

VII. FOREIGN TRADE AND BALANCE OF PAYMENTS

Foreign Exchange Reserves and Balance of Payments

205. India's external payments position showed a noticeable improvement in 1971-72 despite the massive strain imposed on the economy's resources by the influx of refugees and the outbreak of war. Foreign exchange reserves, which had been drawn down to the extent of Rs. 88.6 crores in 1970-71, were built up again during the year, the level of reserves recording a rise of Rs. 116.4 crores.

206. The accumulation of reserves was facilitated by the third allocation of SDRs worth Rs. 74.7 crores in January, 1972. But, there was a rise in the value of foreign currency holdings as well in 1971-72, partly as a result of the appreciation in their rupee value following the currency realignments of December, 1971. The value of foreign currency component of reserves increased by Rs. 42.3 crores; and, as foreign currency holdings are estimated to have appreciated by nearly Rs. 18 crores on account of altered exchange parities, the actual increase, at constant exchange rates, works out to about Rs. 24 crores.

207. Very little use was made of SDRs in 1971-72 for discharging external payments obligations; and, even without the fresh allocation of Rs. 74.7 crores worth of SDRs during the year, classic reserves—gold and foreign currency balances—would have risen by Rs. 41.7 crores.

TABLE X
Foreign Exchange Reserves

End of year/ month	Gold* and foreign exchan- ge	SDRs*	Total reser- ves	Variat- ion in reserv- es	Accru- al of fresh SDRs	Variat- ion in reserv- es ex- clud- ing fresh accru- als of SDRs (5-6)	(Rs. crores)	
							Net drawings from(1)/ repayments (-) to IMF	Variat- ion in reser- ves gross of tra- nsac- tions with IMF (7-8)
1	2	3	4	5	6	7	8	9
1967-68	538.6	..	538.6	60.2	..	60.2	24.4	35.8
1968-69	576.7	..	576.7	38.1	..	38.1	-58.5	96.6
1969-70	728.9	92.0	820.9	244.2	94.5	149.7	-125.4	275.1
1970-71	620.6	111.7	732.3	-88.6	75.4	-164.0	-176.3**	12.3
1971-72	662.9	185.8	848.7	116.4	74.7	41.7	..	41.7
January 1973	604.0	184.9	788.9	-59.8	..	-59.8	..	-59.8

*Between 20th December 1971 and June 1972 the rupee equivalent of foreign currencies, other than the Canadian dollar, was derived from central rates. Canadian dollars were valued at the monthly average of spot buying and selling rates in New York. From July onwards sterling has been valued at the average of the spot buying and selling rates of the Reserve Bank of India; other foreign currency balances, including holdings of Canadian dollars, have been converted into rupees with the aid of cross rates based on monthly averages of spot buying and selling rates in London. Gold and SDRs, however, have been valued throughout at their pre-December 1971 rupee prices.

**Includes outlay for purchase of gold abroad for gold quota payment to the IMF.

208. Balance of payments data for the full year 1971-72 are not yet available. As such, the effect of major current and capital flows on the external payments position cannot be assessed with precision. Still, it is possible to discern certain developments, other than the allocation of SDRs, which helped ease the pressure on foreign exchange reserves. First, all outstanding short term indebtedness to the IMF having been liquidated by the end of 1970-71, no further repayments had to be made to it during 1971-72. The outgo of foreign exchange on account of transactions with the IMF had been particularly heavy in 1970-71; in that year repurchase of Fund drawings and the foreign exchange outlay on the gold portion of the increase in India's Fund quota together amounted to Rs. 176.3 crores. Second, a part of imports, consisting of supplies for Bangladesh refugees was financed by foreign relief programmes. Finally, export receipts as recorded in the balance of payments, which did not rise in 1970-71, are estimated to have improved significantly in 1971-72. These favourable factors offset larger payments for imports of steel, fertilizers, raw cotton and oilseeds.

209. In 1972-73 pressures on the balance of payments began to build up again. Foreign exchange reserves, which had shown a modest increase in April and May, 1972, began to decline thereafter. Although, there was some rise during December, 1972 and January, 1973, reserves recorded a fall of Rs. 59.8 crores* over the first ten months of 1972-73. There is usually some decline in reserves during the slack season; but, this year the loss of reserves exceeded the normal seasonal drawing down of foreign exchange balances. For one thing, more imports had to be financed from foreign exchange resources because of smaller utilisation of external assistance. For another, the third IDA replenishment did not become operative until November, while there was during this period a larger outflow of free foreign exchange on account of debt service payments.

210. According to DGCIS data, the trade balance showed a marked improvement during the first eight months of the current financial year; as compared to a deficit of Rs. 183.9 crores in April—November, 1971, merchandise trade recorded a surplus of Rs. 141.8 crores. However, this surplus on merchandise account failed to stem the loss of reserves owing, among other things, to the time lag between export shipments and the realisation of sale proceeds as well as to the fact that most of the recorded exports to Bangladesh had been financed through loans and grants.

211. India has so far received three allocations of SDRs, amounting in all to Rs. 244.6 crores. This new reserve asset has, thus, been an important source of additional international liquidity over the past three years. So far Rs. 90.3 crores worth of SDRs have been utilised for repurchase of drawings from the IMF and payment of service charges to it on the net use of SDRs. On the other hand, having been designated by the IMF for the repurchase of SDRs, India acquired SDRs amounting to

*Owing to the intervening variations in effective exchange rates the decline, in real terms would be higher.

Rs. 30.6 crores during 1970-71, in exchange for convertible currencies. The net financing of external obligations through SDRs to date, therefore, works out to Rs. 59.7 crores. Considerable use was made of the SDR facility during 1970-71; but, subsequently SDR balances were drawn down by very small amounts. Excluding fresh accruals, SDR holdings fell by only Rs. 0.6 crores in 1971-72, and by another Rs. 0.9 crores between the months of April and January during the current financial year. These small amounts were utilised for the payment of service charges on the use of SDRs to the IMF. Besides, there were no designated sales of SDRs by India to other member countries of the IMF.

212. The strains on the balance of payments so far in the current year despite considerable improvement in the merchandise balance are largely attributable to heavy debt service payments, delays in the accrual of certain promised credits and larger free foreign exchange outlays on imports. Although trade figures recorded by the DGCI&S reveal some fall in imports during the eight month period from April to November, this trend is likely to be reversed during the remaining months of the year because of larger imports of essential commodities like fertilizers, steel, oils and fats. Furthermore, as it was decided to dispense with food aid after 1971-72, all foodgrain purchases abroad have now to be paid for in free foreign exchange. As such, even if food imports do not exceed the 1971-72 level, the outgo of exchange resources on this account may be substantially higher. Available indicators, fortunately, point towards a faster growth of exports this year; but, in spite of improved export performance as well as the debt relief extended by donor countries, there is little likelihood of any perceptible lessening of pressures on external payments position in the near future. Unlike last year, therefore, the current financial year may end up with a significant fall in the level of reserves.

Imports

213. According to DGCI&S data there was a marked rise in the inflow of imports during 1971-72 despite a further fall in food imports. Imports, which in the preceding year had recorded only a modest increase of 3.3 per cent, went up by nearly 11 per cent to Rs. 1812 crores. Also, unlike in 1970-71, import prices tended to be fairly stable; and, the substantial rise in the import bill was accounted for mainly by a comparable increase in the volume of imports. Import licensing had been liberalised in 1970-71 to stimulate industrial growth. But, the spurt in the actual inflow of imports during 1971-72 was brought about largely by poor output in 1970-71 of cash crops, like cotton and oilseeds, shortfalls in the production of key intermediates, notably steel and fertilizers, and a rise in the demand for equipment, particularly electrical machinery.

214. Following the relaxation of restrictions on imports there was a sharp increase in the value of import licences issued in 1970-71. The pace of expansion of licensing slowed down considerably in 1971-72.

Even so the value of fresh import licences issued during the year was higher by almost Rs. 220 crores.

TABLE XI
Import Licensing : Principal Categories

(Value in Rs. crores)

	1969-70	1970-71	1971-72	April—November	
				1971	1972
1. Established Importers	43·83	41·80	40·77	31·84	36·39
2. Actual Users	301·15	311·87	368·32	228·80	231·99
3. DGTD Units	274·78	385·03	252·71	192·66	110·65
4. Small Scale Industries	65·57	83·26	117·95	62·25	43·20
5. Registered Exporters	85·92	94·74	93·41	53·06	79·35
6. Capital Goods/Heavy Elec- trical Plant	73·20	127·09	252·16	138·76	153·63
7. Customs Clearance Permits	43·61	32·86	32·03	23·67	42·48
8. State Trading Agencies	242·80	444·56	587·61	408·64	356·19
9. Others	72·87	112·67	108·72	81·41	57·72
TOTAL :	1203·73	1633·88	1853·68	1221·81	1111·60

215. The policy of liberal allocation of imported raw materials and components to priority industries was continued during 1971-72. More liberal licensing facilities were also accorded to newly established units in the priority sectors if fixed investment needed to set them up did not exceed Rs. 1 crore. Besides, there was a sizeable increase in the value of ad hoc licences for the import of non-ferrous metals, which also benefited from the scheme for additional import allocations in exceptional cases. The relaxation of import restrictions was, thus, specifically intended to facilitate faster growth of industrial production and to encourage small and medium scale entrepreneurs.

216. There was a significant increase in the value of import licences issued to small scale units and actual users during 1971-72, while the value of licences for capital goods nearly doubled. The decline in the value of DGTD industries' import licences for current inputs, occurring despite a liberal policy, is explained by the progress of canalisation of imports through State trading agencies rather than by any scaling down of their import allocations. The value of import licences issued to the State trading agencies went up by nearly a third during the year. However, there was practically no change in the replenishment quota of registered exporters presumably because of the unsatisfactory performance of such major non-traditional exports as engineering goods.

217. With the exception of foodgrains and raw jute, imports of all other important commodity groups, including metals, fertilizers, oils and fats, fibres, petroleum products and equipment went up substantially during 1971-72. Thanks to the comfortable internal availability position, food imports fell by nearly 40 per cent to Rs. 131.2 crores. As a matter of fact, food imports would have been even lower were it not for foreign assistance for refugee relief provided in the form of foodstuffs and clothing. As for other commodities, the sudden spurt in imports was occasioned—except in the case of equipment—not so much by the quickening of the tempo of activity as by inadequate production of key import substitutes.

TABLE XII
Imports: Broad Commodity Groups

(Value in Rs. crores)

	1969-70	1970-71	1971-72	April—July		Per cent change from April—July 1971
				1971	1972	
1. Food	261.0	213.0	131.2	27.5	10.3	-62.5
2. Cotton	82.8	98.4	113.4	60.7	41.0	-32.5
3. Jute	1.1	0.1
4. Animal and vegetable oils and fats	29.6	38.5	46.5	18.6	7.0	-62.4
5. Fertilizer and fertilizer materials	107.4	99.9	113.3	32.2	25.8	-19.9
6. Petroleum products	137.9	135.9	194.1	62.5	62.8	0.5
7. Metals	156.0	266.4	339.4	123.7	110.0	-11.1
8. Machinery and transport equipment	395.9	394.6	454.3	152.0	157.5	3.6
9. Others	410.4	387.3	419.8	143.8	139.0	-3.3
TOTAL	1582.1	1634.1	1812.0	621.0	553.4	-10.9

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

218. By far the largest increase in imports occurred in the case of steel. The value of iron and steel imports shot up from Rs. 149.2 crores in 1970-71 to Rs. 244.8 crores in 1971-72, the tonnage imported going up by 6.8 lakh tonnes to 13.8 lakh tonnes. Import requirements increased sharply as the demand for steel picked up while the integrated steel plants

continued to operate well below capacity. Indeed, if in 1971-72 the main steel plants had been able to achieve a capacity utilisation rate of say 75-80 per cent, imports of steel would have been much smaller than in 1970-71. Fortunately, international prices of non-ferrous metals, notably those of copper, weakened considerably during the year, which helped check the rise in the import bill for metals.*

219. Fertilizers provide yet another instance of demand spilling over into imports in 1971-72 because of unsatisfactory working of the main manufacturing units in the country. Most of the fertilizer plants producing nitrogenous nutrients, in both public and private sectors, worked at two-thirds of their rated capacity or even below it in 1971-72. The position as regards the production of phosphatic fertilizers was not much better. As a consequence imports of fertilizers and fertilizer materials rose by Rs. 13.4 crores to Rs. 113.3 crores.

220. Among products of agricultural origin, imports of raw cotton and oils and fats recorded a significant increase, the value of imports rising respectively by as much as 15 and 21 per cent over the preceding year's level. Larger imports of cotton became necessary to overcome shortages and to restrain the steep rise in cotton prices which occurred as a result of the fall in cotton production from 53 lakh bales in 1969-70** to only 45 lakh bales in 1970-71.** Likewise, there was an appreciable fall in the output of most major and minor oilseeds; and, the overall production of vegetable oils is estimated to have declined by about 3 lakh tonnes in 1971-72.

221. Imports of petroleum crude and refinery products rose by about two fifths in value, partly as a result of output falling short of expanding demand and partly due to the firming up of international oil prices. Equipment imports, too, went up by nearly Rs. 60 crores with growing internal demand for investment goods, mainly for electrical equipment.

222. During the first eight months of 1972-73 there was a perceptible fall in imports as well as a contraction in the flow of import licensing. As compared to the corresponding period of 1971 the value of imports during April—November, 1972, was lower by 7.8 per cent, while the value of new import licences fell by 9.0 per cent. There was a substantial fall in the value of import licences issued to small scale industries, DGTD units and State trading agencies. The pace of licensing for capital goods slowed down considerably, the value of import licences rising only marginally. Likewise, there was only a slight increase in licences issued to actual users. But there was a sharp rise in the rate of import licensing for registered exporters as non-traditional exports fared much better than they had in 1971-72. Despite stricter import licensing for established importers the value of licences issued to them too was significantly higher owing to larger licensing for certain commodities—normally allocated to established importers alone—envisaged to be imported under trade agreements with

*The face value of import licences for non-ferrous metals is, as a rule, adjusted for variations in international prices.

**Cotton year: September—August.

Afghanistan and Iraq. Although, the overall rate of import licensing during the first eight months of 1972-73 turned out to be smaller than in April—November, 1971, there was no corresponding reduction in recommendations for new import licences. The pace of licensing is, therefore, expected to pick up again during the rest of the year.

223. The downward trend in the value of imports during April—November 1972 can be attributed mainly to the operation of certain factors: the cessation of aid financed food imports, the improvement in the cotton position following the bumper 1971-72 crop* and lower international prices of non-ferrous metals. However, the appreciation of the national currencies of West European countries and Japan, and the subsequent floating of the pound sterling since June, 1972** do not appear to have had any perceptible restraining effect on imports, partly for the reason that their scarcity value was high enough to absorb any rise in rupee costs on account of altered exchange rates.

224. Commodity-wise details of imports during 1972-73 are available only upto the month of July 1972. These reveal that imports of food, fertilizers, raw cotton, metals, oils and fats were much lower than during the first four months of 1971-72. However, the fall in imports is not expected to persist; and, imports over the entire year may even turn out to be in excess of the level recorded in 1971-72. For one thing, with inadequate indigenous production of steel and fertilizers there is likely to be a further rise in the imports of these commodities. For another the imports of oils and fats will be appreciably higher because of a further fall in oilseeds output this year. In view of the poor kharif harvest foodgrain imports, too, may not fall as much as had earlier been expected.

225. The production of saleable steel by the main producers will be only marginally higher in 1972-73 than last year. Additional output from electric furnaces, which went into production this year, is, however, expected to raise overall production to well over 5 million tonnes. Even so the gap between demand and supply, which will need to be made good through imports, may turn out to be of the order of 1.5 million tonnes. Capacity utilisation in fertilizer plants has been somewhat better than last year; and, the production of nitrogenous and phosphatic fertilizers is expected to be higher by about two lakh tonnes of nutrients. Yet, the supply deficit to be offset through imports will be larger than in 1971-72 because of higher internal demand and leaner inventories.

226. Largely owing to a fall in groundnut production for the second year in succession domestic availability of vegetable oils (after allowing for changes in stocks) is likely to be lower in 1972-73, while the normal increase in demand for oils and fats may be of the order of two lakh tonnes. As already in 1971-72 appreciable quantities of oils and fats had to be imported, the availability gap to be bridged through imports this year will, in all probability be fairly large. The fall in the output of kharif foodgrains owing to a poor summer monsoon may, to a large extent be offset by higher rabi production expected as a result of special measures undertaken to maximise the yield of winter grains. Still, the foreign exchange outlay on commercial foodgrain imports, to be effected in the early

*Cotton year : September—August.

**Please see also paragraph 243.

months of 1973 may be of the order of Rs. 160 crores, especially as world prices rose considerably following massive wheat purchases by the USSR earlier during the year.

227. Current estimates indicate some fall in the cotton crop in 1972-73 cotton season. But, with the huge carryover of some 23 lakh bales from preceding year's record crop, supplies will be large enough to sustain higher cotton textile production with a lower level of imports. There are no indications of the demand for non-ferrous metals picking up, probably because of liberal import licensing in the past; imports of non-ferrous metals may not, therefore, rise noticeably above last year's level. Imports of petroleum crude and refinery products may remain more or less unchanged; but, a further increase in imports of equipment is likely to take place as supplies are arranged against capital goods licences issued in 1971-72.

228. Inadequate production in certain critical industrial sectors and unstable agricultural production have been largely responsible for the increased dependence of the economy on imports since the beginning of 1971-72. The need for a sustained effort to achieve the fullest possible utilisation of industrial capacity, particularly in basic industries and intermediate manufacturing, as well as to improve the productivity of cash crops, cannot be overemphasised. For, more efficient utilisation of our industrial apparatus, built up at the cost of massive investment outlays, and more effective exploitation of the development potential of cash crops, are among the essential preconditions for attaining the goal of self-reliance.

Exports

229. Export earnings during 1971-72 amounted to Rs. 1606.6 crores, including exports worth Rs. 38 crores to Bangladesh. It is not possible to indicate with any reasonable degree of precision the actual rise in exports during the year for the reason that D.G.C.I. & S. export figures for 1970-71 are not comparable with those recorded for other years. However, over the first three years of the Fourth Five Year Plan ending in 1971-72 the value of exports increased at an annual compound rate of 5.8 per cent; and, if exports to Bangladesh are again excluded, the growth rate drops to just about 5 per cent.

230. Exports during 1971-72 benefited from better overseas demand for traditional commodities, notably jute goods, cashew kernels and tobacco. However, non-traditional commodities, barring exceptions like marine products, leather and leather goods, did not fare as well as traditional products.

231. During 1971-72 exports had to face unfavourable developments within the economy as well as a slow-down in the pace of expansion of world trade. The growing pressure of domestic demand, slow growth of industrial output and continuing shortages of critical inputs, like metals and cotton, affected the surpluses available for exports. Besides the series of monetary crises during the year, which culminated in the suspension of dollar convertibility and the floating of world's major currencies, not only dampened the flow of imports into industrialised countries but also created considerable exchange uncertainty for exporters.

232. Exports of jute manufacturers enjoyed exceptionally buoyant demand conditions in 1971-72, partly because of disruption of supplies to the world market from Bangladesh and partly because of the low level of stocks with consumers, particularly carpet manufacturers, in the U.S.A. Export prices ruled high as a sellers' market developed both at home and abroad, and, partly because of high prices, the value of exports hit the high level of Rs. 265.3 crores. Tea exports fetched Rs. 156.3 crores. Indian teas were in fairly good demand in major importing countries with the notable exception of the UK where East Africa offered stiffer competition and consumer preference shifted further to other beverages. Exports of mill-made cotton piece goods, another major traditional product, amounted to only 382 million meters; export prices, however, were fairly high, and the value of exports attained the level of nearly Rs. 67 crores. Cotton textiles became noticeably less competitive abroad because of a sharp rise in domestic prices of cotton and production costs. But, thanks to better demand from West European markets exports of cotton apparel hit the comparatively high level of Rs. 14.0 crores.

233. Exports of cashew kernels touched the record level of 60.4 thousand tonnes valued at Rs. 61.3 crores in 1971-72 as demand from major consuming countries—USA, USSR and Canada—improved substantially. Tobacco exports at Rs. 42.3 crores were exceptionally high, owing largely to heavy purchases of Indian tobacco by the USSR.

234. By and large the performance of non-traditional exports during 1971-72 was disappointing. Exports of engineering goods, which had been expanding fairly fast in recent years, amounted to only Rs. 118.4 crores, owing to certain unfavourable internal developments. Continuing shortage of steel, growing domestic demand and the consequent rise in prices and costs combined to make engineering products generally less competitive abroad so that larger exports could not be sustained. Steel exports too were hit by growing internal demand and lower steel output. Iron ore exports during 1971-72, which amounted to only Rs. 104.7 crores, were adversely affected by poor demand as well as production and transportation problems. There was a recession in the Japanese steel industry, the major buyer of Indian iron ore; ore production itself failed to attain the anticipated level; and, exports from the Eastern sector were constrained by transport bottlenecks. The export performance of marine products during the year was particularly encouraging. The value of exports exceeded Rs. 41 crores owing to better demand abroad, particularly from Japan. Average export prices too were exceptionally high, partly because of comparatively larger exports of higher value products. Exports of leather and leather manufactures (other than footwear) also attained an unusually high level: but, of the total value of exports amounting to Rs. 90.8 crores as much as Rs. 64.3 crores was accounted for by East India tanned hides and skins, which are established traditional products.

235. During the eight months ending in November 1972 export earnings totalled Rs. 1239.3 crores. This represents an increase of 23.1 per cent as compared to the value of exports during April-November, 1971.

236. Commodity-wise details of exports are as yet available only upto the month of August, 1972. These reveal that it was the traditional commodities which contributed the most to the growth of exports during the first five months of 1972-73. There was a significant rise in exports of jute manufactures, cashew kernels and East India tanned hides and skins, while some other traditional exports like cotton yarn and textiles and oilseed cakes increased significantly as compared to the levels recorded during April-August, 1971.

237. Exports of jute manufactures were higher by Rs. 14.8 crores, or say 15 per cent, than in the corresponding period of the preceding year. Cashew exports were up by Rs. 3.6 crores, or 12 per cent, owing to a commensurate increase in the tonnage exported. The value of oilcake exports rose by about a third to Rs. 24.7 crores, partly owing to better export prices. Export proceeds from tea, however, went up by only Rs. 0.9 crore. Exports of cotton piece goods showed a fall of 0.7 million meter, but the value of exports rose by about a fifth because of a sharp rise in their unit price. Export earnings from tobacco increased by Rs. 8.5 crores, while exports of raw cotton recovered smartly.

238. Among non-traditional commodities, the value of exports of marine products during April-August 1972 was nearly 80 per cent higher than in the corresponding period of 1971. The phenomenal rise in exports of marine products occurred largely as a result of a particularly steep increase in the unit value of exports, which went up by about 62 per cent. The average export price of marine products shot up due to stronger export demand and a shift in the export mix towards higher value items. Engineering exports, however, recorded only a slight improvement, the value of exports increasing by only Rs. 2.0 crores, that is by less than 4 per cent. Steel exports fell steeply because of lower domestic production and persistent shortages. The value of iron ore exports also declined owing to poor demand abroad. There was, however, a considerable increase in exports of leather and leather goods, the value of exports rising by Rs. 24.4 crores, that is by about 70 per cent, as compared to the April-August 1971 level. A good deal of this rise in exports was accounted for by East India tanned hides and skins.

239. Aggregate export figures are now available for the eight months ending in November 1972. But, in the absence of commodity-wise details of exports beyond the month of August it is difficult to identify all the factors underlying the unusually rapid growth of exports over this period. Still, there is little doubt that it was induced more by rising demand abroad for Indian goods than by faster growth of domestic output and real national product. Apart from the continuing strong demand for jute goods, exports benefited from the recovery of world trade in 1972. Moreover, exports were stimulated—apart from the commencement of trade with Bangladesh—by the new set of exchange rates between major world currencies which became effective as a part of the Smithsonian Agreement, and subsequently by the floating of the pound sterling.

240. Provisional data relating to trade with Bangladesh have been compiled by the DGCI&S for the period April-November 1972; these show Rs. 51.6 crores worth of exports to Bangladesh. If these exports, financed mostly through loans and grants, are excluded the rate of growth of exports during the first eight months of 1972-73 turns out to be 18.0 per cent.

241. The currency realignments of December 1971 effectively devalued the U.S. dollar *vis-a-vis* the Yen and the Deutsche Mark by 16.88 and 13.58 per cent respectively. The U.S. dollar also depreciated by 11.57 per cent in relation to the Dutch guilder and the Belgian franc and by 8.57 per cent with respect to sterling and the French franc.* The new rupee-sterling rate that was adopted lowered the rupee dollar parity from Rs. 7.50 to Rs. 7.279 per dollar, thus revaluing the rupee in terms of the dollar by 3.04 per cent. As the national currencies of Japan and West European countries were revalued in relation to the U.S. dollar to a much greater extent than the rupee, exports to those destinations became more lucrative to Indian exporters, or more attractive to foreign importers.

242. The pound sterling began to float on the 23rd of June 1972, and thereafter moved down well below its earlier fixed value of \$2.61. In fact, for a number of weeks before the devaluation of the dollar on 13th February, 1973, the market value of the pound had been fluctuating around \$2.35. As the external value of the rupee continued to be linked to the pound, the floating of the latter reinforced the favourable effect on our exports of the earlier realignment of exchange rates. The day the London exchange market opened for the first time after the devaluation of the dollar, the pound moved up to \$2.44.* However, the manner and the extent to which our exports may be affected by the U.S. devaluation will depend on the level at which the sterling-dollar rate eventually stabilises itself.

243. It is difficult to determine precisely the extent to which the rise in exports during April-November 1972 raised foreign exchange earnings in real terms. For, the exchange rates between all major world currencies having undergone a change, the value of exports expressed in any one foreign currency, say the US dollar or the pound sterling, ceases to be an index of the purchasing power of export earnings. An approximate measure of the change in the *average* exchange rate of other currencies *vis-a-vis* the rupee can, however, be obtained by adding up the alterations in exchange parities between the rupee and the currencies of other countries, using the value of India's trade with them as weights. Accordingly, when such an adjustment is made the rise in exports, to destinations other than Bangladesh, over the first eight months of 1972-73, at constant exchange rates, would work out to be lower than the nominal growth rate of 18 per cent.

244. The high growth rate of exports during the first eight months of 1972-73 is not likely to be sustained during the rest of the year. Because of the poor kharif harvest, rising internal prices and the progressive return of the Bangladesh jute industry to normal working, the momentum earlier

*The extent of devaluation of the dollar *vis-a-vis* West European and Japanese currencies is expressed as the per cent rise in the latter's dollar prices following the December realignment.

gained by exports may weaken considerably. Nevertheless, even after rupee export receipts are adjusted for variations in exchange rates and trade with Bangladesh, the growth rate of export earnings over the year as a whole is expected to be significantly higher than the one achieved during the first three years of the Fourth Five Year Plan. All the same, analysis of available indicators shows that, like the exceptionally large increase in exports in 1968-69, improved export performance this year should not by itself be considered as definitive evidence of a lasting upward shift in the trend rate of growth of exports.

Developments in Trade Policy

245. Further steps were taken during the year to extend the role of public sector agencies in the domain of foreign trade. Self reliance was encouraged both through direct regulation of imports and the imposition of additional tariff duties. Other import policy measures aimed at ensuring adequate supplies of imported inputs for expansion and diversification of export production as well as for meeting the requirements of small scale and priority industries, particularly those whose growth strengthens the balance of payments. Quantitative restrictions on some export products were relaxed while export duties on some others were scaled down. Export promotion measures were streamlined and their scope enlarged in certain respects.

246. With the canalisation of imports of 56 more products through public sector agencies there was a significant rise in the latter's share of import trade. The number of canalised import commodities has now risen to 182 and, at present, direct imports by public sector agencies and the Government taken together account for the bulk of total imports into the economy. Along with the extension of canalisation of imports, the State Trading Corporation (STC) expanded its activities (through the operations of the Industrial Raw Materials Assistance Centre) to ensure bulk purchase facilities and off-the-shelf supplies from stocks to actual users and registered exporters. The Minerals and Metals Trading Corporation (MMTC) too, made a beginning in this direction by providing indenting facilities and imported supplies from stocks to exporters. A steel bank, operated by the Hindustan Steel, has been set up to arrange imports and off the shelf availability of crucial categories of steel required for project equipment, as well as critical and matching items of steel for actual users.

247. During the year exports of mica, sillimanite, coking coal, coke and non-coking coal were canalised through the MMTC, while exports of railway wagons were entrusted to the Projects and Equipment Corporation of India. Exports of semi-finished leather were canalised through the STC. With the canalisation of exports of these products public sector agencies now handle about a fifth of the country's export trade. Another public sector agency, the Tea Trading Corporation of India, commenced its operations in October, 1972. One of the principal objectives of the Corporation, which will be operating in the domestic market as well, is to enter the world market and to preserve and develop foreign outlets for Indian teas. The Government also took the decision that a public sector organisation be set up to enter textile export business as a specialised agency supplementing the activities of the existing private firms in this field.

248. The import policy for 1972-73 continued to stress the need for greater self-reliance and aimed, within the limitations imposed by the overall scarcity of foreign exchange, to maximise export production and to stimulate industrial growth, particularly in priority and small scale sectors. As a measure of greater self-reliance imports of 160 products were banned, while those of 87 others were to be permitted only on a restricted basis. A reduction was also effected in established importers' quotas for certain products, such as equipment and automobile spares, pharmaceuticals, tools and instruments. These policy measures to narrow down the range of licensed imports were intended to encourage import substitution and fuller exploitation of the capability of the economy to efficiently replace a variety of imported inputs.

249. Under the import policy for 1972-73 import facilities accorded to export houses were further enlarged and streamlined. Moreover, registered exporters were permitted to seek import replenishment quotas higher than those already specified for them in cases where high costs, or poor quality, of locally available inputs made their products uncompetitive abroad. The need based import licensing policy for priority industries continued to be in force. The policy for 1972-73 also provided for licensing in excess of past consumption to specified priority industries out of a special allocation of foreign exchange. These industries include, among others, those whose expansion has the effect of improving the balance of payments. Industrial units exporting a tenth or more of their output continued to benefit from preference in the matter of sources of imported supplies. Likewise, preferential treatment continued to be accorded with regard to import of machinery and raw materials to small scale units to be set up in backward areas. Furthermore, Indian nationals returning from abroad were, for the first time, permitted to import without restrictions equipment and raw materials upto a value of Rs. 5 lakhs and Rs. 1 lakh respectively for setting up small scale industries.

250. In December 1971 regulatory customs duties were imposed on all imports other than foodgrains, books and a few other commodities. The regulatory duty was levied at the rate of 2.5 per cent *ad valorem*; but a higher rate of 10 per cent *ad valorem* was imposed on some selected commodities. The Central Budget for 1972-73 introduced a three-tier structure of regulatory duties: while the regulatory duty was set at 5 or 10 per cent on commodities subject to a basic import duty of 60 per cent *ad valorem* or more, a 2.5 per cent *ad valorem* regulatory duty was levied on all other imports except foodgrains and other commodities that had earlier been exempted from it.

251. Quantitative restrictions on exports of certain commodities, including crushed bones and aluminium foil, were relaxed or removed. The export duty on snake skins was scaled down. In view of the spurt in international prices export duties on jute carpet backing cloth and hessian had been raised in December, 1971. But the export duty on primary carpet backing was reduced in November, 1972, in order to strengthen its competitive position *vis-a-vis* synthetic substitutes. Restrictions had to be imposed, however, on exports of a few products in short supply such as mustard and rape seed, unrefined groundnut oil and raw goat skins.

Export Policy and Plan Targets

252. The 5.5 per cent annual compound growth rate of national income envisaged during the Fifth Five Year Plan period can be achieved only if there is a marked acceleration in the growth of export earnings. The proposed 7 per cent annual increase in exports calls for a much greater effort to expand and diversify exports than has ever been undertaken in the past, the more so as a part of additional export earnings, needed to compensate for the planned decline in net external assistance, will not be available for augmenting the supply of imports. The problem of orienting the economy towards a more rapid growth of exports, therefore, needs to be examined against the background of past experience. This will help identify the factors obstructing faster growth of exports and the policies needed to overcome them.

253. During the decade ending in 1971-72 the volume index of exports rose at an annual compound rate of 3.7 per cent which is roughly the same as the annual growth rate of national income in constant prices over this period. There was no discernible increase in the ratio of export earnings to real national product either. Exports thus managed to rise at about the same pace as aggregate output despite intensive export promotion efforts and considerable diversification of trade. A stable pattern appears to have emerged wherein exports increased only about as fast as the economy.

254. A closer look at the performance of important exports reveals that the proportion of the quantity exported to output has been rising only in the case of a few non-traditional products. So far as most other commodities are concerned the share of exports in saleable output has tended to remain fairly stable, or even to fall off. Over the decade ending in 1971-72 the proportion of output exported declined more or less regularly in the case of such important export earners as jute goods, tea and cashew kernels. The comparative shares of domestic and export markets for a number of products (both traditional and others) such as cotton textiles, coffee, sugar, pepper, cement, steel castings and forgings, stationary diesel engines, sewing machines, electric fans, refrigerators and soap, did not undergo any noticeable alteration. However, exports of a number of non-traditional products did expand faster than domestic sales. These include, among others iron ore, finished steel, bicycles, radio receiving sets, vat dyes, steel pipes and tubes and storage batteries. All the same exporting has remained a marginal activity for most non-traditional industries despite considerable expansion of output and capacity; and, very often export sales absorb a tenth or even less of their output. Clearly, inadequate production is not always the only major constraint faced by exporters of non-traditional products. And, there are other reasons as well which might explain the comparatively greater dependence on the home market of even fast expanding manufacturing industries.

255. Import restrictions necessitated by the scarcity of foreign exchange have also provided considerable protection to domestic producers against competition from imports. As a consequence prices of locally manufactured equipment and other inputs are often far higher (and their quality poorer)

than those of comparable imports, while high cost end-products made with them enjoy an assured market inside the country. This in turn tends to make exports uncompetitive and discourages systematic development of export markets. The comparative attractiveness of the domestic market has been reinforced in recent years by price inflation and the consequent rise in internal cost-price levels. Export promotion efforts and policies, it appears, have so far not been fully effective in eliminating the drag on exports of high costs and prices, particularly uncompetitive prices and costs of non-traditional exports. Yet, it is the exports of non-traditional manufactures on which the realisation of the Fifth Plan export target will largely depend.

256. The future growth of major exports, like tea and jute goods, is likely to be limited by the slow growth of world demand. Nor can one expect any spectacular increase in exports of agricultural commodities or of manufactures based on them such as oilseeds, cotton textiles, sugar and edible oils. Being mass consumption goods in a low income country, it will not be easy to restrain the growing pressure of domestic demand for them. Besides, the growth of production itself may be constrained by growing competition from foodgrains for scarce land and other inputs. Fortunately, non-traditional industries are free from such handicaps. Their output has expanded faster than that of other sectors of the economy; and even now their share of the world market is so small that export demand is not likely to act as an obstacle to faster growth of exports of their products. The realisation of the Fifth Plan export target will thus depend crucially on the future performance of non-traditional exports, even when the export potential of other products is fully tapped.

257. It is manifest that the trade policy framework needs to be further strengthened, if, as envisaged, the export sector during the Fifth Plan period has to expand faster than the rest of the economy. More effective arrangements will have to be made to offset the comparative disadvantage of export industries using high cost indigenous equipment and other inputs.

258. If exports are to rise faster than output and incomes, sales abroad must become more lucrative than sales in the domestic market. As such, one can expect entrepreneurs to develop export markets vigorously, and to undertake the investment needed for adapting production to the more exacting requirements of foreign buyers, only if the pull exercised by a sheltered home market is resolutely restrained. For, it is not only high production costs but also internal demand and high prices which inhibit the growth of exports. Accordingly, adequately strong measures will need to be deployed to dampen the growth of domestic absorption, particularly the high income demand for non-traditional manufactures.

259. Finally, price stability is essential for an orderly expansion of exports. Rising internal cost-price levels, unless adequately offset, reduce the real earnings of exporters with the result that resources are progressively drawn away from exports to production for the home market.

260. So much for new initiatives in the domain of trade policy needed for achieving Fifth Plan export targets. However, as recent events have once again demonstrated, domestic economic environment and national policies provide only a part of the setting for faster growth of exports. Unfortunately, the international economic environment has been vitiated by restrictionist policies of industrialised countries towards exports from the third world, and, more recently, by international monetary upheavals. The Smithsonian Agreement was expected to restore some order to exchange rates and foreign exchange markets; but, subsequent developments, often sudden and dramatic, showed how tenuous and precarious were the exchange rates fixed in December, 1971, between major world currencies. The floating of the British pound followed by that of the Swiss franc, the second devaluation of the dollar and the subsequent floating of the Yen, all these indicate the severe uncertainty that has continued to plague exchange markets. It is the payments imbalances, and the misalignment, of the currencies of the leading industrialised countries which have been giving rise to periodic crises; but the fall out from the latter, unfortunately, affects the trade and the economies of the developing countries as well. Accordingly, the urgency of a thoroughgoing reform of the international monetary system cannot, particularly at this juncture, be overemphasised. Presently, a Committee of Governors of the IMF is engaged in working out proposals for reform of the international monetary system. The Contracting Parties of GATT have agreed to embark on a fresh round of multilateral trade negotiations in September, 1973. The negotiations regarding the reform of the world monetary and trading arrangements offer the world community an opportunity to reconstruct a new international economic system which will be, among other things, more responsive to the needs of the developing countries.

External Assistance

261. Ever since 1967-68 reliance on external assistance has been steadily diminishing. With growing self-sufficiency in food and expanding output of a variety of manufactured intermediates and equipment, the gross inflow of external assistance fell from Rs. 1196 crores in 1967-68 to only Rs. 834 crores in 1971-72, aid financed imports of food and other agricultural commodities declining during the same period from Rs. 387 crores to Rs. 144 crores. There was, no doubt, a slight increase in the utilisation of external assistance during 1971-72, when the net inflow of aid rose by Rs. 14 crores to Rs. 355 crores. But, this is no more than a minor deviation from the declining trend of dependence on external resources. In fact, this slight rise in the use of aid resources occurred mainly as a result of greater utilisation of project assistance, the increase in non-project aid being only marginal. In the current financial year the gross inflow of external assistance is expected to fall sharply to Rs. 626 crores, partly because of the decision to do away with food aid.

262. The meeting of the Aid-India Consortium to assess aid requirements during 1972-73 came to the conclusion that overall external assistance of \$1350 million—including non-project aid amounting to \$700 million—would be needed as additional resources for India's development programmes. However, aid agreements that have so far been entered into this year add up to only about \$600 million.

263. As the overwhelming portion of external assistance so far extended to India has been in the form of interest bearing credits, the actual extent of the real transfer of resources through aid operations is more appropriately measured in terms of the net inflow of foreign aid. The data set out below reveal that the net inflow of external assistance has tended to fall off even more sharply than gross aid utilisation. As amortisation and interest payments on past debts, often contracted under stricter terms, absorbed progressively increasing amount of exchange resources, the net inflow of external assistance dropped off from Rs. 863 crores in 1967-68 to only Rs. 355 crores in 1971-72. And, in 1972-73 the net aid transfer is not expected to exceed Rs. 123 crores.

TABLE XIII
Inflow of Foreign Assistance: Gross and Net

(Rs. crores)

Items	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73 (Estimates)
I	2	3	4	5	6	7
I. Gross disbursements	1196	903	856	791	834	626
of which:						
(a) PL 480 food*	285	131	128	57	112	..
(b) PL 480 non-food*	57	27	42	32		
(c) Other food assistance	45	55	19	36	32	9
II. Total debt servicing	333	375	412	450	479	503
of which:						
(a) Amortisation payments	211	236	268	290	299	314
(b) Interest payments	122	139	144	160	180	189
III. Net flow of assistance (I-II)	863	528	444	341	355	123

* 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/postponements etc. Debt service payments relate to those involving foreign exchange.

264. Greater reliance on internal resources and skills has been a major objective of our approach to development. While welcoming external assistance, we have made every effort to ensure that dependence on aid does not become a permanent feature of our national economic life. Foreign loans and grants—net of debt service payments—did not in any year exceed 30 per cent of aggregate investment outlays. Moreover, in

recent years reliance on external finance has diminished sharply. In 1971-72 the share of net external assistance in aggregate investment was only 13 per cent; and, by the end of the Fourth Plan period in 1973-74 this proportion would have fallen further to just about 8 per cent. It is envisaged that by the end of the Fifth Plan period dependence on net inflow of external resources would cease altogether; and, thereafter any external assistance would be offset by the outgo of resources on account of amortisation and interest payments. The objective of self-reliance, desirable in itself, has acquired greater urgency in view of the uncertainties to which external assistance is subject.

265. The rising debt service payments, mostly effected in free foreign exchange, have created a serious resource problem. It is estimated that debt service payments, which had risen from Rs. 333 crores in 1967-68 to Rs. 479 crores in 1971-72, will increase further to Rs. 503 crores in 1972-73. In 1971-72 amortisation and interest payments on outstanding foreign debt absorbed close to 30 per cent of all foreign exchange receipts. As external assistance is largely country-tied, or can be utilised only for the import of specified types of commodities, debt servicing in free foreign exchange imposes an additional burden in so far as the purchasing power of tied aid resources is considerably lower than that of equivalent convertible foreign exchange. Donor countries and institutions have of late shown greater awareness of the debt service problem; and, the IBRD had even recommended that during each of the last two years of the Fourth Plan period India should be accorded debt relief to the extent of \$200 million so as to limit debt service payments to 20 per cent of convertible currency export earnings. However, only \$ 147.45 million have as yet been provided for debt relief during 1972-73. In view of the magnitude of the debt service problem the need for general acceptance of orderly rescheduling and re-financing of debt obligations of developing countries cannot be overemphasised.