

CHAPTER 7

BALANCE OF PAYMENTS AND FOREIGN TRADE

Introduction

7.1 The international environment for India's economic development has been on the whole highly unfavourable in 1974-75. The world-wide inflation, which was initially due to the convergence, for the first time in postwar history, of the cyclical upswing in the level of economic activity in major industrial countries, gained further momentum in 1974-75 in the wake of a steep increase in prices of oil and foodgrains. Higher oil prices have brought about a massive shift in the structure of international payments, giving rise to new sources of uncertainty for an orderly management of the world monetary system. While inflation in industrial countries has led to a considerable increase in unit values of our exports, the combined impact of inflation in industrial countries and of a steep increase in prices of petroleum, imported foodgrains and fertilisers has been to bring about a massive deterioration in India's terms of trade. The fact that this deterioration has been superimposed on an almost static level of national income serves to further emphasise the harshness of the adjustment imposed on the Indian economy by external events.

Movements in Reserves and Balance of Payments

7.2 Detailed balance of payments data are at present available only up to March 1973. In the absence of this information for more recent periods, the main features of India's balance of payments position in the last year or so have to be inferred from such indi-

cators as movements in foreign exchange reserves, customs trade returns, receipts of external assistance, etc.

7.3 The net outcome of India's external transactions is ultimately reflected in the movement in foreign exchange reserves. Table 7.1 brings out the variations in our foreign exchange reserves position. It turns out that during the first nine months of the current financial year (April—December, 1974) India's foreign exchange reserves showed a nominal increase of Rs. 2.8 crores. However, nominal changes in the level of foreign exchange reserves may not always reflect the full impact of external transactions on the balance of payments, since, in times of need, the reserves are augmented by availing of the drawal facilities from the International Monetary Fund. In fact, in April and May, 1974 India drew a sum of Rs. 294.2 crores from the IMF against her gold and first credit tranche. She also drew a further sum of Rs. 193.9 crores towards the end of October 1974 under the IMF's Oil Facility. Thus in the current financial year, India's total drawings from the IMF have amounted to Rs. 488.1 crores. But for the amounts drawn from the IMF, India's foreign exchange reserves would have declined by about Rs. 485.3 crores during the first nine months of 1974-75. This amount, representing, as it does, the excess of payments over receipts indicates the real gap in our balance of payments during this period. On present indications, there is likely to be a significant deterioration in India's reserve position in the final quarter of 1974-75.

TABLE 7.1
India's Foreign Exchange Reserves

End of Year/Month	Gold * & SDRs* Foreign Exchange		Total reserves	Variations in reserves	Accruals of fresh SDRs	Variations in reserves excluding fresh accruals of SDRs (5-6)	Net Drawings from (+) /repayments (-) to IMF	Variation in reserves gross of transactions with IMF(7-8)
	2	3						
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
1972-73	661.4	184.9	846.3	—2.4	—	—2.4	—	—2.4
1973-74	763.3	183.7	947.0	100.7	—	100.7	62.6	38.1
Dec. 1974 (a)	769.9	179.9	949.8	2.8	—	2.8	488.1	—485.3

*Between December 20, 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 1972 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 on the basis of cross rates based on monthly averages of spot buying and selling rates in London upto April, 1974 and on the basis of the average of spot buying and selling rates in London from May, 1974. 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 payments to the IMF.
(a) Provisional.

7.4 The adverse turn in India's overall balance of payments in 1974-75 stands in contrast to a fairly satisfactory position during 1973-74. Reflecting in the main the effects of a drawal of Rs. 62.6 crores in February 1974 from the I.M.F. under its Compensatory Financing Facility, India's foreign exchange reserves had, notwithstanding a trade deficit of Rs. 437.7 crores (customs data), recorded an increase of Rs. 100.7 crores during 1973-74. In the absence of drawal on the I.M.F., the reserves position would have still shown an improvement of some Rs. 38 crores. This favourable outcome was partly due to a rise in the share of exports effected against payments in convertible currencies. There are indications that due possibly to a reduction in leakages of foreign exchange for illegal purposes, the net receipts from invisibles also recorded some improvement. The net aid receipts in 1973-74 were also comparatively higher and, to an extent, constituted another favourable factor.

7.5 In the current financial year, the pressure on India's balance of payments has essentially emanated from a sharp rise in the value of imports. Thus far aggregate export performance has, in value terms, shown an encouraging improvement. Receipts from external assistance have also somewhat improved. It is likely that, as a consequence of the recent action taken against smugglers under MISA, the leakages in foreign exchange may also have diminished. However, the large payments for substantial quantities of foodgrains which India had to import in the current year at high commercial prices and the heavy foreign exchange cost of imports of crude oil and fertilizers have exerted a substantial pressure on the balance of payments.

Balance of Trade

7.6 Data pertaining to imports and exports are available from customs returns for the whole of the year 1973-74 and the first eight months of 1974-75. According to these data, exports during 1973-74 aggregated to Rs. 2483.2 crores being about 26 per cent higher than in 1972-73. On the other hand, the value of total imports came to Rs. 2920.9 crores representing a sharp increase of 56.4 per cent over 1972-73. Thus the year 1973-74 recorded a large trade deficit of Rs. 437.7 crores as against a surplus trade balance of Rs. 103.4 crores in 1972-73. The sharp increase in the import bill during 1973-74 was largely on account of the high prices of petroleum and petroleum products (POL) as well as a rise in prices of other principal imports like fertilisers, non-ferrous metals and iron and steel. Besides a step-up in imports of foodgrains and vegetable oils, whose prices too, witnessed record increases, also contributed to the increase in the total import bill.

7.7 During the first eight months of 1974-75 (April—November) the trend towards the larger expansion of imports relative to the growth of exports

has continued. In this period while exports moved up by about 36.2 per cent, the rise in the value of imports was nearly 54 per cent. The total value of exports and imports during April to November, 1974 came to Rs. 2026.8 crores and Rs. 2451.3 crores* respectively, resulting in an adverse trade balance of Rs. 424.5 crores as against only about Rs. 105.2 crores in the first eight months of 1973-74.

7.8 During 1973-74, our exports benefited from increases in the world prices of many commodities. At the same time the upsurge in international prices imposed heavy burdens by way of additional import costs which, in the overall tended to more than offset the advantage of increased export realisations. According to the unit value indices of exports and imports, with 1958 as base, compiled by the Director General of Commercial Intelligence and Statistics, while the average unit value of exports recorded a rise of about 22.3 per cent in 1973-74, there was simultaneously a rise of 45.8 per cent in the average unit value of our imports. As a consequence, our overall terms of trade deteriorated by over 16 per cent. The available data do not indicate any significant improvement in our terms of trade in 1974-75.

7.9 The large trade gap which emerged in 1973-74 was accompanied by significant shifts in the regional direction of our trade. In particular, our imports from the OPEC group of countries recorded a sharp rise from 10.7 per cent in 1972-73 to 18.2 per cent in 1973-74. Similarly, the proportion of our imports from North America increased from 19.6 per cent in 1972-73 to 22.8 per cent in 1973-74. On the other hand, imports from ECM countries (including U.K.) declined from 30.9 per cent in 1972-73 to 23.4 per cent in 1973-74. On the export side, a major feature was that the proportion of our exports to convertible currency areas increased from 67.6 per cent in 1972-73 to 78.4 per cent in 1973-74. The share of East European countries in India's exports during 1973-74 was a little over one-fifth of her total exports and was about the same as in 1968-69 and 1969-70.

Imports

7.10 The aggregate value of imports during 1973-74 (Rs. 2921 crores) was slightly more than one and-a-half times the 1972-73 level of Rs. 1867 crores. While there was a decline in the imports of cashew-nuts, raw cotton, pulp and waste paper, paper and paper-board, electrical machinery and transport equipment, there were substantial increases in the imports of foodgrains, vegetable oils, petroleum and petroleum products, fertilisers and fertiliser raw materials, non-ferrous metals, iron and steel and capital goods. The total value of the imports of these seven items taken together increased by over 90 per cent in 1973-74 as compared to the previous year.

7.11 The broad trends in the growth of our imports since 1971-72 are brought out in the following table in terms of major commodity groups :

*The imports figure may turn out to be larger, when November data are revised to take account of further information on imports of foodgrains and petroleum and petroleum products.

TABLE 7.2

India's Imports by Major Commodity Groups

(Rs. crores)

1	1971-72	1972-73	1973-74	April to September		7 Percentage change during April-September 1974 over April-September 1973
	2	3	4	1974-75	1973-74	
1. Food	131.2	80.8	473.1	252.1	131.4	+91.9
2. Raw cotton	113.4	90.9	52.0	14.1	32.8	-57.0
3. Raw jute	..	1.1	12.2	1.7	11.4	-85.1
4. Animal & vegetable oils and fats	46.5	24.9	64.9	24.9	21.4	+16.4
5. Fertiliser & fertiliser materials	111.3	145.7	226.1	194.0	78.0	+148.7
6. Petroleum & petroleum products	194.1	204.0	560.3	586.5	152.6	+284.3
7. Metals	340.0	334.9	382.3	247.7	166.3	+48.9
8. Machinery & transport equipment	470.6	532.0	629.0	318.8	284.6	+12.0
9. Others	417.4	453.1	521.0	293.2	233.2	+25.7
Total Imports	1,824.5	1,867.4	2,920.9	1,933.0	1111.7	+73.9

7.12 Due to successive shortfalls in the production of foodgrains during 1971-72 and 1972-73, about 4.4 million tonnes of foodgrains valued at Rs. 473.1 crores had to be imported in 1973-74. As against this, the actual imports in 1972-73 were of the order of 0.8 million tonnes valued at Rs. 81 crores. Foodgrains imports thus accounted for over 16 per cent of total imports in 1973-74 as compared to only 4.3 per cent in 1972-73. Higher prices of foodgrains compounded the effects of a steep increase in the quantity of imported foodgrains. The aggregate imports of three major items viz. food, petroleum and petroleum products and fertilisers amounted to about Rs. 1251.5 crores in 1973-74 as against Rs. 410.4 crores in 1972-73.

7.13 Imports of raw cotton declined from Rs. 91 crores in 1972-73 to Rs. 52.0 crores in 1973-74, with the quantity imported showing a decline of 50 per cent. However, due to higher import prices, the decline in value terms was not commensurate with the decline in quantity. Raw wool imports on the other hand, increased by 80.9 per cent to Rs. 16.1 crores. In this case also, the quantum of imports declined from 10.0 thousand tonnes in 1972-73 to 7.4 thousand tonnes in 1973-74.

7.14 There was a substantial increase in the import quantum of animal and vegetable oils and fats, from 1.1 lakh tonnes valued at Rs. 24.9 crores in 1972-73 to 2.1 lakh tonnes valued at Rs. 64.9 crores in 1973-74. The unit value of vegetable oils & fats was nearly 40 per cent higher and contributed substantially to the increased value of these imports.

7.15 Imports of fertilisers and chemical products went up by over 38 per cent from Rs. 282 crores in 1972-73 to Rs. 389.3 crores in 1973-74. About four-fifths of this increase was on account of the higher value of imports of fertilisers alone. The aggregate im-

ports of fertiliser and fertiliser raw materials amounted to 3.83 million tonnes valued at Rs. 226.1 crores. In terms of quantity, these were higher by only about 7 per cent as compared to 1972-73 but in terms of value the increase was as much as 55 per cent. The combined unit value of fertilisers and fertiliser raw materials rose from Rs. 407.5 per tonne in 1972-73 to Rs. 591 per tonne in 1973-74.

7.16 The largest increase in the value of imports occurred in the case of petroleum and its products (POL). The total imports of POL at Rs. 560.3 crores in 1973-74 represented an increase of 175 per cent over the import bill of Rs. 204 crores in 1972-73. While there was an increase of less than 14 per cent in the quantity of imported POL, the unit value increased sharply by 142 per cent. POL thus formed about 19.2 per cent of the total import bill in 1973-74 as against only 9.2 per cent in 1972-73.

7.17 Imports of pulp and waste paper declined marginally in 1973-74. Paper and paper-board imports also declined by Rs. 2.5 crores. While imports of electrical machinery and transport equipment registered a decline, non-electrical machinery and manufactures of metals recorded sharp increases. Altogether, the imports of capital goods, the price increases included, went up by only 18.1 per cent. The slowing down of the tempo of domestic industrial activity and the high prices abroad seem to have inhibited the imports of capital goods.

7.18 While increasing in terms of value, the imports of iron and steel and non-ferrous metals declined significantly in quantity terms. Imports of iron and steel amounted to 1012 thousand tonnes valued at Rs. 242.6 crores in 1973-74 compared to 1222 thousand tonnes valued at Rs. 225.8 crores in 1972-73, the average rise in unit values being about 30 per cent. Similarly, in the case of imports of non-ferrous metals, whereas the value of imports went up from

Rs. 104.2 crores in 1972-73 to Rs. 133.0 crores in 1973-74, the quantity imported declined from 1806 lakh kg. to 1592 lakh kg. As a result of sharp increases in prices of copper, nickel, lead, zinc and tin, the rise in their unit values ranged between 15 to 48 per cent.

7.19 The trends in the imports of principal items brought out above would show that the large expansion in our imports during 1973-74 was principally due to higher prices abroad rather than any substantial rise in the quantum of our import trade. Excluding foodgrains and vegetable oils for which the quantities imported in 1973-74 were larger, there was no significant rise in the quantum of our other imports. In face of restricted availability and high commodity prices abroad, there was only a limited scope for alleviating domestic shortages through imports and the general escalation of import costs had the effect of pushing up the costs of domestically manufactured goods.

7.20 During the first eight months of 1974-75 (April-November) the value of India's total imports at Rs. 2451.3 crores went up by 54 per cent as compared to the corresponding period of 1973-74. Commodity-wise details are, however, available for the period April-September, 1974. Of the total increase of about Rs. 821.3 crores in the value of our imports in these six months, imports of POL, fertilisers, food and iron and steel accounted for a little less than 89 per cent or Rs. 729.4 crores of the in-

crease in the value of imports. Non-ferrous metals accounted for another 2.8 per cent of the increase in the total value of imports. The value of the imports of raw cotton, raw jute, pulp and waste paper and non-metallic mineral manufactures on the other hand registered a decline.

Import Licensing

7.21 Due to the time lag between the issuance and utilisation of import licences, there is no strong correlation between the value of imports and the value of import licences issued during any particular year. Compared to a rise of 56.4 per cent in the value of our imports in 1973-74, the value of import licences issued during this period increased by 26 per cent, the total value of licences issued in this year being Rs. 2333 crores as against Rs. 1856 crores in 1972-73. In the overall value of licences issued, the Government sector accounts for the major share. During 1973-74, licensing in favour of this Sector recorded an increase of about 35 per cent in the value of licences issued and formed about 71 per cent of the total value of the licences issued. In the case of private sector, there was only a small increase of 8 per cent. There was no change in the overall direction of the import policy for 1973-74. However, there was some further liberalisation of imports in order to provide a stimulus to exports.

7.22 The trends in the issue of import licences to principal categories of importers since 1970-71 are shown in the following table :

TABLE 7.3
Category-wise Trends in Import Licensing

Categories	1970-71	1971-72	1972-73	1973-74	April-October		Percentage change Col. 7/6
					1973-74	1974-75	
1	2	3	4	5	6	7	8
1. Established Importers	41.8	40.8	55.3	38.5	14.3	19.7	+38
2. Actual Users	311.9	368.3	376.0	483.4	199.4	359.8	+80
3. D.G.T.D. Units	385.0	252.7	171.2	198.2	85.4	91.1	+7
4. Small Scale Industries	83.3	118.0	86.4	82.9	29.6	34.9	+18
5. Registered Exporters	94.7	93.4	136.0	151.3	77.3	77.7	neg.
6. Capital Goods	127.1	252.2	268.0	261.6	148.3	101.1	-32
7. Customs Clearance Permits	32.9	32.0	58.1	65.4	35.5	63.3	+78
8. State Trading Agencies	444.6	587.6	620.9	948.3	549.8	607.3	+10
9. Others	112.7	108.7	83.8	104.1	62.5	67.6	+8
Total	1633.9	1853.7	1855.7	2333.7	1202.0	1422.4	+18

7.23 Excepting Established Importers and Small Scale Units, the value of licences issued to all other categories was considerably higher in 1973-74. The largest increase took place in case of State Trading Agencies due to the canalisation of many of our import items through these agencies. The value of licences under this category increased from Rs. 620.9 crores in 1972-73 to Rs. 948.3 crores in 1973-74 i.e. by 53 per cent. Another category for which there was a considerable increase of 28.5 per cent in the

value of licences issued was that of Actual Users. This was on account of the preferential treatment accorded to them on the basis of their export performance and liberalisation of import limits for spares and components. On the other hand, import licences issued to Established Importers declined by 30.4 per cent due to a reduction in their quotas in respect of 26 items, like spare parts of various types of equipment, drugs and medicines, motor vehicle parts, and instruments.

7.24. During the first seven months of 1974-75, the value of import licences issued showed an increase of 18 per cent over the corresponding period of the previous year. The value of import licences issued to actual users rose by 80 per cent during this period. Extension of priority treatment to larger number of industries, simplification of procedures and grant of replenishment licences on repeat basis are among the factors leading to an increase in value of licences issued to this category. The value of licences issued to small scale units also went up by 35 per cent due to the concession given to small scale industries for placing orders straightway on the foreign suppliers and to arrange imports to cover their requirements for the first six months of the year on a repeat performance basis, as well as enhancement of facilities for import of raw materials, components and spares to units set up in backward areas.

Exports

7.25 According to DGCI&S data, India's total exports during 1973-74 amounted to Rs. 2,483.2 crores, being Rs. 512.4 crores or 26 per cent higher than exports of Rs. 1,970.8 crores realised in 1972-73. This compares with an annual compound rate of growth of nearly 9.7 per cent during the first four years of the Fourth Five Year Plan (1968-69 to 1972-73). With the increase recorded in 1973-74, the annual average rate of growth of value of exports during the entire Fourth Plan period works out at 12.8 per cent.

7.26 The rate of growth of 26 per cent in our export earnings during 1973-74, though significant in view of the constraints on domestic production does not compare favourably with the trend in the growth of world trade or the overall expansion in the exports of developing countries. During 1973, for instance, the value of world exports grew by 37.8 per cent and exports of developing countries (excluding oil exporting developing countries) rose by over 45 per cent. As against this India's exports in 1973 went up only by 31.6 per cent. While the less developing countries (excluding oil exporting developing countries) increased their share in world exports from 11.7 per cent in 1972 to 12.4 per cent in 1973, our share in world exports declined from 0.66 per cent in 1972 to 0.63 per cent in 1973. Besides, the growth of our exports lagged far behind the expansion in imports and led to the accentuation of the imbalance in our external trade.

7.27 Export earnings during 1973-74 benefited to a large extent due to higher unit value realisations as a result of the increase in world prices of many commodities. According to the DGCI&S volume index of exports with 1958 as base, the overall increase in the volume of our exports in 1973-74 was only 3.6 per cent compared to 11.3 per cent in 1972-73. Thus of the total increase of 512.4 crores in export earnings during 1973-74 only 14 per cent could be attributed to volume increases, the remaining 86 per cent was due to higher unit value realisations.

7.28 During 1973-74, there was no change in the exchange rate system and the central value of the rupee remained fixed at Rs. 18.97 in terms of pound

sterling. India's exchange rate policy in recent years has helped to maintain the competitiveness of India's exports in face of severe inflationary pressures at home. In a world of floating currencies it is hardly realistic to expect a complete stability in the exchange rate arrangements. However, it is worth noting that in 1973-74 even on a trade weighted basis, the effective exchange rate of the rupee vis-a-vis the currencies of eleven of her trading partners, accounting for nearly 60 per cent of our foreign trade declined by no more than 2.89 per cent.

7.29 Commodity-wise, the main items which recorded a significant increase in export earnings during 1973-74 were oilcakes, cotton fabrics, engineering goods, handicrafts, fish and fish preparations, cotton apparel, sugar, groundnuts, iron-ore and art-silk fabrics. These ten items together contributed nearly 89 per cent of the increased export earnings of Rs. 512.4 crores during 1973-74. On the other hand, items for which the value of exports declined included jute manufactures, tea, leather and leather manufactures, mica, cotton yarn, and mineral fuels and lubricants. Table 7.4 in the text below shows the trends in exports by major commodities from 1971-72 to 1973-74, as also during April—September, 1974.

7.30 Exports of jute manufactures during 1973-74 declined by 9.1 per cent in value terms, i.e. from Rs. 250.0 crores in 1972-73 to Rs. 227.4 crores in 1973-74. This decline was due both to a fall in the quantity exported and lower unit value realisations. Due mainly to lower offtake of the major markets—the U.S.A. and the U.S.S.R.—the quantum of jute manufactures exports registered a decline of 3.1 per cent as compared to 1972-73. The fall in domestic production on account of shortfall in supply of power to the industry and 33-day long strike in January-February 1974 also contributed to a decline in exports. The unit value realisations dropped by 6.1 per cent reflecting in part the impact of the reduction in export duty in June and August 1973. The earlier expectation that jute manufactures would secure a substantial relative price advantage over synthetic substitutes due to the rise in petroleum prices did not materialise during 1973-74 as the effect on the cost of production of synthetic polypropylene turned out to be very marginal.

7.31 Tea exports also registered a small decline of Rs. 2.4 crores in value. The unit-value of tea suffered slightly, and the adverse trend was reinforced by a decline of 1.5 per cent or 2.9 million kg. in the quantum of tea exports from India as compared to the 1972-73 level.

7.32 Exports of leather and leather manufactures also recorded a small decline of 1.9 per cent, from Rs. 174.5 crores in 1972-73 to Rs. 171.4 crores in 1973-74. Another item which suffered a reverse was mineral fuel and lubricants and exports fell sharply by about 52 per cent from Rs. 31.96 crores in 1972-73 to Rs. 15.32 crores in 1973-74. Exports of mica also declined from Rs. 16.61 crores in 1972-73 to Rs. 12.99 crores in 1973-74, due to a decline of 18.2 per cent in unit value and 4.5 per cent in quantity.

TABLE 7.4
Exports—Major Commodities

(Values in Rs. crores)

Item/Group	1971-72	1972-73	1973-74	Percent- age va- riation in 1973- 74 over 1972-73	April-September		Percent- age change in Apr.— Sept. 1974 over Apr.— Sept. 1973
					1974-75	1973-74	
1	2	3	4	5	6	7	8
1. Oilcakes	40.2	74.8	170.6	+128.0	43.6	90.5	-51.8
2. Tobacco	45.1	63.9	70.9	+11.0	56.2	45.7	+23.1
3. Fish & fish preparations	42.0	54.5	88.4	+62.3	31.8	41.7	-23.4
4. Tea	156.3	147.3	144.9	-1.7	38.1	60.0	+46.8
5. Coffee	22.1	32.9	46.0	+39.7	32.8	26.4	+24.5
6. Sugar	30.2	13.3	42.2	+218.0	100.7	5.6	+1705.4
7. Cashew kernals	61.3	68.8	74.4	+8.2	66.1	46.2	+43.0
8. Groundnuts	5.8	5.4	32.5	+501.8	10.6	5.7	+87.6
9. Iron Ore	104.7	109.8	132.8	+21.0	49.3	55.2	-10.8
10. Cotton Fabrics	76.7	100.9	192.2	+90.4	93.6	77.3	+21.1
11. Cotton apparel	14.0	29.9	63.7	+113.5	48.3	15.9	+204.2
12. Art silk fabrics	7.5	9.6	27.9	+190.6	10.7	8.2	+30.7
13. Jute manufactures	265.3	250.0	227.3	-9.1	169.4	111.2	+52.3
14. Leather & leather manufactures (excl. footwear)	90.8	174.5	171.4	-1.9	76.5	93.3	-18.0
15. Engineering goods	122.3	141.0	201.3	+42.8	141.1	75.9	+85.8
16. Handicrafts	81.7	119.7	164.1	+37.1	84.7	59.0	+43.5
17. Others	442.3	574.5	632.6	+10.1	411.1	257.0	+60.0
Total exports	1608.2	1970.8	2483.2	+26.0	1514.6	1074.8	+40.9

7.33 Among primary exports, the most outstanding performance was in respect of oilcakes. Exports of oilcakes increased from Rs. 74.77 crores in 1972-73 to Rs. 170.60 crores in 1973-74, i.e. Rs. 95.83 crores or 128 per cent, the gain being due to higher unit value realisations as well as a larger volume of exports. The quantum of oilcakes exports went up by 22.3 per cent to 1224.5 thousand tonnes during 1973-74. The increase in unit price, from Rs. 747 to Rs. 1393 per tonne was, however, much more substantial. The major portion of oilcakes exports was to Japan, U.K., Italy and Netherlands. The spurt in oilcakes exports was assisted to a great deal by the restriction imposed by U.S.A. on the export of soya-bean meal and non-availability of fish meal from Peru. Demand for oilcakes was particularly strong from the enlarged EEC and Japan but this could not be fully exploited due to constraints on domestic production.

7.34 Cotton fabrics—both mill-made and handloom—was another item which played a leading role in the expansion of exports during 1973-74. The value of their exports amounted to Rs. 192.2 crores which was Rs. 91.3 crores or 90.4 per cent higher than in 1972-73. The quantity of cotton fabrics exports increased by almost 44 per cent in the case of both mill made and handloom fabrics and their respective unit values went up by 32 and 35 per cent. The comfortable supply position of raw cotton and a more favourable turn in demand conditions abroad due to cotton textiles becoming more competitive than

synthetic fabrics, contributed to the sharp improvement in the performance of cotton textiles. In addition to regular sales to the U.S.A., the U.S.S.R. and the U.K., increased exports to Japan helped in the expansion of exports of cotton textiles. The exports of cotton apparel which is an item with a relatively high value-added element increased from Rs. 29.85 crores in 1972-73 to Rs. 63.74 crores in 1973-74, thus registering an increase of 113.5 per cent.

7.35 The other items which registered increases in export earnings in 1973-74 were unmanufactured tobacco, coffee, cashew kernals, coir yarn and manufactures and handicrafts. Exports of coffee, unmanufactured tobacco, cashew kernals and coir yarn and manufactures benefited from a rise in their unit-values. Exports of handicrafts recorded a significant increase of Rs. 44.4 crores, from Rs. 119.7 crores in 1972-73 to Rs. 164.1 crores in 1973-74. Exports of pearls and stones alone which are a predominant component of this item went up by around 37 per cent, the increase being mainly in respect of markets like Hongkong, the U.S.A., Belgium and Japan.

7.36 Exports of sugar during 1972-73 had suffered a severe set-back as a result of the shortfall in domestic production. Assisted by the upswing in the world prices and the increase in domestic output, this item made an appreciable recovery in 1973-74. Exports of sugar amounted to Rs. 42.2 crores in 1973-74 as

against Rs. 13.3 crores in 1972-73. The unit value realisations were about 30 per cent higher than in 1972-73. A significant feature of sugar exports during 1973-74 was that oil producing countries like Indonesia, Iran, South Yemen Republic and Kuwait emerged as important buyers.

7.37 Among non-traditional exports, the performance of engineering goods improved further, and the value of these exports went up from Rs. 141 crores in 1972-73 to Rs. 201 crores in 1973-74, i.e. by about 43 per cent. Considering that the rate of growth of exports of engineering goods had shown a declining tendency in earlier years, the improved performance in 1973-74 is indicative of greater profitability of sales abroad.

7.38 Notwithstanding the difficulties arising from rail movements and labour unrest, iron ore exports increased from Rs. 110 crores in 1972-73 to Rs. 132.8 crores in 1973-74, showing an increase of 21 per cent in value. The quantity exported also rose by about 15 per cent and unit value realisations were better by over 5 per cent. Exports of fish and fish preparations rose by an impressive 62 per cent and touched a level of Rs. 88.4 crores during 1973-74. The unit value of these exports improved by about 20 per cent and the quantity exported by 35 per cent. More than half of these exports went to Japan and U.S.A.

7.39 On an overall view, the growth of our export earnings during 1973-74 was largely the outcome of improved export price realisations, thanks to the continuation of expansionary conditions in the world markets. We took advantage of the prevailing world conditions by raising the quantum of exports of commodities like cotton fabrics, oilcakes, sugar, fish and fish preparations, art silk fabrics and coffee also. The performance of engineering goods exports also improved. At the same time, the quantum of some of our main traditional exports like jute manufactures, tea and coir yarn and manufactures registered a small decline and remained below the levels reached in earlier year. Looked at in this light, our export performance in 1973-74 does not intrinsically indicate any significant break-through. The commodity boom is already on the wane and international prices of items like oilcakes have come down. Two of our major export items viz. jute manufactures and tea did not benefit from price rise. The experience during 1973-74 is also indicative of our inability to fully exploit market opportunities when they arise due to constraints and bottlenecks in domestic production. This emphasises the imperative need for a speedy removal of impediments to domestic production of exportables and wherever possible domestic consumption has to be curbed so as to generate adequate exportable surpluses in order to derive fuller advantages of the market situations developing abroad.

7.40 During the first eight months of 1974-75 (April—November) the total value of India's exports came to Rs. 2026.8 crores, representing an increase of 36.2 per cent over the aggregate export earnings of Rs. 1488.1 crores in the corresponding period of the preceding year. This high rate of growth reflects the

combined effects of some reversal of the earlier unfavourable trends in the case of our two major traditional exports, namely jute manufactures and tea, the continuing improvement in the performance of items like cotton fabrics and engineering goods as well as items like unmanufactured tobacco, coffee, pepper and mica and the fortuitous circumstances for larger exports of sugar and to an extent of silver.

7.41 Commodity-wise details of exports are so far available only for the first six months of 1974-75 (April to September). A noticeable feature of our export trade in this period was that the export value of two of our principal traditional items, namely jute manufactures and tea registered substantial gains. The export value of jute manufactures at Rs. 169.4 crores recorded an increase of 52.3 per cent over the corresponding period of the previous year. In terms of quantity, there was an increase of 28.6 per cent and unit value also rose by 18.4 per cent. Exports of tea at Rs. 88.05 crores recorded an increase of 46.8 per cent during this period. The unit value of tea exports, which had remained practically unchanged during 1973-74, recorded a welcome increase of about 49.2 per cent. The spurt in demand for tea in London market was due to a severe drought which affected production of tea in East Africa.

7.42 Among other traditional items, cotton fabrics showed improved performance during this period. The value of exports of cotton fabrics rose by 21.1 per cent over that in the corresponding period of the previous year. In the case of mill-made fabrics, there was a decline in the quantity of exports by 28.8 per cent but this was more than offset by a 67.9 per cent rise in unit-value. In respect of handloom fabrics, the quantity of exports rose by 2.7 per cent accompanied by an increase in unit value by 24.5 per cent. Exports of cotton apparel went up from Rs. 15.88 crores in April—September, 1973 to Rs. 48.31 crores in April—September, 1974.

7.43 The other traditional items which improved their export performances were cashew kernels, unmanufactured tobacco, coffee, pepper and mica. The value of exports of cashew kernels rose by 43 per cent. The rise in earnings was attributable to an increase in unit-value by 36.3 per cent. Similarly in the case of tobacco, there was a rise of 20.3 per cent in unit-value, leading to a gain in value of exports by Rs. 10.5 crores. Exports of coffee fetched about Rs. 6.5 crores more because of a significant rise in unit value by 36.4 per cent. The value of exports of pepper recorded a rise of Rs. 1.6 crores aided by an increase in unit-value by about 54.9 per cent. In the case of mica exports, there was a reversal in the earlier trend of a price decline, and its unit-value rose by about 118 per cent, thereby doubling the value of exports. The rise in unit-value of mica is traceable to the strengthening of demand following increases in the prices of synthetic substitutes.

7.44 The largest increase in export earnings during April—September, 1974 was recorded by sugar. The value of sugar exports during this period—Rs. 100.7 crores—was as much as Rs. 95.1 crores higher than in April—September, 1973. The exceptional rise in

the prices of sugar in the international markets combined with brisk overseas demand greatly helped our sugar exports. The unit-value of sugar went up from Rs. 1294.6 to Rs. 4187.0 per tonne. If the buoyancy in the sugar market continues, it may not be difficult to realise the target of sugar exports during 1974-75.

7.45 Exports of engineering goods also recorded a substantial increase. The exports of oilcakes, however, declined by 51.8 per cent owing to a fall in the quantity and unit value of exports. A recovery in the Peruvian fish catch and good sunflower crops in U.S.S.R. seem to have led to a decline in demand and prices of oilcakes. Iron ore exports also declined by Rs. 5.94 crores during April—September 1974-75.

7.46 There are indications that in the latter half of 1974-75, the high rate of growth of exports observed in the first half of the year would taper off to a considerable extent. In regard to some items, the momentum in exports gained earlier is already weakening. Allowing for a continued increase in exports in respect of some commodities, the outlook for the year as a whole is that our aggregate exports may touch a level of around Rs. 3100 crores and will be some 25 per cent higher than in 1973-74. Given the large increase in imports now expected for 1974-75, this order of increase in exports will imply a substantial deterioration in India's balance of trade.

Trade Policy Developments

7.47 The broad framework of export policy which includes provision of import replenishment for selected export products, grant of cash compensatory support, drawbacks of customs and excise duties, supply of strategic inputs at international prices, concessions in freight charges and liberal credit facilities at concessional rates remained unchanged during 1974-75. In order to make the import policy more export-oriented, certain selective measures were adopted. For certain products, where the rate of import replenishment was less than 50 per cent, an additional allocation of 10 per cent of normal replenishment was allowed in the current year. It was also decided to allow certain selected export industries to supplement their supplies of furnace oil by utilising part of their REP entitlements. The scheme of compulsory export obligation was extended to two more industries viz. Tungsten Carbide Tips & Tools and Domestic Refrigerators. The policy for 1974-75 stipulated that if export performance of the 28 industries under compulsory export obligation fell below 5 per cent of their respective production, they would be liable to a cut in imports, apart from being ineligible for preferred sources of supply. With a view to seizing the opportunities offered by rising commodity prices abroad, quantitative restrictions on the export of basmati rice were abolished. The ban on the export of silver and silver products in force since 1943 was lifted in February 1974. Exports of naphtha were also allowed. With effect from 24th December, 1974 the export duty on hessian carpet backing has been substantially lowered and brought to the level of the rates for jute canvas, jute webbings etc.

7.48 A new feature of the export drive in 1974-75 was the creation of an export processing zone (EPZ)

for electronic equipment and components near Santacruz airport at Bombay. The zone commenced its operations in September 1974.

7.49 Despite considerable strains on the balance of payments in the wake of the oil crisis, the overall import policy for 1974-75 remained fairly liberal. The other salient features of the policy were simplification of import licencing procedures, liberalisation of imports of spare parts and components, preferential treatment to export linked industries and a widening of the role of state trading agencies. Small scale industries in the priority sector were allowed, during the first half of the year, to enter into direct negotiations for their import requirements with the foreign suppliers and for that purpose, 50 per cent of the value of licences issued to them during 1973-74 was made automatically valid by way of repeat operation of licences. Manufacturer-exporters were also allowed 'repeat operation' facilities in respect of import replenishment licences and release orders for canalised items. In the case of small scale industrial units, import licences for raw materials, spares and components, issued during 1973-74 were made automatically valid on a repeat basis for 50 per cent of their value.

7.50 Some modifications were introduced in the system of preferential treatment accorded to actual users in the priority sector. Accordingly, priority sector units exporting 10 per cent or more of their production during 1973-74 continued to be eligible for facilities for further expansion of export production and for imports from preferred sources of supply. In the non-priority sector, units exporting 20 per cent or more of their production were allowed priority treatment. Industrial units exporting 25 per cent or more of their production were permitted imports of a higher proportion of their requirements against free foreign exchange.

7.51 The policy for import of spare parts and components was liberalised with a view to facilitating greater utilisation of installed capacity. The limit for the import of spare parts by large scale units was raised to 2-1/2 per cent for the value of imported machinery as against 2 per cent in the earlier years. Similarly the maximum limit for the grant of emergency licences to actual users for the import of spare parts was raised to Rs. 20,000/- in the case of large scale units and Rs. 8,000/- for small scale units. Small scale industries set up in the backward areas or by engineering graduates were allowed import licences for raw materials and components to the extent of 70 per cent of the value of installed machinery subject to a maximum of Rs. 2 lakhs.

7.52 With a view to securing economies of large scale buying and reduction in import costs, the role of public sector agencies was further widened by canalising 10 more items through these agencies, raising the total number of canalised items to 210. For securing efficient arrangements for procurement and distribution of raw materials, the Industrial Raw Materials Assistance Centre (IRMAC) set up by the State Trading Corporation expanded its activities for 'off-the shelf' deliveries to actual users and registered exporters and also functioned as an indenting house.

The MMTC is also making arrangements for meeting the requirements of actual users on 'off-the-shelf' basis and for providing indenting facilities to export units in respect of minerals and metals imports. The Steel Bank run by HSL has also made arrangements for maintaining stocks of critical and strategic categories of steel for 'off-the-shelf' delivery against valid import licences or release orders.

7.53 The import policy also introduced arrangements designed to facilitate conversion deals, under which raw materials would be allowed to be imported for export processing. Certain items which were not allowed for imports earlier were put on the Actual Users List. On the other hand, a number of items for which indigenous capacities had developed were removed from the permissible list for imports. Imports of about 61 items which were earlier allowed to actual users without restriction were put on the restricted list. These included industrial roller chains, tungsten oil filaments, pure iron, ball and roller bearings of certain sizes some drugs and medicines etc.

7.54 Several measures were taken during the year to develop closer commercial and economic relations with other countries. A new Trade and Payments Agreement was concluded with Bulgaria and an agreement for a Commercial Development Programme with West Germany was signed. Two other new agreements concluded were with Iran and Kuwait. Another significant development was that accord was reached with Bangladesh to switch over from rupee payments system to payments in convertible currencies for trade transactions with effect from 1975. In a recent meeting of the Indo-EEC Joint Commission, agreements have been reached whereby EEC would allow duty free entry of our jute and coir products into the U.K. and Denmark for another year. Negotiations are being conducted for further relaxations in quota and tariff restrictions by the EEC to facilitate a larger flow of our exports of other commodities, including 'sensitive commodities' into the EEC market. The EEC is also likely to liberalise its GSP scheme for 1975.

External Assistance

7.55 The volume of external assistance received by India was showing a continuous decline for some years and it touched a low level in 1972-73. The

nominal value of aid received by India, however, showed an increase in 1973-74. The increase was in no way commensurate with the enlarged foreign exchange expenditures which India had to incur consequent upon the rise in international prices of essential items of her imports. The proportion of her imports financed by gross inflow of assistance from abroad fell from 60 per cent in 1967-68 to 36 per cent in 1972-73 and despite the increase in assistance, it declined further to 29 per cent in 1973-74. Aid receipts are estimated to show a further rise in 1974-75, and according to available indications, India's import bill would also swell up substantially in 1974-75.

7.56 The gross inflow of aid from all sources abroad, after having fallen from Rs. 1196 crores in 1967-68 to Rs. 666 crores in 1972-73, rose to Rs. 849 crores in 1973-74. It is estimated that in 1974-75 gross aid disbursements may increase to Rs. 1081 crores, mainly on account of larger availability of IDA loans and larger receipts of grants relating to the U.N. Emergency Operations Scheme. A part of the increase in the value of disbursements since 1973-74 is due to exchange rate changes. If allowance is made for the substantial rise in prices in the donor countries or for the increase in import prices, it would appear that the real value of gross aid to India since 1973-74 may well have not increased substantially.

7.57 Considering India's large debt servicing payments by way of repayments of principal and interest charges, the volume of gross aid disbursements does not provide any clear indication of the net transfer of external resources to India. Net of the reverse flows arising from debt servicing payments, there was a substantial decline in the transfer of resources from Rs. 863 crores in 1967-68 to Rs. 159 crores in 1972-73. In 1973-74, the net transfer of resources increased to Rs. 254 crores and for 1974-75, it is estimated to increase to Rs. 480 crores though even at this level, it would be Rs. 48 crores less than the net transfer of resources in 1968-69. Moreover, the real value of net transfer of aid since 1973-74 is much lower than the nominal figures, due to inflation in the donor countries. The following table brings out the trends in the inflow of gross and net external assistance to India in recent years :

TABLE 7.5
Inflow of External Assistance: Gross and Net

Items	(Rs. crores)								
	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75**	
I. Gross Disbursements	1196	903	856	791	834	666	849	1081	
of which									
(a) PL 480 food*	285	131	128	57					
(b) PL 480 Non-food	57	27	41	32	112	4	—
(c) Other Food Assistance	45	55	19	36	32	21	
II. Total Debt Servicing	333	375	412	450	479	507	595	601	
of which :									
(a) Amortisation Payments	211	236	268	290	299	327	399	401	
(b) Interest Payments	122	139	144	160	180	180	196	200	
III. Net Inflow of Assistance (I—II)	863	528	444	341	355	159	254	480	

*Includes assistance by way of imports under rupee payment terms and under convertible currency credits. **Estimates
NOTES: (1) Gross aid disbursements take into account debt relief inclusive of debt rescheduling/postponement etc. Debt service payments relate to those involving foreign exchange and through export of goods.
(2) USSR Wheat assistance, and credits secured for financing a part of the oil imports from Iran and Iraq are not included in the gross aid disbursements. However, likely aid disbursements in 1974-75 from assistance made available under the U.N. Emergency Operations Scheme are included.

7.58 Over the years India's debt servicing obligations have been snowing a continuous rise and have been imposing a heavier burden on her balance of payments. Debt service payments, comprising of amortisation and interest payments more than quadrupled from an amount of Rs. 142 crores in 1961-62 to Rs. 595 crores in 1973-74. In 1974-75 these are estimated to increase further to Rs. 601 crores. The mounting debt service burden, which, in recent years has been as high as 25 per cent of annual export earnings, has had the effect of diminishing the net resources available from assistance from abroad for financing import requirements. In 1973-74, for example, as much as 70 per cent of gross utilisation merely offset the debt servicing payments. It has been important in this context to ensure that the assistance which India receives is usable in the most flexible manner and is disbursed quickly. As an important aspect of the improved quality of aid, India has sought debt relief and has met with some limited success in this endeavour. For the four years 1968-69 to 1971-72, the Aid-India Consortium provided India with debt relief, on an average, of U.S. Dollar 100 million a year. In 1972-73, \$ 148 million was given as debt relief and in 1973-74 about \$ 135 million. For 1974-75, a total debt relief of \$ 194 million is anticipated. In view of the growing severity of the pressure on the balance of payments, in the wake of steep increases in prices of oil, food and fertilisers, the need for greater external assistance of the requisite quality, including larger debt relief, has become more acute. The utility of debt relief as a means of alleviating the distress of the countries most seriously affected by the recent economic events was recently recognised when the Sixth Special Session of the U.N. General Assembly recommended to the donor countries the provision of substantial debt relief.

7.59 At its meeting held in June 1974, at Paris, the Aid India Consortium agreed that for avoiding a set-back to India's economic development, non-project assistance, including debt relief, of about U.S. \$ 800 million and project assistance of about U.S. \$ 600 million should be committed for India for 1974-75. The pledge of \$ 1400 million for 1974-75 compares favourably with that of \$ 1200 million indicated by the Consortium for the year 1973-74, though a part of the increase is likely to be offset by the price rise in the donor countries.

7.60 During the first nine months of 1974-75, fresh aid authorisations have amounted to Rs. 724 crores, which is marginally higher than Rs. 721 crores during the corresponding period last year. Besides, India has received assistance from Iran and Iraq in the form of deferred credits for financing a part of the supplies of crude oil made by them.

7.61 India is a beneficiary under the United Nations Emergency Operations Scheme meant to assist the countries most seriously affected by the recent economic events. India has so far been allocated \$ 32.5 million from the Special Fund of the Secretary-General of the U.N. The EEC has allocated to India \$ 50 million from the first tranche of its bilateral assistance under the U.N. Emergency Operations Scheme. Some

of the other donors are the U.K. (£ 20 million) and Sweden. Assistance under the U.N. Emergency Operations Scheme is meant to be additional to normal development aid and is intended to enable the assisted countries to maintain unimpaired their essential imports in the context of the recent price rise. However, the assistance so far in sight is much below the amount required for enabling countries like India to meet their essential import requirements.

Implications of Recent Economic Developments vic-a-vis Export Strategy

7.62 The steep increase in the price of fuel, fertilisers and food involves a big jump in India's import bill. If we have to meet these essential requirements without a cut in the import of other vital goods—raw materials and capital goods—there has to be a major increase in our exports.

7.63 Unfortunately, the recent recession in the level of economic activity in industrial countries does not constitute a favourable development. However, considering that India's exports of manufactures account for only a small part of world trade in manufactures, it should still be possible for us to increase our exports significantly. Our trade relations with East European countries impart an added measure of stability to our exports.

7.64 It is now obvious that the export targets underlying the draft Fifth Plan will have to be substantially raised for ensuring viability of India's balance of payments and we have to think in terms of a minimum rate of growth of exports in volume terms of at least 10 per cent per annum.

7.65 In working out a viable export strategy, the limited export potential of most of India's traditional export products such as jute manufactures, tea, oil-cakes, tobacco, sugar and spices has to be recognised. In the case of these commodities, the growth of our exports is likely to be constrained either by the sluggishness of international demand or by the uncertain supply prospects which are rooted in the relatively poor performance of Indian agriculture. Nevertheless, in respect of all these commodities, we need to undertake adequate defensive action so as to ensure that our present share of international trade does not decline any further. As regards sugar, the short-term export prospects are still very bright provided we can manage to increase the production. There are no doubt limits to the growth of area under sugarcane. However, considering that only about 30 per cent of sugarcane is used for the production of sugar, it should be possible through suitable measures to increase the production of sugar by diverting more of sugarcane from the gur and khandasari industries.

7.66 Among our traditional exports, cotton textiles offer a significant growth potential on the assumption that the industrial countries do not witness a prolonged industrial recession. We have a highly ambitious export target in the Fifth Plan for cotton fabrics, involving more than a doubling of exports over the five year period. This target is certainly attainable if we can ensure a rapid increase in production of exportable

varieties at prices which are internationally competitive. Exports of garments from India in the last three or four years have increased very rapidly. However, whereas world trade in this sector is of the order of nearly Rs. 2,000 crores our exports are worth only about Rs. 50 crores. This is an area where through proper promotional efforts, backed up by adequate availability of basic raw materials, we can hope to raise our exports to about Rs. 250 crores by the end of the Fifth Five Year Plan.

7.67 Exports of leather and leather goods offer a considerable growth potential. In order to fully exploit this potential vigorous steps are necessary to increase the production of quality finished leather. Marine products are another area of exciting growth prospects.

7.68 It goes without saying that engineering goods and chemicals and allied products must provide the main motive force for a rapid growth of our exports. We have a considerable comparative advantage in the production of engineering goods and if it is ensured that exports on balance are more profitable than domestic sales, we can easily bring about a 20 to 30 per cent annual growth in the export of engineering

goods. Currently, only about 4 per cent of India's engineering goods output is exported, and a small number of firms account for the bulk of exports. There is every reason to believe that if exporting becomes more profitable, more and more firms would look upon exports as a part of their normal operations. There are also very considerable possibilities for increasing our exports of iron ore. In order to make full use of the available opportunities, it will be necessary to have a coordinated plan for the development of iron ore as well as pellets, mining and port facilities.

7.69 The foregoing account brings out the vast export opportunities in respect of product groups such as textiles, engineering goods, marine products, leather goods and chemicals and allied products. In all these industries, all major exporting firms would need to work out concrete programmes for expansion of their exports in the next five years and effective arrangements will have to be made to provide these firms with the needed imports and other facilities on a stable long term basis so as to create the required degree of confidence in expansion.