year. During April-September, 1968 the value of imports was about 6 per cent lower than during the first half of 1967-68. The decline in food imports was further accentuated, the relative fall in the value of food imports being nearly 26 per cent. Imports of machinery and transport equipment, however, rose by about 11 per cent. A notable feature of the rise in demand for imported equipment is the sudden pick up in requirements of components, spare parts and accessories; imports of complete equipment declined somewhat. Imports of raw cotton and jute taken together rose by about 7 per cent owing to an increase in raw cotton imports; imports of raw jute were negligible. Imports of all other commodities were about 16 per cent lower than in the first half of 1967-68. On the face of it, this is somewhat paradoxical; for, with rising industrial production, a rise in the demand for imported materials and other current inputs might have been expected. However, the decline in imports of commodities other than food, fertilizers, equipment, cotton and jute resulted largely from better availability of agricultural products like vegetable oils and a significant decline in imports of iron and steel and non-ferrous metals; imports of most other materials rose.

Exports

93. Exports showed a modest increase in 1967-68 but they have increased sharply in the first six months of this year. During April-September, 1968 they amounted to $ 896 million as compared to $ 763

EXPORTS OF MAJOR COMMODITIES

(MILLION DOLLARS)



MINISTRY OF FINANCE, ECONOMIC DIVISION.

million during the comparable period last year. Usually the second half of the year is seasonally slightly better for exports than the first half because of the arrival of commercial crops like jute, tea, etc. in the market. On this basis for the whole of 1968-69 exports may well be 8 to 9 per cent higher than the level in the previous year.

94. While there has been a striking improvement in the export picture, exports in 1968-69 will be only somewhat higher than the levels in the years 1964-65 and 1965-66. Therefore, what is happening now is in part, as in the case of agriculture, a resumption of the upward trend which was interrupted by the drop in exports in 1966-67. The export picture is encouraging, however, for another reason. While in the years mentioned above, the exports reached a high total because of large exports of jute, cotton textiles and tea, in 1967-68 and this year it is items like engineering goods and iron and steel that are largely responsible for this very good performance. The exports of iron and steel at $ 69 million in 1967-68 were slightly more than double of those in 1966-67, and in the first six months of 1968-69 they were 59 per cent higher than the figure for the same period last year. A figure of $ 100 million is not beyond achievement during the whole year. Similarly, the performance of engineering goods has also shown remarkable growth. Between 1966-67 and 1967-68 their exports rose by about 42 per cent to $ 44 million, but in the first six months of this year, they were 126 per cent higher than the exports during the same period last year and slightly less than the annual exports of 1967-68. At this rate they could also reach the level of about $ 90 million by the end of the year.

95. Most of the steel items which India exports are bars, rounds, stucturals, rails and billets which can be used by re-rollers. Hindustan Steel Ltd. has played a prominent part in this field. It is possible to export these items because of a slack domestic demand due to the slowing down of activity in the economy. The markets for these products are to be found in West Asia, East Africa and South East Asia mainly. India has been able to secure a foothold in some of these markets partly because of the closure of the Suez Canal. The increased freight from European suppliers reduces the amount of competition which India has to face in these markets.

96. Although under the heading "engineering goods" scores of items are exported, the main items which go out in sizable quantities are mild steel pipes, tubes and fittings, automobiles and automobile parts, railway wagons, coaches, bicycles and parts, hand tools and small tools, electric wires and cables, office equipment, transmission line towers and poles, dry and storage batteries and diesel engines and parts. Here again the markets are countries in and around the Indian Ocean, though items like tubes, castings, small tools and hand tools are exported to destinations like the United States. To a certain extent these exports also result from a slack in domestic demand but the vigorous promotion policy pursued should also be given a share of the credit. Another notable feature about the exports of engineering goods is the fact that in several cases contracts to supply these goods were obtained in open competition. Thus orders have been secured for supply of steel

structurals, cranes and power station structures worth Rs. 10 crores from USA, Sudan, Iran, Kuwait and Philippines. Iran, Thailand, Philippines and Kuwait have together placed orders for electric cables and conductors valued at Rs. 15 crores. Railway track accessories, wagons and coaches amounting to nearly Rs. 6 crores have been ordered by Iran, Burma, Hungary and the East African countries. Sugar and textile machinery worth Rs. 5 crores is to be supplied to the UAR.

97. While in 1967-68 only a few items like tea, iron and steel, engineering goods and tobacco were responsible for the increase in export value over 1966-67, in the current year every item (with the notable exception of jute) shows considerable improvement over the previous year. Tea exports this half year are about 16 per cent higher than the level in the corresponding period last year.

98. The performance of cotton fabrics was marginally better in 1967-68 and the improvement continues to be maintained in the first six months of this year. But the level of exports is substantially below the high performances in 1964-65 and 1965-66. This was partly due to shortages of cotton. The better crop last year should improve export capability. On the other hand, the introduction of the import deposit scheme in the U.K. and the currency crises in some countries in Western Europe may affect cotton textile exports.

99. Exports of iron ore have also done well this year, being about 40 per cent higher than in the corresponding period last year. There should be a considerable expansion of exports in the second half of the current year, as a result of the recent opening up of the Bailadila mine. Cashew kernels are another item of exports which has fluctuated around $ 57 million over the past three years. But in the first six months this year, they are about 55 per cent higher than exports in the first half of last year.

100. The export picture has certain disturbing features as well. The most important is the fact that jute exports have been declining. They fell from $ 333 million in 1966-67 to $ 312 million in 1967-68. In the first six months of this year they amounted to $ 141 million or $ 22 million less than in the same period last year. In part, jute exports have been affected by the short jute crop this year which has led to a sharp increase in raw jute prices. Arrangements have been made for substantial imports of raw jute in order to alleviate the situation. There are, however, certain long term factors which cause concern. Over the years exports of sacking have declined because of intense competition from Pakistan. Last year, exports of sacking were about a half of what they were two years ago. Exports of hessian, other than carpet backing, have also suffered. There has been marked increase in exports of carpet backing cloth used in the manufacture of tufted carpets in the United States, though competition from Pakistan has increased in this field also. Good progress has been made in exports of specialities of various kinds.

101. The jute industry faces competition not only from the jute industry in Pakistan but also from synthetics. The maintenance of export of jute goods calls for stabilisation of prices of products, which in turn depends on availability of adequate supplies of raw jute at stable prices. There is need to ensure that, when possible, an adequate buffer stock of raw jute is built up, so that prices can be stabilised at levels remunerative to the farmers and reasonable from the view point of the industry. Efforts by the industry to assist in the improvement of jute output have been facilitated by the tax concessions announced in the budget for 1968-69 regarding expenditures incurred to promote output of agricultural raw materials. It may also be noted that the modernisation of the jute industry is assisted by a loan scheme on concessional terms.

102. Exports of sugar declined substantially due to a poor sugarcane crop in 1966-67. Exports are not likely to amount to more than one lakh tonnes as compared to the normal three lakh tonnes.

103. Another item whose exports have declined over the year and a half is hides and skins. Earnings from this commodity had tended to fluctuate around \$ 20 million. In 1967-68, exports declined to \$ 10 million and, in the first half of 1968-69, exports were only \$2·9 million as compared to \$ 7·2 million in the first half of 1967-68. In part, a decline in exports of hides and skins may have been due to processing of larger quantities of the available supplies for export in the form of leather and leather manufactures. Exports of leather and its manufactures amounted to \$ 71 million in 1967-68 and \$ 47 million in the first half of 1968-69 or 28 per cent more than in the corresponding period of 1967-68.

104. Export earnings in 1967-68 were adversely affected by lower international prices of most of the major export commodities. Unit realisations from export sales declined in the case of jute manufactures, cashew kernels, pepper, coffee, manganese ore, mica, leather and vegetable oils. There was, on the other hand, some rise in prices of iron ore, tea, tobacco, sugar and fish; but, by and large, international price movements exercised a depressing influence over export earnings. During the first half of the current fiscal year, unit realisations from jute manufactures, sugar, pepper, manganese ore and vegetable oils fell further. Prices of tea, tobacco, sugar and fish which had risen somewhat in 1967-68, began to decline, as also export prices of oil cakes, which had remained more or less steady during 1967-68. International prices of cashew kernels, mica and coffee, however, recovered. Nevertheless, for exports as a whole, prices were quite unfavourable and the rise in export earnings despite an adverse turn in export prices reflects a much larger rise in the volume of exports.

Import and Export Policy

105. Import policy has been applied to ensure that while on the one hand the requirements of imports for priority purposes are fully met, the new opportunities for import substitution are fully exploited on the other. The import policy for 1968-69 continued the licensing of imports to actual users engaged in the priority industries on the

basis of needs. A firmer link was, however, established between the grant of import licences and the actual utilisation of imports for production. A number of items were added to the banned list, and in respect of others, it was indicated that imports would be allowed to actual users on a restricted basis. In order to ensure that considerations such as quality, delivery dates and price were fully taken into account in taking decisions on requests for import licences for capital goods, a system of advertisement of requirements was introduced.

106. Adjustments were made in the import policy with a view to assisting exports. The import replenishment scheme introduced in 1966 by which registered exporters could obtain, against the export of certain specified items, replenishment, from the most preferred sources, of imported materials, intermediates, components and parts used in the manufacture of these products has been continued during the current year. In addition, units in the priority industries which have exported at least 10 per cent of their production in 1967-68 are to be given facilities to import all of their requirements from sources of their own choice. Their applications for expansion of production facilities and for imports needed for such expansion are to be favourably considered. These facilities are now to be extended to non-priority industries also where the end products are covered by the import policy for registered exporters, provided their exports during 1967-68 amounted to 10 per cent or more of their production. From the priority sector, 10 industries have been selected on the basis of their export potential. The units engaged in these industries would have to export at least 5 per cent of their production, failing which they would be liable to cuts in their import entitlements. This penalty would not apply to small scale units and units which have been in production for less than five years. Manufacturer exporters can also under certain circumstances convert 50 per cent of the value of import licences issued to them of plant and machinery required for replacement, balancing or modernisation.

107. The scale of cash assistance to exports has been raised in selected cases where performance during 1968-69 exceeds performance during the previous year by not less than 10 per cent. The increase ranges from 2½ per cent to 10 per cent for different items. If, however, the improvement in export performance does not exceed 10 per cent, cash assistance will be granted at the lower rates prevalent earlier.

108. As noted in the Economic Survey for 1967-68, following the devaluation of the pound sterling, export duties on certain types of jute goods, tea, coir yarn and coir manufactures were lowered, while certain jute specialities, finished leather and some categories of tanned hides and skins were completely exempted from duty. With a view to maintaining the competitiveness of our products in outside markets, export duties have been kept under constant review. Since June, 1968 export duty has been removed or reduced further for certain varieties of jute manufactures. In August export duties on all grades of iron ore with less than 63 per cent of iron content were lowered substantially and in October further duty reliefs were given on tea, in addition to assistance on a more generous scale for replanting of tea bushes.

109. A number of tax concessions have been given to exporters in the budget for 1968-69. An export market development allowance to encourage exporters to develop their marketing competence was announced. Tax payers (other than foreign companies) incurring expenditure for the development of export markets are allowed as a deduction from their income 1-1/3 times such expenditure. Besides, new equipment installed for the manufacture of vegetable oil and oil cakes by the solvent extraction process qualified for development rebate at the rate of 35 per cent of the cost.

110. The scope of the facility of granting blanket foreign exchange release permits to recognised export houses and other exporters, in existence for the last 5 years, has been widened. Such foreign exchange releases now cover overseas expenditure not only for business visits but also for market studies, advertisements, participation in exhibitions and trade fairs, samples, etc. The minimum turnover prescribed for the grant of such blanket releases has now been reduced to Rs. 5 lakhs in the case of non-traditional goods and Rs. 25 lakhs in the case of other goods.

111. To an extent the increases in exports of the newer manufactures have been the result of slack domestic demand and adventitious factors such as the closure of the Suez Canal. Strenuous efforts will be necessary to secure continuing growth in exports of these products. This in turn means that the priority given to exporting units in the matter of capacity expansion and imports of components and raw materials will need to continue and indeed to be strengthened. It will be necessary to give high priority to the claims of exports when decisions are taken with regard to new investments. This consideration is being taken fully into account in the formulation of the Fourth Five Year Plan.

External Assistance

112. There has been a substantial decline in fresh authorisations of foreign assistance during the last eighteen months. These amounted to only $ 982*million in 1968-69 as compared to $ 2136 million in 1966-67. If PL 480 assistance is excluded new authorisations amounted to only $ 658 million in 1967-68 as compared to $ 1612 million in the previous year. This sharp drop in authorisations of fresh aid was due to several reasons. The U.S.S.R. and other East European countries had authorised aid in 1966-67 for a five year period, and only Bulgaria among these countries made any fresh commitment subsequently Similarly, the International Development Association was not able to announce any authorisation in 1967-68 because its resources had not been replenished by its members. Finally, U.S. assistance was lower due to a reduction in the overall U.S. aid appropriations.

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*This includes the authorisation of U. S. loan of $ 225 million which was actually disbursed in May, 1968.

113. In the first half of 1968-69 only $ 323 million of non-project assistance and $ 81 million of project assistance had been committed. Subsequently, U.S.A. authorised a non-project loan of $ 194 million and a loan of $ 37 million for the expansion of the Trombay Fertilizer Project. The IDA authorised in the month of January, 1969 a non-project loan of $ 125 million, the first loan from that agency after December, 1966. The authorisation this year was made possible by the welcome action of Canada, Sweden, Denmark, Norway, Netherlands, Finland, the Federal Republic of Germany and the U.K. in making advanced contributions to IDA funds in spite of the U.S. contribution not being available. Total aid committed so far in the current year by the Consortium members amounts to $ 760 million comprising non-project assistance of $ 642 million and project assistance of $ 118 million. To this the project assistance of $ 16·5 million committed by the two non-Consortium countries, Sweden and Norway, and PL 480 assistance of $ 167 million should be added to arrive at the total aid available for the current year.

114. Aid utilisation, on the other hand, improved substantially during 1967-68. Total disbursements were higher by $ 80 million as compared to $ 1506 million in 1966-67. Exclusive of food assistance, aid disbursements showed a sharp growth between the two years from $ 933 million in 1966-67 to $ 1111 million in 1967-68. The result was a sharp decline of aid in the pipeline from $ 3280 million at the end of March, 1967 to $2676 million at the end of March, 1968. Disbursements in the first half of 1968-69 are running about 17 per cent lower than in the corresponding period of last year largely because of a drop in food imports; the utilisation of assistance other than in the form of foodgrains is also lower than in the first half of last year reflecting the general sluggishness in imports in spite of the improvement in industrial production. In view of the lower level of aid utilisation and disbursement during the year of a U.S. loan $ 225 million authorised in 1967-68, it is likely that the aid pipeline at the end of 1968-69 will be somewhat higher than at the end of March, 1968.

TABLE 12

Inflow of Foreign Assistance: Gross and Net

(Million Dollars equivalent)

Item	1961-62	1962-63	1963-64	1964-65	1965-66	Total 3rd Plan	1966-67	1967-68	April—Sept.** 1967-68	April—Sept.** 1968-69
1. Gross aid disbursement of which food aid:	711	933	1239	1520	1622	6025	1506	1586	760	632
(i) PL 480/665	185	258	389	458	502	1792	480	414	196	112
(ii) Wheat grants and special food assistance	7	...	1	8	16	32	93	61	52	19
TOTAL (i + ii)	192	258	390	466	518	1824	573	475	248	131
2. Amortisation payments	145	105	124	147	124	645	184	283	104	138
3. Interest payments	69	81	100	107	139	496	135	161	82	79
4. Total debt servicing (2+3)	214	186	224	254	263	1141	319	444	186	217
5. Net aid flow (1−4)	497	747	1015	1266	1359	4884	1187	1142	574	415
6. Net aid flow exclusive of food aid	305	489	625	800	841	3060	614	667	326	284

NOTES:—(1) Data for April-September 1968-69 are provisional.

(2) Gross aid includes loans repayable in foreign currency, through export of goods, loans repayable in rupees (except PL 480 rupee loans), PL 480 assistance and grants.

(3) Debt service payments relate to those involving foreign exchange.

(4) Transactions with Kuwait, Bahrain, Qatar and the Trucial States are excluded.

** Includes debt relief.

115. The large aid disbursements in the past two years have not meant a high volume of net inflow of external resources into the economy because of the rapidly growing interest and amortisation payments that have to be made on past loans. Total debt service charges have been rising sharply since 1965-66 and will amount to $ 517 million in 1968-69. If these are adjusted for, net aid other than in the form of foodgrains drops sharply from $ 841 million in 1965-66 to $ 614 million in 1966-67 and $ 667 million in 1967-68. The level of net aid during 1968-69 will be lower than last year in spite of the somewhat higher commitment by the Consortium countries.

116. It is because of the availability of aid in the pipeline, slack demand conditions in the economy and the progress of import substitution that it has been possible to meet import requirements in spite of the decline in fresh aid authorisations. While there is still a considerable volume of funds in the pipeline, it has to be noted that the bulk of this consists of project aid where there is necessarily a substantial time lag between authorisation and utilisation; and even in the case of non-project aid available to finance the import of commodities, a considerable period of time has necessarily to elapse between the issue of licences and actual utilisation. The substantial step-up in industrial and agricultural activity which can certainly be expected next year will lead to an increase in imports and exert considerable pressure on our external resources in spite of increased import substitution. The increase in export earnings which can also be expected to take place will not help relieve the strain because debt service payments will be higher than during the current year. There is thus need for a significant step-up in the fresh authorisations in the coming year both for project and non-project assistance if the tempo of industrial growth is to be maintained and the inputs necessary to sustain the growth of agricultural output are to be secured.

117. Debt rescheduling and non-project aid have the advantage of being capable of faster utilisation than project aid. Further, the Indian economy has now developed to a stage at which a considerable part of the capital equipment required not only by industry but also by the power, transport, communication, agriculture and other sectors can be fabricated within the country with import only of components and raw materials. Thus imports under non-project assistance contribute to capital formation more effectively than project imports, in the sense that considerably more capital formation is possible with any given quantum of external assistance in non-project than in project form. This requirement was increasingly recognised by the Consortium countries, and the share of assistance provided in non-project form rose to as much as $ 898 million in 1966-67. In the recent past, however, there has been some tendency to shift assistance towards projects or tie non-project assistance to capital machinery or project type imports. It is to be hoped that this trend will be reversed and freedom to utilise assistance in the manner that will best utilise domestic capacity will be restored. The implication for policy is that, while development of industry, particularly in the equipment field, has to be pressed forward vigorously, care has to be taken to avoid the setting up of projects which rely unduly on imports of components and raw materials.

118. In the field of food aid, assistance is needed in order to build up buffer stocks which will provide insurance against adverse weather conditions. As stated elsewhere in the Survey, the stocks in the hands of Government and the Food Corporation of India, including working stocks, will amount to about 5 million tonnes at the end of June, 1969. This will need to be built up to higher levels in the initial years of the Fourth Plan, after which it should be possible to dispense with assistance in the form of foodgrains.