VI. EXTERNAL ASSISTANCE AND SELF-RELIANCE

155. External assistance has been relied upon to some extent as a supplement to the domestic development efforts since the inception of the process of planned economic development in the country. Although the bulk of the resources needed for development have been generated domestically, external assistance, apart from helping to break through technological rigidities, has also been a factor toward relieving pressures on internal resources as well as balance of payments in the wake of rising investment levels. So far about Rs. 12,750 crores of external assistance in various forms have been utilised for purposes of development. However, the quantum of aid utilised considerably overstates, under existing conditions, the actual contribution of external assistance to India's economic growth. For one thing, most of the assistance has so far been in the form of interest-bearing loans; only a fraction has been in the form of outright grants. The share of grants in overall external assistance fell off sharply after the First Plan period and, in recent years, has dwindled down to just about 5 per cent. Loan assistance has involved essentially the provision of current accommodation in exchange for future repayments. As a consequence, the servicing of the external debt is beginning to claim a sizeable proportion of the country's foreign exchange earnings. For instance, debt service payments already made, amount to about a third of all external debts that have so far been contracted. With amortisation payments totalling over Rs. 2,000 crores, having been effected, outstanding external debt now stands at Rs. 8,200 crores. In the current year, the debt servicing burden is expected to be as much as 28 per cent of the country's exports and more than 55 per cent of the new commitments of aid. True, the burden of debt service has, for the present, been lightened somewhat since creditor countries and institutions which are members of the Aid India Consortium have, in recent years, agreed to provide debt relief. But, such relief which has amounted to about Rs. 300 crores in the last four years, has been reckoned as a part of new aid commitments so that in the form in which it has so far been available, debt relief has not reduced the burden of debt over a period or increased the net transfer of resources in the short run. Its contribution essentially has been to mitigate to some extent the disadvantage of tied aid which has to be repaid in free foreign exchange.

156. Aid in the form of credits, however, contains a genuine element of assistance insofar as it has generally been available on softer terms than similar credits obtainable from the international capital market. The terms have been comparatively favourable as regards both interest rates and maturity periods; and in recent years there has been a tendency towards some fall in the rates of interest and a lengthening of maturity periods. In some cases, mostly involving transactions with countries in Eastern Europe, repayments are effected in rupees, or else, through exports of goods. However, in one respect loan assistance compares unfavourably with market borrowings; for most of the foreign credits are country-tied, loans from a particular country having to be utilised for imports from that country alone. The share of untied loans in external assistance flowing to India has gradually declined since the end of the Second Plan, currently, just over a tenth of external assistance consists of untied credits. The tying of credits in this manner involves a certain disadvantage for the recipient country, particularly when repayments have to be effected in fully convertible foreign exchange; while loan-financed imports have to be procured in the countries offering loans regardless of price or other considerations, no such constraints attach to the utilisation by the donors of interest and amortisation payments received by them.

157. A progressively diminishing dependence on aid has accordingly been one of the objectives of development planning in India. As a matter of fact, near-complete independence from net external financing by the end of the present decade was one of the explicit goals set out in the Fourth Plan. In accordance with the Plan objectives, increasing attention has been devoted to the promotion of self-reliance and reducing the dependence on external accommodation in recent years. Events during the year have amply vindicated the soundness of the policy of aiming at the eventual elimination of external financing of development programmes. The unilateral suspensions of a part of the commitments for economic assistance from abroad in the wake of the hostilities in December, 1971 has further intensified the national urge to do without external aid. Although there was a general awareness that assistance was often proferred because of non-economic motives, recent developments have made it clear that it is yet another instrument of diplomacy, which is liable to be deployed against us at a time of critical need. This realisation has strengthened the demand for greater self-reliance so as to ensure that the country's policies and programmes are not subjected to pressures from aid-giving countries.

158. Even as it is, there has been a continuous decline in the utilisation of external accommodation during the past four years. This decline can be partly attributed to the shrinkage in food imports under the PL-480 account as a consequence of the rapidly rising food production in the country. The Government had already announced its decision not to import any food on a concessional basis after 1971-72. Even excluding concessional food imports, however, the utilisation of net assistance has come down over these four years by almost Rs. 300 crores, or more than one-half. The table below gives the details of the inflow of foreign assistance during the last four years:

TABLE XII

Inflow of Foreign Assistance : Gross and Net

(Rs. crores)

Items	1967-68	1968-69	1969-70	1970-71	1971-72 Estimates
1	2	3	4	5	6
I Gross disbursements of which:	1196	903	856	791	778
(a) PL 480 food*	285	131	128	57	52
(b) PL 480 non-food*	57	27	42	32	43
(c) Other food assistance	45	55	19	36	31
II Total debt servicing of which :	333	375	412	450	450
(a) Amortisation payments	211	236	268	290	284
(b) Interest payments	122	139	144	160	166
III Net flow of assistance (I-II)	863	528	444	341	328

*Includes assistance by way of imports under rupee payment terms and under convertible currency credits.

NOTE : Gross aid disbursements take into account debt relief inclusive of debt rescheduling/postponement, etc. Debt service payments relate to those involving foreign exchange.

159. Fresh commitments of assistance have been consistently lower than the utilisation of assistance during this period. Since there is a certain time lag between commitments and disbursements, utilisation in any year depends partly on the commitment in that year and, more importantly, on the accommodation offered in the past and existing in the pipeline. For instance, commitments for 1967-68 were only of the order of Rs. 795 crores, or nearly Rs. 400 crores less than the assistance actually utilised in that year. There was a slight rise in commitments in 1969-70. In 1970-71, however, the commitments were once more Rs. 188 crores

lower than utilisation. As a result, assistance in the pipeline fell from a level of Rs. 1,988 crores at the end of March 1968 to Rs. 1,570 crores at the end of March 1971.

160. Debt servicing has been increasing continuously: from a level of Rs. 143 crores in 1961-62, it rose to Rs. 333 crores in 1967-68. The burden in 1970-71 was still higher at Rs. 450 crores, and will continue to be at that level in 1971-72 too. The peak will be reached in 1972-73 and 1973-74, and roughly 30 per cent of the country's annual export earnings will be used towards the servicing of past debt obligations. Taking debt servicing into account, net flow of assistance into the economy has declined from Rs. 863 crores in 1967-68 to Rs. 341 crores in 1970-71. If import of food under concessional terms is excluded, net inflow of assistance has come down from Rs. 533 crores to a mere Rs. 248 crores in 1970-71.

161. The actual contribution of foreign assistance to the financing of economic development has thus been markedly small in recent years. Until 1964-65, net external accommodation worked out to 3 per cent of national income; it is now less than 1 per cent. To put it differently, net foreign accommodation used to account for 25 per cent of investments in the economy in the early 1960's; in recent years, the contribution of net foreign assistance to domestic investment has declined to 13 per cent. Over the period of the Fourth Plan, it is estimated that it will account for only 8 per cent of aggregate investments. If the current trends in respect of availability of assistance continue, it could be even less, even though the comparison is somewhat vitiated by the fact that capital formation itself has been at a considerably lower level than was contemplated in the Plan.

162. Recent events have added to the urgency of reducing the dependence on external finance. The problem is not one of merely doing without a certain quantum of aid. Since external assistance provides support to the balance of payments as well as resources for investment, doing without aid can simply mean doing without a certain volume of investment and scaling down capital formation activities in the economy. This is certainly not what is implied by greater self-reliance. The latter should, on the other hand, reflect our ability to maintain, if not enhance, the rates of capital formation and growth envisaged in the Plans despite the shrinkage in the availability of foreign assistance. The core of self-reliance should, thus, consist of efforts at raising the domestic rate of savings on the one hand, and greater import substitution and export promotion, on the other, so that the savings and balance of payments gaps cease to be a barrier to faster growth.

163. As far as the balance of payments is concerned, the country will have to economise on imports without in any way affecting production in fields that are important for further growth. There could, however, be a limit beyond which imports in a specific field cannot be restricted in the short run without affecting development. Accordingly, exports will have to expand much faster than in the past so as to bridge the gap in the balance of payments, a gap which is currently filled up by foreign accommodation. The achievement of self-reliance is, thus, a matter of action on both imports and exports and needs a detailed scrutiny of the character and composition of the country's foreign trade.

164. Since the devaluation of the rupee in June 1966, imports into the economy have shown a tendency to decline. In particular, there was a very sharp fall in imports between 1968-69 and 1969-70. This trend was partly reversed in 1970-71, when imports recorded an increase of 2.7 per cent over the preceding year. This slight increase in the import bill occurred in spite of a fall in food imports largely because of a rise in the demand for other imports and higher international prices. There was a substantial rise in the demand for raw materials, intermediate goods and equipment, partly because of short falls in production in certain key sectors. At the same time, international prices of metals and equipment continued to rise. The average price of our imports, as a result, increased by as much as 5 per cent in 1970-71.

165. The following items accounted for over 60 per cent of the total imports in 1970-71: cotton, soyabean oil and mutton tallow, fertilisers, petroleum products, steel and non-ferrous metals, machinery and transport equipment. In fertilisers, increasing import substitution has brought down the level of imports. Similarly, in machinery and transport equipment, a certain order of import substitution as well as a levelling off of demand in a number of industries has accounted for the substantial fall in imports. The import of metals, on the other hand, rose sharply, despite declining rates of growth in industrial production and a relative slack in investment activity; this rise in metal imports, particularly in respect of iron and steel, was partly to compensate for the unexpected shortfall in the domestic output of basic metals.

TABLE XIII

Imports : Broad Commodity Groups

(Rs crores)

Commodity	1968-69	1969-70	1970-71	April-July 1970	April-July 1971
1 Food	336·6	261·0	213·0	65·6	27·5
2 Cotton	90·2	82·8	98·8	45·1	60·7
3 Jute	9·3	1·1	0·1	Neg	Nil
4 Animal and Vegetable oils and fats	19·3	29·6	38·5	12·1	18·6
5 Fertilisers and fertiliser materials	198·2	107·4	99·9	25·3	32·2
6 Petroleum products	133·2	137·9	136·0	41·4	62·5
7 Metals	175·2	156·0	266·7	77·4	123·7
8 Machinery and transport equipment	513·9	395·9	384·5	127·1	152·0
9 Others	432·7	410·4	387·7	126·6	144·2
TOTAL	1,908·6	1,582·1	1,625·2	520·6	621·4

Source : Director General Commercial Intelligence and Statistics, Calcutta.

166. It would be legitimate to conclude that, other things remaining the same, the demand for import of raw materials and intermediate goods is likely to go up as domestic activity is accelerated. During April to December, 1971, imports have increased by more than 18 per cent over imports in the corresponding period of the preceding year, the decline in food imports notwithstanding. Such details as are available at this stage indicate a continuing increase in the imports of petroleum products, metals, raw cotton, edible oils and machinery and equipment. In particular, there has been a further steep increase in the imports of metals. Given the trend of issuance of import licences, the pressure on imports is likely to persist in the coming months.

167. If, in these circumstances, imports have to be restricted, a general and indiscriminate reduction in imports would certainly not be the best instrument for this purpose; an across-the-board reduction in imports would unnecessarily starve the growing sectors in the economy of essential supplies. One must, therefore, pick and choose. For example, to curtail the imports of cotton, or of petroleum products, or else of iron and steel and non-ferrous metals would, in the absence of greater domestic availability, mean lower production, lower investment, and lower employment. What is needed is that a reduction in the overall import bill is achieved, as far as possible, without sacrificing either investment or employment. This would obviously call for a commodity-by-commodity analysis of the country's import requirements.

168. India has been importing 0.8 to 1 million bales of cotton for the past several years. The domestic output of cotton has not shown any significant tendency to rise, while the spinning and weaving capacity of the cotton textile industry, including the handloom sector, has continued to expand. As a result, about 10 per cent of the requirements of raw cotton have had to be met through imports during the last few years. Besides, cotton being a rain-fed crop, its production fluctuates widely from year to year. A reduction in the imports of cotton could, as happened in 1969-70, force up prices of the indigenous varieties and jeopardise production and employment in mills producing only coarse varieties of cloth, besides affecting exports of cotton yarn and cloth. It is, therefore, difficult to envisage a reduction in the imports of cotton unless domestic production expands substantially. This calls for the development of high-yielding genetic material as well as extension work on a fairly large scale. While some success has been reported with regard to the development of a high-yielding strain of cotton, its spread to each of the major cotton-growing tracts is bound to take time.

169. An alternative means of reducing the import requirements of raw cotton would be to explore the possibility of importing substitute materials such as synthetic yarn which would adversely affect neither the working of our cotton mills nor the availability of cotton for coarser varieties of cloth, but would cost less in terms of foreign exchange. Over a longer period, in addition to stimulating the growth of more cotton in the country, through the use of high-yielding seeds, the manufacture of synthetic yarn within the country could be stepped up if that would mean a lower import bill.

170. Besides, for cotton as much as several other commodities, certain curbs may have to be imposed on the consumption of the affluent sections of the community because of the considerable share—albeit indirect—of luxury, or semi-luxury, goods in imports. Insofar as the objective can be furthered without affecting the volume of employment, it would lead to a conserving of foreign exchange resources.

171. It would be equally desirable to improve the system of distribution of both indigenous and imported cotton. Insofar as intermediaries can be eliminated, and policy measures ensure a better regional and unit-wise distribution of raw cotton, prices would be subjected to better discipline and there is also likely to be a lowering of overall demand for imports.

172. The bulk of imported crude oil results in products like diesel oil, furnace oil, petrol, kerosene and ATF. The scope for restricting the demand for some of these items is limited. For instance, a restriction on the availability of diesel oil would affect the movement of trucks and thus reduce flexibility in industrial production and employment in the trucking industry. A reduction in the availability of furnace oil would increase the demand for coal in outlying areas and thus in the short period strain rail transport. There is scope for reducing the consumption of motor spirit by individuals and also of koresene as fuel. But as long as new refineries are being set up and there is no firm indication of domestic availability of crude, we can only hope for the present to restrict the rate of growth of the import of crude oil. The production of crude has not been able to keep pace with the growth of demand and refining capacity. Imports, consequently, have nearly doubled between 1965 and 1970; at present nearly two-thirds of crude requirements have to be met from imports.

173. While, in the short period, the limits of feasibility are thus quite clear, the present urge for hastening the process of self-reliance should call for a thorough review of the nation's policy on fuels. Such a review should be linked to a reappraisal of the prospects of coal mining too, particularly as there is adequate capacity in existence.

174. Larger imports of iron and steel in recent years have been necessitated by the difficulties which our steel plants have encountered; their current production is much below the rated capacity. For instance, imports of iron and steel rose by as much as 2,80,000 tonnes during 1970-71 in order to meet the shortfall in domestic output. A reduction in steel imports would be possible only if the steel plants could be made to approach the threshold of maximum utilisation. Since the task involves such questions as industrial relations, absorption of technology, maintenance, etc., it is not easy to forecast the short-term prospects for reducing imports. A number of targets have been laid down for the current year, and the actual accomplishments would need watching. Here too, an efficient distribution system could reduce the pressure on imports.

175. If the utilisation of steel in what might be called luxury commodities is cut down, the demand for imports would certainly be reduced to some extent. There are, however, certain problems in this regard. The definition of a luxury product becomes extremely arbitrary once obvious examples like motor cars, domestic air-conditioners, domestic refrigerators, luxury housing,

steel furniture and so on have been exhausted. Moreover, since the demand for such items up to a point appears to be price inelastic, the consumption of steel by these industries cannot be restricted unless the production of these items—except production for exports—is curtailed. The adverse impact on employment of such a step may not be very substantial, but there is the other dilemma of policy that many of these industries were initially encouraged to establish themselves as part of the drive towards import substitution. Still, in the present circumstances, it is inevitable that steel has to be conserved for those sectors where the need is far more obvious.

176. The demand for non-ferrous metals is largely connected with the drive for rural electrification. Since this programme forms an important part in the country's development plans, there is no way of drastically reducing the demand for non-ferrous metal-using items such as cables, transformers, switchgears, motors, etc. At the same time, there is no question that a more rigorous system of distribution could bring down the demand for inventories for these metals, and thus have a salutary effect on prices as well.

177. To be able to reduce the import of fertilisers, the domestic output has to be stepped up. This in turn implies increasing the utilisation of the existing plants from the present level of barely 60 per cent of capacity. The several new projects which are under construction will also have to be expedited and completed ahead of schedule. On both counts, the solution of certain presistent problems in the administrative system would be an important pre-condition of success. Even with the increase in domestic capacity, one cannot be too sure that indirect imports, which will go as inputs for the fertiliser units, would not rise as a consequence in the short period. For instance, items such as rock phosphate, ammonia, naptha, etc., which are required in the manufacture of fertilisers and are either not available in the country or are in short supply, will have to be imported. All things considered, the increase in the domestic capacity for the manufacture of fertilisers will not necessarily lead to a sharp decline in the expenditure of foreign exchange for this particular industry. The picture would, however, be qualitatively different if, simultaneously, the existing plants could reach the maximum feasible output. Equally important would be the task of rigorously examining the demand for fertilisers. In the present context, it would be most undesirable if excessive inventories or lop sided distribution are encouraged.

178. The problems are not dissimilar in regard to machinery and equipment either. While complete indigenous capacity has been developed for the manufacture of steam locomotives, the switch-over to the manufacture of diesel and electric engines has temporarily led to increasing imports of parts and components. In the case of trucks too, even though for certain specifications no components need to be imported, the import bill has not come down, because the producers have shifted to the manufacture of larger-sized trucks which are still dependent on imported components. As we continuously increase the range as well as depth of manufacture within the country, there is a tendency for the import of one item to be replaced by the import of another item further down the process

of production. As long as certain rates of overall economic and industrial growth are being postulated, it would therefore be hazardous to predict a complete thinning out of import requirements. What has to be emphasised is the necessity of hastening the process of doing without foreign components. We now have the necessary technological base in the country; the stress has to be on basic research in specific directions and encouragement to improvisation. In such matters, an adjustment of attitudes by itself could bring about substantial results.

179. Soyabean oil and mutton tallow have had to be imported in recent years to maintain a certain order of availability and thus forestall sharp price increases. In these cases, domestic supplies can be augmented by the utilisation of such oils as can be derived from rice bran and cotton seed. A number of fiscal incentives have been made available to promote the output of such oils; certain organisational changes are also called for. In regard to rice bran oil, a more effective method of collection and transportation of rice bran from the rice mills to the solvent extraction units has to be arranged. As to cottonseed oil, a large proportion of the seed. which is now being fed to cattle in order to increase the fat content of milk, has to be diverted to crushers. This is partly a matter of incentives and partly a matter of propaganda. Speculative elements also play a havoc with the pricing and distribution of edible oils; destabilising speculation would need to be severely curbed if artificial demands for imports are not to surface from time to time.

180. Since most of the imports are of an essential nature, restricting the import bill to achieve self-reliance is not going to be an easy task. It will require technical, administrative and organisational efforts of a high order and a concerted approach. It would, besides, imply a skilful use of resources so as to allow selective increases in the import of certain products till such time as the productive apparatus gears itself to producing them internally on a large scale. What is more important, it will require careful working out of the details of the import substitution arrangements so that some of the unwholesome consequences commonly associated with a regime of import restrictions are mitigated. Above all, it will call for distributive discipline all over the economy, a careful scrutiny of trader's margin charged for the various scarce commodities, and a determined effort to curtail consumption and to discourage excessive holding of inventories.

Exports

181. According to Customs data, overall export earnings during 1970-71 rose to Rs. 1,535 crores, an increase of more than 8 per cent over the exports recorded in 1969-70. Since, however, there was a change in the method of compilation in November 1970, a comparison between the performance in the two years is vitiated.

182. Exports during the first half of 1970-71 were adversely affected by a combination of unusually unfavourable factors, for example, shortages of metals and raw cotton and a ten-week long strike of bargemen in Calcutta. As a result of the vigorous measures taken to improve the supply of inputs and materials for export production, exports picked up from October onwards.

183. The rise in exports during 1970-71, as recorded in the Customs data, was spread over both traditional and non-traditional commodities. Exports of tea went up in volume by 14.4 per cent and in value by 19.1 per cent. The regulation of supplies by the producer countries under the Mauritius Agreement, low stocks of tea in the U.K. and lower production in East Africa were instrumental in raising the quantum and unit value of tea exports. The other major traditional exports, jute goods, did not fare well. The value of exports of jute manufactures fell by nearly 8 per cent to Rs. 190 crores, largely on account of a sharp decline in the exports of carpet backing. A slackening of demand during a part of the year because of a slowdown of building activity in the United States was responsible for this decline. Exports of mill-made cotton piecegoods, in contrast, increased by about Rs. 5 crores, almost entirely as a result of higher unit values, but exports of cotton yarn fell by about 27 per cent notwithstanding a marked rise in unit price. Yarn exports were affected by shortages of raw cotton and the consequent rise in the unit cost of production. Exports of cashew kernels, too, declined by nearly 10 per cent, largely because of difficulties with regard to the import of raw nuts and growing competition from Brazil and East Africa.

184. There was a significant increase in the exports of certain other traditional exports. Exports of oilcakes rose from Rs. 41.5 crores in 1969-70 to Rs. 55.4 crores in 1970-71, mostly due to enlarged supplies consequent on the higher production of oilseeds during the previous year. The quantum of manganese ore exported rose by more than 40 per cent; export earnings rose by a little over 25 per cent. A substantial fall in the average unit value of ores exported from India occurred due to weaker international prices, a shift towards lower grade ores in the export mix and higher ocean freight on exports to Eastern Europe and the U.S.A.

185. There was an appreciable rise in the exports of most major non-traditional products, such as engineering goods, chemicals, iron and steel and iron ore. The fastest rate of growth was recorded by engineering goods; exports increased from Rs. 89.5 crores in 1969-70 to Rs. 116.5 crores in 1970-71. This increase, of the order of 30 per cent, was achieved despite a serious shortage of steel and non-ferrous metals. The value of iron and steel exports rose by 2.6 per cent because of higher unit prices; there was, however, a slight fall in the volume actually exported. Exports of iron ore rose substantially, the value of exports at Rs. 117.3 crores in 1970-71 being higher by as much as Rs. 22.7 crores than exports recorded in the preceding year.

186. Among chemicals and allied products, drugs and pharmaceuticals, paints and varnishes, dyes and intermediates emerged as exceptionally fast growing exports. The value of exports of chemicals and chemical products as a group rose by nearly a third over the year. Exports of leather and leather manufactures, on the other hand, fell by nearly one tenth because of subdued demand for tanned hides and skins and chrome-tanned leather.

187. During the first nine months of the current financial year—for which data are available—the aggregate value of exports was higher by Rs. 41 crores or by 3.6 per cent, as compared to that in the corresponding period of 1970-71. It is difficult to forecast the likely performance for the entire year because, since August 1971, for each successive month, exports have been consistently lower than in the previous year.

188. The commodity-wise details of exports are as yet available for the period April-August, 1971. These indicate that larger exports of some traditional products such as tea, jute goods and leather and of non-traditional products such as engineering goods more than offset the fall in exports of other commodities such as oilcakes, mineral ores and iron and steel.

189. During this period, the value of exports of jute goods more than doubled as compared to the same period of 1970-71. This exceptional increase in exports of jute goods, however, reflects more the influence of abnormal factors such as the disturbed conditions in the erstwhile East Pakistan than any major change in the trends of world demand. Exports of tea also registered a handsome increase because of comparatively buoyant demand owing to unsatisfactory crops in both Ceylon and East Africa.

190. Exports of cotton textiles—both piecegoods and cotton yarn—suffered a set-back during the period. While the exports of piecegoods were lower by Rs. 2.6 crores than what they were in the corresponding period of 1970-71, the value of exports of cotton yarn fell by more than one-half. Apart from the weaker competitive position of our textile industry, the decline in yarn exports can be traced to stringencies in the availability of foreign exchange in Burma, Ceylon and the U. A. R., which provide sizeable outlets for Indian cotton yarn.

191. The value of exports of manganese ore, which had risen significantly during 1970-71, declined by about 18 per cent during April—August, 1971 as compared to the corresponding period of the preceding year. Similarly, export earnings from oilcakes during this period were about 20 per cent lower than the corresponding period of 1970-71 because of a fall in the domestic availability of oilseeds.

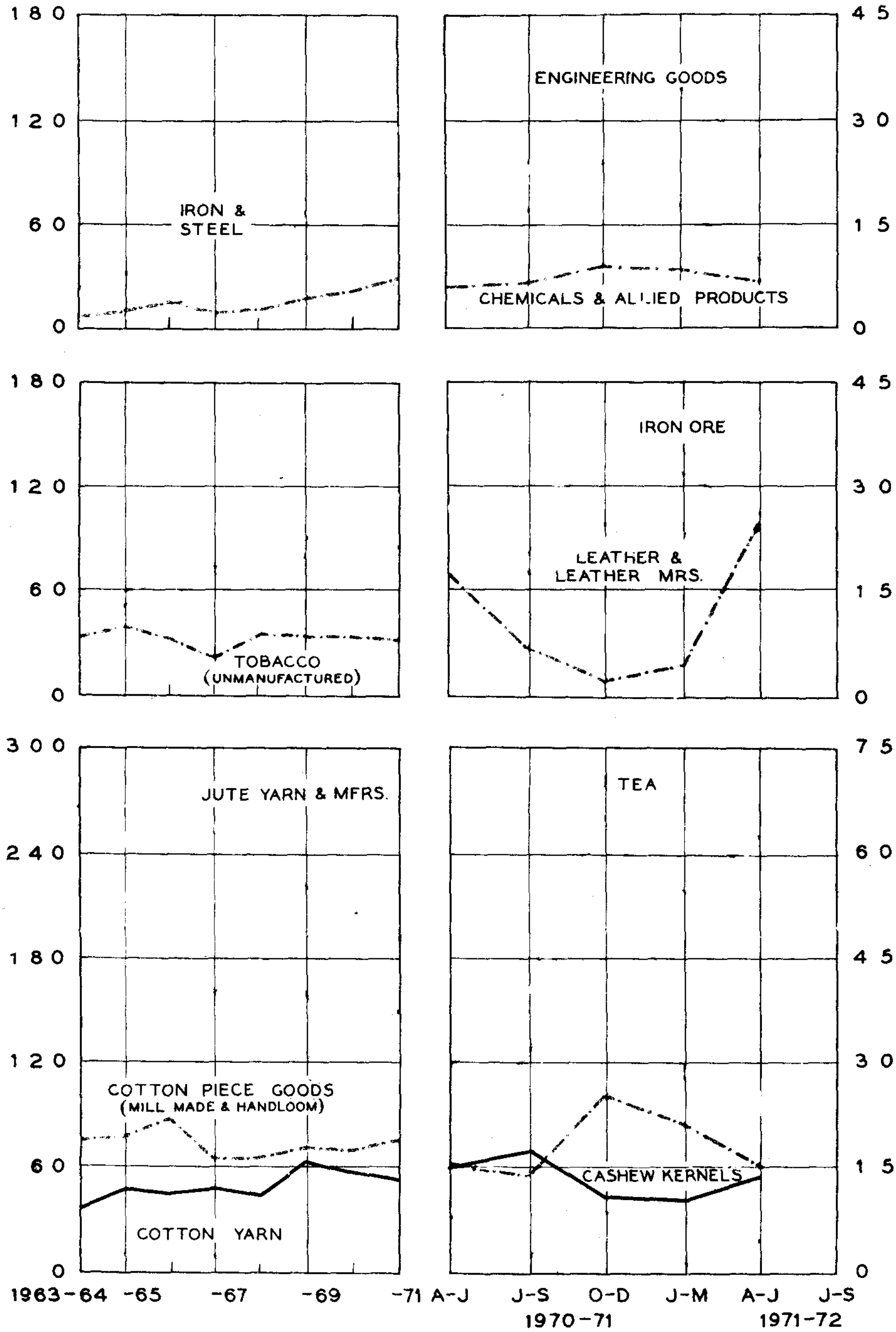
192. Exports of non-traditional items such as engineering goods and leather and leather products were higher than in the corresponding period of 1970-71. But, due largely to the scarcity of metals, the value of exports of iron and steel products fell by about 33 per cent. There was a marginal fall in the exports of iron ore as a result of recessionary conditions faced by the Japanese steel industry.

193. Recent developments would also bear out that institutional initiatives emanating from outside can play only a marginal role in promoting our exports. Such initiatives as have been in evidence during the past year have not been very encouraging. India has been consistently using the forum of the United Nations Conference on Trade and Development to draw attention to the phenomena of dwindling aid flows, the hardening terms of assistance and the growing climate of protectionism in the advanced Western countries, each of which is affecting severely the balance of payments of India and other developing economies. But an immediate reversal of such trends is unlikely. The imposition of an import

EXPORTS OF MAJOR COMMODITIES

RS. CRORES

(POST DEVALUATION)



MINISTRY OF FINANCE , ECONOMIC DIVISION .

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duty on the entry of Indian cotton textiles into the United Kingdom has been an adverse development during the year, and the decision on the part of the United Kingdom and a number of other countries in West Europe to seek admission to the European Economic Community would also call for a review of our export strategy. The General Scheme of Preferences, which was once considered as providing an extensive array of support to the export promotion efforts of the developing countries, is yet to be implemented by a number of important nations, including the United States. It is, besides, still an open question whether, for India, the introduction of the General Scheme of Preferences would compensate for the possible loss of export markets consequent to the entry of the United Kingdom into the European Economic Community and the elimination of the system of Commonwealth preferences.

194. All aspects considered, a much larger effort than has been made so far will have to be put in if exports are to increase at a rate either equal to, or higher than, the targeted rate of growth of 7 per cent per annum. Given the preponderance of the traditional export items, namely, jute, tea and cotton textiles, in the country's total export earnings, India can scarcely afford to lose the markets for these commodities. In view of growing competition, it will need intense efforts to maintain the current level of earnings from these traditonal exports; to improve on the present performance will call for even greater efforts. Besides, to achieve a genuine breakthrough in the export sector, India will have to seek rapid growth in exports in other fields such as engineering goods, iron and steel, iron ore, chemicals, marine products, etc. Much will depend upon our ability to generate larger surpluses at competitive prices. This implies paying greater attention than heretofore not merely to market explorations of export incentives but also to basic tasks such as achieving rapid increases in industrial and agricultural productivity, restraints on consumption, changes in industrial organisation etc. Some of the factors alluded to in the discussion regarding restriction of imports will be equally relevant for the promotion of exports.

195. In an inter-dependent economy, the endeavour for export promotion can scarcely be isolated from that for import substitution; the two have to be dovetailed into the parallel efforts towards reducing the level of unit costs and raising the rate of domestic savings. It is restraints on internal absorption, particularly curbs on consumption, which enlarge the supply of exportables and compress the demand for imports. A better regime for the distribution of basic and key commodities, which leads both to a lowering of costs and better management of inventories, similarly helps keep the strain on the balance of payments down to the minimum. Thus, our efforts towards cutting down the dependence on external assistance would ultimately have to be linked up with the problem of reforming the structure and improving the functioning, of the economy. The elimination of intermediaries, the scaling down of distributive margins, and the general restraint on prices are fundamentally important for accelerating the process of self-reliance. They have implications in terms of the distribution of incomes and assets in our society. Together with the challenge of a much faster rate of growth in both industry and agriculture—and the spread of basic research—institutional reforms too would therefore be crucially important for self-reliance.