CHAPTER 7

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

Introduction

7.1 The international economic environment facing the oil importing developing countries continued to be highly unfavourable in 1975-76. As a result of vigorous export promotion measures, economies in consumption of oil and the resilience displayed by international financial markets in recycling surplus petro-dollars, the developed countries have succeeded in neutralising the impact of higher prices of oil on their external payments. For the oil importing developing countries, however, the problems created by the increased import costs of oil have been compounded by the combination of inflation and recession in developed countries. The recession has adversely affected the volume and prices of some of the developing countries' major exports of primary products and traditional manufactures. The inflation has meant that the prices of developing countries' manufactured imports have continued to rise, in addition to the price of oil. As a result, the terms of trade of the oil-importing developing countries, including India, have continued to be unfavourable. India's own foreign exchange position has been reasonably comfortable partly because of certain favourable developments in invisible earnings. It must, however, be remembered that the country has passed through a period of rather sluggish growth. A sustained increase in investment will again strain the balance of payments unless the rate of growth of exports can be stepped up and maintained.

Overall Trends in Balance of Payments and Movement of Reserves

7.2 India's detailed balance of payments accounts and data are at present not available beyond March, 1974. As such, the main features of her overall balance of payments position in the recent past have to be inferred from movements in foreign exchange reserves, foreign trade data as published by the DGCI&S and receipts from external assistance.

7.3. The movement in a country's foreign exchange reserves reflects the net outcome of all its external transactions. The text Table 7.1 sets out the movement in India's foreign exchange reserves during recent years and the first nine months of 1975-76, together with the position as regards transactions with the International Monetary Fund.

7.4 As will be observed from the data given in Table 7.1, following a fairly comfortable position in 1973-74 when reserves had gone up by a little more than Rs. 100 crores (inclusive of the drawings of Rs. 62.0 crores under the IMF's Compensatory Financing Facility) India's balance of payments came under heavy pressure during 1974-75, necessitating recourse to drawings from the IMF on an extensive scale. Total borrowings from the IMF over the year 1974-75 aggregated to Rs. 484.7 crores comprising of withdrawals of Rs. 72.2 crores under the gold tranche, Rs. 220.3 crores under the first credit tranche and Rs. 192.2 crores under the 1974 Oil Facility. Exclusive of the drawings from the IMF, the net decline in India's foreign exchange reserves amounted to about Rs. 463 crores over the year 1974-75 and this provides a measure of the gap in her overall balance of payments in this year.

7.5 The deterioration in India's balance of payments during 1974-75 stemmed primarily from the increased trade deficit resulting from sharp increases in import prices particularly of POL, fertilisers and foodgrains. On top of a nearly 57 per cent increase in the value of imports in 1973-74, India's import bill went up by a further 51 per cent in 1974-75 and despite a rise of 31 per cent in the value of exports the year 1974-75 ended with a record trade deficit of Rs. 1164 crores. While net receipts from external assistance were higher and the invisible account also seems to have shown an improvement, the increased net inflows on both these counts were in no way comensurate with the greatly increased burden of import payments or the size of the trade deficit. The financing of this gap entailed, as indicated above, an extensive resort to external borrowings and inclusive of these the total foreign exchange reserves recorded a small rise of about Rs. 22.2 crores during 1974-75. This manner of financing the external deficit while having a salutary contractionary impact on the growth of domestic money supply was at the same time symptomatic of a heavy pressure on the balance of payments.

TABLE 7.1

Movements in India's Foreign Exchange Reserves

(Rs. crores)

End of year/month	Gold & Foreign Exchange*	SDRs*	Total Reserves	Variation in Reserves	Accruals of Fresh SDRs	Variations in Reserves Excluding Fresh Accruals of SDRs (5—6)	Net Drawings from(+)/ repayments(—) to IMF	Variations in Reserves Gross of Transactions 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
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	+62.0	+38.7
1974-75	793.0	176.2	969.2	+22.2	..	+22.2	+484.7	—462.5
Dec. 1975 (a)	936.8	222.3	1159.1	+189.9	..	+189.9	+207.1	—17.2

*All foreign exchange holdings are valued at par/central rates upto June 1972, except for the holdings of Canadian dollars from June 1970 to June 1972 which are valued on the basis of the monthly averages of spot buying and selling rates in New York, and the holdings of Deutsche Mark from May to November 1971 and of Yen and Sterling from September to November 1971 which are valued on the basis of the monthly averages of spot buying and selling rates in London. From July 1972 holdings in Sterling are valued at the average of the Bank's spot buying and selling rates; all other foreign exchange holdings are valued on the basis of the monthly averages of the spot buying and selling rates in London from July 1972 to April 1974, and on the basis of the averages of spot buying and selling rates in London from May, 1974. Gold has been valued throughout at the pre-December, 1971 rupee prices. SDRs are valued at 1SDR=Rs. 7.50 until August, 1975 and thereafter on the basis of the cross rate between the Fund's SDR rate for Sterling and the average of the Bank's spot buying and selling rate for the Sterling.

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

(a) Provisional.

7.6 India's external reserves came under pressure in the early months of 1975-76 but in the subsequent months the reserve position improved considerably. At the end of July 1975, India's total foreign exchange reserves stood at Rs. 906.3 crores compared to Rs. 969.2 crores at the end of the financial year 1974-75, the net decline over this four-month period being of the order of Rs. 62.9 crores. In view of this deteriorating trend, India had to draw upon the first tranche of the 1975 IMF Oil Facility amounting to Rs. 207.1 crores (SDRs 201.3 million) in the second week of August, 1975. Inclusive of this amount at the end of December, 1975, India's total foreign exchange reserves stood at Rs. 1159.1 crores, i.e. at a level of about Rs. 190 crores higher than that at the end of the fiscal year 1974-75. If allowance is made for the amount of drawal made under the 1975 Oil Facility, the reserves position at the end of December 1975 shows a net decline of about Rs. 17 crores as compared with the level of reserves at the end of the year 1974-75.

7.7 The changes in India's foreign exchange reserves during the first nine months of 1975-76 were mainly the outcome of a marked deceleration in the growth of the value of imports coupled with larger inflows of private remittances through official channels following stringent administrative action against smuggling and illegal dealings in foreign exchange and an improvement in net receipts from other invisibles and in external assistance. Over the first nine months of 1975-76 (April-December) the trade deficit, according to provisional customs returns, has no doubt been larger by Rs. 370.6 crores compared to the same period of the preceding year but there are indications that whereas imports on government account have been higher, private imports did not show any significant rise in the early part of the year. With the expected recovery in domestic industrial activity and better utilisation of installed capacity, for which some measures have been instituted recently, the demand for imported raw materials, spares and equipment, etc. could be anticipated to grow in the latter part of the year. Already the provisional figures of imports during October and November 1975 show a sharp rise in the value of imports compared to the preceding months. Given the high prices abroad of industrial goods, the further addition to the import bill for crude oil on account of the raising of oil prices in October 1975 and the possibility of some tapering off in the buoyancy of invisible receipts, the outlook for the year as a whole is that the surplus on invisibles and net receipts on capital account would barely offset the imbalance on trade account. However, the reserves position at the end of the year is expected to be comfortable.

7.8 Notwithstanding the relatively satisfactory reserves position in the short run the medium-term outlook for balance of payments continues to be one of uncertainty. The demand for maintenance and developmental imports, is expected to increase in any large-scale effort to step up the rate of investment. The burden of external debt is increasing while aid prospects can never be predicted with certainty. As such, continued viability of the external payments position will require sustained efforts to raise the rate of growth of exports to about 8 to 10 per cent per annum in real terms.

7.9 India's external payments on invisible account have benefited by reduced profitability of inflow of smuggled gold in the wake of higher prices of gold in the world markets. The action against smugglers and those indulging in illegal transactions in foreign exchange has further helped to strengthen the balance on invisible account. Government have also adopted a number of other measures to encourage inflow of funds from abroad. Thus as from 1st November, 1975 a scheme has been introduced for encouraging the flow of funds from Indians and aliens of Indian origin residing abroad. This scheme permits persons of this category to maintain deposit accounts in certain foreign currencies and to claim interest and repayment in the same currencies. The scheme, thus, ensures convertibility and provides protection against exchange rate risk. Deposits under the scheme are accepted for periods ranging from 91 days to 61 months and carry tax-free interest at rates varying from 5.5 to 10.0 per cent. Government have also, in another measure, liberalised the provisions for repatriation of investments by non-resident Indians abroad, subject to certain safeguards. While it is too early to assess the response to these schemes, it could be expected that larger deposits and investments by Indians and aliens of Indian origin abroad would augment the flow of foreign exchange into the country.

The Exchange Rate

7.10 A noteworthy development during the current year was the change instituted in the country's exchange rate system with effect from 25th September, 1975. Earlier, the Rupee's central rate was designated in terms of pound sterling. In the unsettled conditions that prevail in the international currency markets, neither the trend nor the fluctuations of any single national currency yield a reasonably reliable indicator of the change in the Rupee's exchange rate. Hence in order to impart greater stability to the effective exchange rate in a world where the major currencies are floating and in the wake of the continuing depreciation in the exchange value of the pound in recent months, a new arrangement was instituted whereby the exchange value of the Rupee is changed periodically with reference to a suitable weighted average of the exchange rate movements of the currencies of India's major trading partners. However, as the pound sterling continues to be India's intervention currency, the Reserve Bank continues to set the exchange rate of the rupee in terms of Sterling. With effect from 25th September, 1975 the Reserve Bank's spot buying and selling rates were so fixed as to yield a middle rate of Rs. 18.3084 to a pound as gainst the earlier middle rate of Rs. 18.60 to a pound established with effect from 2nd July, 1975. With effect from 5th December, 1975 the middle rate has been revised to Rs. 18.1284 to a pound sterling.

Balance of Trade and Direction of Trade

7.11 On the basis of the DGCI&S statistics, India's export earnings registered a record growth of 30.9 per cent during 1974-75. This was, however, accompanied by a steep increase of 51.2 per cent in the total value of her imports. The total value of imports and exports during 1974-75 aggregated to Rs. 4468.1 crores and Rs. 3304.1 crores respectively resulting in a larger trade deficit of Rs. 1164 crores as against Rs. 432 crores in the preceding year. The deterioration in trade balance was wholly due to a sharp deterioration of 27 per cent in India's terms of trade. This was in turn the consequence of a sharp increase in import prices.

7.12 During the first nine months of 1975-76 (April-December) the total value of India's imports and exports is provisionally placed at Rs. 3803.3 crores and Rs. 2689.5 crores respectively, the trade deficit in this period being Rs. 1113.8 crores as against Rs. 743.2 crores in the corresponding period of the preceding year. In this nine month period, the rate of growth of the value of both imports and exports decelerated relative to the previous year. The value of India's imports and exports recorded an increase of 23.1 and 14.6 per cent respectively during April-December 1975. As against this the value of imports and exports had gone up by 66.2 and 38.7 per cent respectively in April-December 1974.

7.13 The large increase in the value of India's imports in 1974-75 was accompanied by some noticeable changes in the directional pattern of import trade. The share of the rupee payment area in our imports increased from 13.5 per cent in 1973-74 to 14.6 per cent in 1974-75. There was also a significant rise in the proportion of India's imports from OPEC—the share of this group of countries went up from 18.2 per cent in 1973-74 to 24.6 per cent in 1974-75. On the export side also the share of East European Countries registered an increase from 19.3 per cent in 1973-74 to 20.6 per cent in 1974-75. India's exports to OPEC group of countries went up by about 168 per cent thereby raising the share of these countries in our total exports to 14.1 per cent in 1974-75 as against 6.9 per cent in 1973-74.

Imports

7.14 As indicated above, the value of India's total imports during 1974-75 at Rs. 4468.1 crores was higher by 51.2 per cent as compared with the 1973-74 level of Rs. 2955.4 crores. The steep increase in the value of India's imports during 1974-75 was principally the result of the continuance of inflationary conditions abroad and the high prices of our major imports which offset by a wide margin the gain from higher realisations on exports. According to the revised series of index numbers compiled by the DGCI&S with 1968-69 as base whereas the overall unit value index of our imports rose by 73 per cent in 1974-75 the rise in the unit value index of our exports was only about 25 per cent. The import quantum indices in the same series show an overall decline of 12.3 per cent in the volume of imports during 1974-75. As against this over the five year period 1968-69 to 1973-74 there was an average compound increase of about 2.7 per cent per year in the volume of imports.

7.15 In terms of the composition of imports while there was a significant decline in the value of imports of some items like raw cotton, raw jute, animal and vegetable oils and fats, non-metallic mineral manufactures and non-electrical machinery, there were on the other hand large increases in the value of imports of food, fertilisers, and P.O.L. These three items together accounted for 56 per cent of the total value of imports during 1974-75 as against 42.7 per cent in 1973-74 and 23 per cent in 1972-73. In absolute terms the import bill on account of these three items increased from Rs. 1260.2 crores in 1973-74 to Rs. 2498.6 crores in 1974-75, the increase of Rs. 1238.4 crores being some 82 per cent of the net increase of Rs. 1512.7 crores in the total value of imports. The other items which contributed to the increased value of imports were iron and steel, newsprint and chemical elements and compounds.

7.16 The trends in the broad commodity-wise composition of India's imports during recent years as also the first three months of the current financial year are set out in the following table :

TABLE 7.2

Value of India's Imports by Major Commodity Groups

(Rs. crores)

	1971-72	1972-73	1973-74	1974-75	April - June		Percentage change in April-June 1975 over April—June 1974
					1974-75	1975-76	
1	2	3	4	5	6	7	8
1. Food	131.2	80.8	473.1	763.8	130.4	258.4	+98.2
2. Raw cotton	113.4	90.9	52.0	26.7	5.7	2.9	—49.1
3. Raw wool	11.8	8.9	16.1	26.3	6.5	5.7	—10.8
4. Animal & vegetable oils and fats	46.5	24.9	64.9	34.9	4.5	1.4	—68.9
5. Fertilisers and fertiliser materials	111.3	145.7	226.8	577.9	75.0	151.5	+101.9
6. P.O.L.	194.1	204.0	560.3	1156.9	346.7	282.6	—18.5
7. Chemical elements and compounds	71.8	91.4	109.7	178.8	30.6	28.0	—8.5
8. Paper and paper board and manufactures thereof	34.9	31.4	29.2	58.9	11.3	19.8	+75.2
9. Metals	340.0	334.9	389.8	595.4	118.6	105.3	—11.2
10. Others	769.5	854.5	1033.5	1048.5	244.7	264.6	+8.1
TOTAL IMPORTS	1824.5	1867.4	2955.4	4468.1	974.0	1120.2	+15.0

7.17 Due to sluggishness of the domestic output during 1972-73 and 1973-74, imports of foodgrains on a substantially larger scale were necessary during 1974-75. As against the actual imports of 4.4 million tonnes of foodgrains valued at Rs. 473.1 crores in 1973-74, about 5.6 million tonnes valued at Rs. 763.8 crores were imported in 1974-75. In addition to larger quantity of imports, a rise of about 28 per cent in the unit value of food imports contributed to the increased import bill on this account. In the case of P.O.L., while there was a marginal decline in the quantity imported, the average unit value went up by as much as 111 per cent during 1974-75. Similarly, the imports of fertiliser and fertiliser raw materials went up by 155 per cent from Rs. 227 crores in 1973-74 to Rs. 578 crores in 1974-75 mainly due to a rise of 106 per cent in unit prices.

7.18 Imports of raw cotton declined from Rs. 52.0 crores in 1973-74 to Rs. 26.7 crores in 1974-75 and the quantity imported was also substantially lower at 14 thousand tonnes as against 57 thousand tonnes in 1973-74. However, because of a sharp rise of 113 per cent in unit value, the decline in value of imports was not proportionate to the decline in the quantity of imports. Similarly, imports of animal and vegetable oils and fats declined significantly from 2.14 lakh tonnes in 1973-74 to 0.8 lakh tonnes in 1974-75, but the decline in value of imports by 46 per cent was not commensurate with the decline in quantity because of an increase in unit value by a little over 43 per cent. Raw wool imports, on the other hand, increased by about 64 per cent to Rs. 26.3 crores almost entirely as a result of a step-up in the quantity of imports.

7.19 Imports of paper and paper board doubled from Rs. 29.2 crores in 1973-74 to Rs. 58.9 crores in 1974-75. The main item in this group, namely, newsprint recorded an increase of 102 per cent in unit value during 1974-75 and the quantity imported also rose from 117 thousand tonnes in 1973-74 to 141 thousand tonnes in 1974-75.

7.20 The value of capital goods imports recorded only a marginal increase during the year. The low tempo of domestic industrial activity coupled with the high prices of machinery and equipment abroad seem to have inhibited the growth of capital goods imports.

7.21 Chemical elements and compounds recorded an increase of 63 per cent in terms of the value of imports. This large increase seems to have been the result mainly of the high prices abroad of the principal items falling under this group. The value of imports of iron and steel went up by 67.3 per cent to Rs. 417.3 crores as against Rs. 249.5 crores in 1973-74 both due to a larger quantity of imports and a rise in average unit price by about 42 per cent in 1974-75. Non-ferrous metals imports rose by about 27 per cent in value despite a decline in the quantum of some of the constituent items. Their unit values recorded an increase ranging between 18 to 90 per cent.

7.22 During the first nine months of 1975-76 (April-December) the total value of imports came to Rs. 3803.3 crores. These were higher by 23.1 per cent compared to the value of imports of Rs. 3089.6 crores in the corresponding period of the preceding year. Commodity-wise details are, however, available at present only for the first quarter of the year (April-June 1975). During this three-month period the value of the imports of food and fertilisers and fertiliser materials nearly doubled as compared to the corresponding quarter of the preceding year. The rise in the value of food imports was due to a larger quantity of imports as well as substantially higher unit prices. In the case of fertilisers this was mainly due to higher unit prices. On the other hand the value of POL imports recorded a decline of 18.5 per cent mainly on account of a decrease of 22.4 per cent in the quantum of imports. The total value of imports during April-June 1975 was higher by only 15 per cent as compared with the total value of imports in April-June, 1974.

Import Licensing

7.23 Due to the inevitable time lag between the issue and utilisation of import licences, there is no close correspondence as between the value of actual imports and that of licences issued during particular periods. However, the data pertaining to import licensing provide a broad indicatiton of the influence of import policy changes on the level of imports. During 1974-75 whereas the value of India's total imports rose by about 51 per cent, the value of import licences issued was higher only by about 12.9 per cent, the total value of import licences issued in 1974-75 being Rs. 2636 crores compared to Rs. 2334 crores in 1973-74. It is important to note in this context that the value of import licences issued during 1974-75 is not comparable with the figures for the preceding years. Under the 1974-75 import policy Small Scale Industries, Established Importers and Registered Exporters were provided with the facility of repeat operation under which 50 per cent of the value of licences issued to them in 1973-74 was made automatically valid for repeat operation. The value of goods imported under the facility of repeat operations is, therefore, not reflected in the reported figures for 1974-75. Moreover, import licences for a value of Rs. 89 crores issued during 1974-75 have been reported during 1975-76 and this also affects, to an extent, the comparability of the figures for 1974-75. If due allowance is made for both these factors the value of currently valid import licences during 1974-75 would be considerably more than that indicated by reported statistics.

7.24 The trends in the issue of import licences by principal categories of importers during recent years as also the first six months of 1975-76 as shown by the reported statistics are brought out in Table 7.3.

TABLE 7.3

Trends in Import Licensing—Category-wise

(Rs. crores)

Categories	1971-72	1972-73	1973-74	1974-75	Percentage change in 1974-75 over 1973-74	April-Sept. 1974-75	April-Sept. 1975-76	Percentage changen April Sept. 1975-76 over April-September 1974-75
1	2	3	4	5	6	7	8	9
1. Established Importers	40.8	55.3	38.5	42.3	9.8	15.4	14.9	(—)3.0
2. Actual Users (Non-DGTD, Non-SSI)	368.3	376.0	483.4	720.0	48.9	254.1	302.0(a)	19.0
3. DGTD Units	252.7	171.2	198.2	253.1	27.6	80.0	246.2	208.0
4. Small Scale Industries	118.0	86.4	82.9	58.8	(—)29.0	31.4	39.2	25.0
5. Registered Exporters	93.4	136.0	151.3	166.4	10.0	65.6	93.9	43.0
6. Capital Goods & Heavy Electrical Plants	252.2	268.0	261.6	269.3	2.9	87.7	319.1	264.0
7. Customs Clearance Permits	32.0	58.1	65.4	98.1	50.0	..	..	..
8. Ad-hoc licences	..	..	36.5	31.9	(—)12.6	26.3	137.2(a)	423.0
9. State Trading Agencies	587.6	620.9	948.4	935.6	(—)1.4	531.2	348.1(a)	(—)34.0
10. Others	108.7	83.8	67.6	50.5	(—)10.5	79.5	98.1	23.0
TOTAL	1853.7	1855.7	2333.8	2636.0**	12.9	1171.2	1598.7†	36.0

**This does not include import licences for a value of Rs. 89 crores (including Rs. 76.0 crores under capital goods category) issued during 1974-75 but reported during 1975-76 and *excludes* figures in respect of goods imported by Small-Scale Industries/Established Importers/Registered Exporters under the facility of repeat operation allowed during 1974-75.

†Includes import licences worth Rs. 89 crores (including Rs. 76.0 crores under C.G. Category) issued in 1974-75, but reported during 1975-76.

(a)The figures for 1975-76 are not comparable with the corresponding figures for the previous year as the licences issued for the import of POL items are now being recorded under the Ad-hoc category whereas in the previous years these were recorded under the A.U. (Non-DGTD, Non-SSI), State Trading Agencies & Ad-hoc categories.

7.25 As per the reported statistics on import licensing the highest increase of nearly 49 per cent took place under the category of Actual Users (Non-DGTD, Non-SSI) the value of licences under this category having increased from Rs. 483 crores in 1973-74 to Rs. 720 crores in 1974-75. The DGTD, units were another category for which value of licences issued recorded a significant rise of about 28 per cent. The value of import licences granted to Registered Exporters also went up to a sizeable extent. These increases, it appears, were in response to the orientation given in the import policy for 1974-75 to assist manufacturer exporters, preferential treatment to export linked industries and actual users in the priority sector. The value of licences issued to the State Trading Agencies recorded a small decline of 1.4 per cent during 1974-75. This outcome, it seems, was the result of a considerably reduced pressure on release orders in respect of canalised items following the liberal repeat operation facilities provided to certain categories.

7.26 During the first six months of 1975-76 the total value of import licences issued has according to reported statistics shown an increase of 36 per cent over the corresponding period of 1974-75. The value of licences issued to Established Importers declined by 3 per cent and those issued to State Trading Agencies by 34 per cent. The decline in the latter case has to be viewed in relation to changes in classification adopted since the beginning of the current year. The licences issued for the import of POL items are now being recorded under the Ad-hoc category whereas in the preceding years these were classified under Actual Users, State Trading Agencies and Ad-hoc categories. Under all other categories there was an increase which *inter alia* reflects the influence of liberalisation of import policies especially *vis-a-vis* actual users and small scale units during 1975-76.

Exports

7.27 The total value of India's exports during 1974-75 came to Rs. 3304.1 crores representing a rise of 30.9 per cent over 1973-74. This compares with a growth of 28 per cent in 1973-74, and the average annual rate of growth of 13.6 per cent in the value of exports during the five years of the Fourth Plan.

7.28 The increase of 30.9 per cent in the value of India's exports during 1974-75 is the highest on record. Though impressive in itself it does not, however, come out so favourably when viewed in relation to the expansion of world trade or the exports of non-oil developing countries. During 1974, the dollar value of world exports increased by 48 per cent and the exports of developing countries (excluding oil exporting countries) rose by 37.5 per cent. As against this, the value of India's exports went up by 34.5 per cent in 1974 and our share in world exports declined from 0.6 per cent in 1973 to 0.5 per cent in 1974.

7.29 In volume terms, according to revised index series compiled by the DGCI&S with 1968-69 as base, India's exports grew by 6.4 per cent in 1974-75 as compared to 4.2 per cent in 1973-74 and 12.1 per cent in 1972-73. The unit value index of exports (1968-69=100) rose by 25.3 per cent in 1974-75 as against a rise of 21.7 per cent in 1973-74 and 11.1 per cent in 1972-73.

7.30 The broad trends in the commodity-wise composition of India's exports during recent years and in the first six months of 1975-76 (April-September are set-out in the following table :—

TABLE 7.4

Value of India's Exports by Major Commodity Groups

(Rs. crores)

Item/Group	1972-73	1973-74	1974-75	Percentage variation in 1974-75 over 1973-74	April-September		Percentage variation in April-Sept. 1975 over April-September 1974
					1974-75	1975-76	
1	2	3	4	5	6	7	8
1. Oil cakes	74.8	178.2	95.7	—46.3	43.6	29.5	—32.3
2. Tobacco	63.9	70.9	82.2	+15.9	56.2	79.7	+41.8
3. Fish & fish preparations	54.5	89.2	66.2	—25.8	31.8	52.3	+64.5
4. Tea	147.3	146.0	224.0	+53.4	88.1	108.4	+23.0
5. Coffee	32.9	46.0	51.4	+11.7	32.8	36.6	+11.6
6. Sugar	13.3	42.7	339.0	+693.9	102.4	195.6	+91.0
7. Cashew Kernels	68.8	74.4	118.1	+58.7	66.1	52.8	—20.1
8. Groundnuts	5.4	35.8	25.6	—28.5	10.6	10.4	—1.9
9. Iron ore	109.8	132.9	160.4	+20.7	49.3	81.1	+64.5
10. Cotton fabrics	100.9	195.0	158.7	—18.6	93.5	53.6	—42.7
11. Cotton apprarel	29.9	67.4	95.1	+41.1	48.3	56.7	+17.4
12. Art Silk fabrics	9.6	28.5	18.3	—35.8	10.7	5.9	—44.9
13. Jute manufactures	250.0	227.5	295.7	+30.0	169.4	123.7	—27.0
14. Leather & leather manufactures (excl. foot-wear)	174.5	172.2	144.9	—15.9	76.5	86.5	+13.1
15. Engineering goods	141.0	201.7	352.8	+74.9	140.9	184.1	+30.7
16. Handicrafts	119.7	173.6	182.1	+4.9	91.0	97.7	+7.4
17. Others	574.5	641.4	893.9	+39.4	404.3	473.7	+17.2
TOTAL EXPORTS	**1970.8**	**2523.4**	**3304.1**	**+30.9**	**1515.5**	**1728.3**	**+14.0**

7.31 The largest contribution to the increase in India's exports during 1974-75 was made by sugar. Exports of sugar in this year were Rs. 339 crores i.e. about eight times the 1973-74 level of Rs. 42.7 crores. This increase was the combined result of a rise of 189 per cent in unit value as well as an increase of 175 per cent in quantum of exports. Due to poor sugarcane crop in two major sugar exporting countries—Cuba and Brazil—there was a spurt in international prices of sugar. Assisted by a favourable trend in domestic production, India took full advantage of the higher level of ruling international prices.

7.32 Two of India's leading traditional exports namely tea and jute manufactures which had not benefited from the commodity boom in 1973-74 also recorded significant increases during 1974-75. Owing to the failure of the tea crop in Kenya and poor output in Sri Lanka for the third year in succession, the London auction prices of tea rose appreciably. Aided by favourable domestic production, the value of India's tea exports during 1974-75 increased by 53.4 per cent to Rs. 224 crores, the rise in unit value and quantum being 31 per cent and 17 per cent respectively. The exports of jute manufactures during 1974-75 moved up by 30 per cent and rose to a level of Rs. 295.7 crores. While the unit value realisation improved by about 25 per cent over the year, in terms of quantum there was only small rise of about 4 per cent. The improved performance of jute manufactures was mainly the outcome of a favourable situation in the first half of the year 1974-75. However, as from the second half of 1974-75 exports of jute manufactures became subject to a falling trend due to a slump in demand abroad.

7.33 The value of coffee exports at Rs. 51.4 crores during 1974-75 was higher by 11.7 per cent. The coffee market, however, became depressed towards the second half of 1974-75.* Cashew kernels performed well in 1974-75; their export earnings rose by 59 per cent to Rs. 118.1 crores. The unit value also recorded an improvement of 27.7 per cent.

7.34 The exports of handicrafts registered a marginal increase of 4.9 per cent in 1974-75. The growth of exports of this group was adversely affected during the second-half of the year when demand for a major constituent of this group, namely, precious and semi-precious stones and pearls visibly slackened. Export earnings from this group were encouraging in the first-half of the year when the value of exports recorded an increase of Rs. 50 crores as compared to the corresponding period of the previous year. Due to subsequent decline in earnings, particularly from precious stones and pearls, over the full year exports of this group of items registered an increase of Rs. 8.5 crores only.

7.35 Among the other traditional exports, oil cakes, fish and fish preparations, cotton fabrics, leather and leather manufactures recorded a decline in export earnings. Oilcakes recorded the largest decline, the value of exports having fallen from Rs. 178.2 crores in 1973-74 to Rs. 95.7 crores in 1974-75. The fall in value of exports was brought about by a sharp decline of 35.1 per cent in quantity exported and a decrease of 17.3 per cent in unit value. The fall in unit value and decline in demand abroad were due to improvement in supplies following the good soyabean crop in the USA, larger Peruvian fish catches and better sunflower crops in the USSR.

7.36 Exports of cotton fabrics which had touched a peak level during 1973-74 suffered a decline of about 19 per cent in 1974-75. This decline is attributable to the comparative non-competitiveness of Indian fabrics and recession in major industrial countries. Unlike the previous year Japan did not make any considerable purchases from India in 1974-75. Cotton apparel which is an item with a relatively high value-added element registered an increase in export earnings from Rs. 67.4 crores in 1973-74 to Rs. 95.1 crores in 1974-75.

7.37 Exports of leather and leather manufactures (excluding footwear) suffered a decline of Rs. 27.3 crores in 1974-75 due, among other things, to a slump in demand in the major importing countries and certain restrictions imposed internally on export of semi-finished leather.

7.38 Fish and fish preparations exports suffered a decline of Rs. 23 crores in 1974-75 due to a poor fish catch and unsteady market conditions in India's major export markets—the U.S.A. and Japan. There was a decline of about 8 per cent in unit value and the quantity exported was also lower by about 20 per cent.

7.39 The performance of certain other items of exports viz., iron ore, engineering goods, chemicals and cotton apparel during 1974-75 was encouraging enough. Iron ore exports increased by about 21 per cent to Rs. 160.4 crores. The entire increase was the result of higher unit-value realisations by over 28 per cent consequent upon price adjustments *vis-a-vis* major buyers like Japan and increased demand from West Asian countries.

*Since about July 1975 there has, however, been a considerable rise in coffee prices and in view of the sharp rise in world prices the export duty on coffee has been increased from Rs. 50 to Rs. 300 per quintal with effect from 12th February 1976.

7.40 Exports of engineering goods represented a further improvement over 1973-74; the value of these exports having increased by 75 per cent from Rs. 201.7 crores in 1973-74 to Rs. 352.8 crores in 1974-75. While almost all the items in this category contributed to higher export earnings, exports of electrical and non-electrical machinery, steel structurals, fabricated iron and steel castings performed particularly well. Side by side with larger exports there was also a further diversification of the markets for our engineering goods and there was substantial step-up in exports to South East Asia (60 per cent), West Asia (127 per cent) and East Europe (73 per cent).

7.41 Exports of chemicals and allied products went up by 84 per cent to Rs. 92.5 crores in 1974-75. This group recorded a significant gain of 111 per cent in unit value during the year.

7.42 To sum up, it would appear that notwithstanding the decline in export earnings from some of our important exportables the impressive overall export performance during 1974-75 was sustained by higher unit-price realisations in the case of several items, a further improvement in performance of engineering goods, effective utilisation of the opportunities for expanding exports of sugar and the contribution made by new items like silver, cement and basmati rice. The export promotion and exchange rate policies pursued by the Government assisted in a considerable measure in this process. Due to the floating of major world currencies, the recent period, it may be recalled, was characterised by uncertainties and risks associated with exchange rate fluctuations. However, in retrospect it appears that India managed to come out of these difficulties reasonably well since the quantum of India's exports went up by 6.4 per cent in 1974-75 whereas the average annual rate of increase during the preceding five years was only 4.5 per cent.

7.43 Provisional data on exports is at present available only for the first nine months of 1975-76 (April-December). This shows that the total value of India's exports in this period came to Rs. 2689.5 crores representing an increase of 14.6 per cent over the total value of exports of Rs. 2346.4 crores in the corresponding period of the previous year. Commodity-wise details are however available for the first six months (April-September) of the year 1975-76. During this period the value of exports went up by about 14 per cent as compared with the corresponding period of 1974-75. The slackening in growth of exports in the first half of the current year is principally attributable to the sagging offtake of such important items as jute manufacturers, cotton fabrics, oilcakes, art silk fabrics, cashew kernels, etc. and a further dip in international prices in certain cases. Exports of items like sugar, engineering goods, iron ore, leather and leather manufactures, handicrafts and tea, however, continued to be better.

Trade Policy Developments

7.44 Trade policy during 1975-76 continued to be increasingly export-oriented with special emphasis on maximising production for exports and encouraging import substitution. The import policy for the year was drawn up with a view to making it more responsive to the needs of raising industrial production and diverting it to exports, elimination of non-essential imports and removal of delays in providing import licences for raw materials and components. In order to realise these objectives, a number of changes in procedures and content were made. The classification of industries into "priority" and "non-priority" was done away with and instead a new classification namely that of "select industries" was introduced keeping in view the importance of the industries to the national economy and for export production. For the licensing of imported raw materials and components to meet the immediate requirements of the industries, "automatic licensing" was introduced whereby industrial units could apply directly to import control authorities without routing their applications through the sponsoring authorities.

7.45 All units which export at least 20 per cent of their production were made eligible for getting licences on the basis of the value of consumption of imported raw materials, irrespective of the value of licences obtained during the previous year. These exporting units were also entitled for preferred sources of financing. The compulsory export obligation was increased from 5 per cent to 10 per cent in respect of certain industries having sufficient potential for exports. With a view to utilising the excess capacity for export production, apart from the provisions for automatic licensing, etc. facilities for export linked import licences were introduced especially for the purpose of utilising such capacities as cannot be or need not be utilised for increase in domestic production. In order to increase the exports of non-traditional products, import entitlements were enhanced by 10 per cent in the case of engineering goods, chemicals and allied products, leather and leather goods, sports goods, handicrafts, cotton textiles and ready-made garments. Replenishment licences were made more widely transferable and the policy for registered exporters was rationalised. The policy for imports of spares was also greatly simplified and liberalised in order to remove any barriers in the utilisation of installed capacities. All industries were made eligible for separate licences for import of spare parts unlike in previous years when only priority industries were eligible for separate licences for spares.

7.46 The dominant role of the state trading agencies in import trade continued. However, some twelve items which cannot be purchased in bulk and where the users are also large in number, were decanalised for import purposes. The agencies like IRMAC, MMTC and the Steel Bank run by HSL continued their existing policies for stocking raw materials for meeting the requirements of actual users on 'off-the shelf' basis. A major change was introduced for import of iron and steel items which were also allowed to be imported under the facility of automatic licensing subject to the stipulation that the value of individual iron and steel items be limited in accordance with the policy for import of iron and steel items.

7.47 Side by side with the reorientation of the import policy, the export policy was also modified by introducing several new measures as well as by making suitable changes in the existing system of export incentives. Following the redirection and reinforcement of economic policies imparted by the Prime Minister's "20-point Economic Programme", the country's export drive was also intensified. Nearly two-thirds of the 300 items which were earlier subject to export licensing have been delicensed. Most of these were placed on OGL for export, while a few of them were decontrolled. Exports of 24 items included in the OGL were permitted through specified canalising agencies while exports of some other items were made conditional. The fee payable in respect of applications for export licences was abolished. In the controlled list, the export licensing procedures were simplified. Thus, exports of 20 chemical items were allowed by Port licensing authorities on first-come-first served basis within the quantity ceilings and without reference to any other authority.

7.48 In the field of export incentives, the broad framework for the grant of cash compensatory support, import replenishments, duty draw-backs as well as the supply of strategic inputs at international prices and liberal credit facilities at concessional rates continued for 1975-76. However, within the existing framework, suitable changes in rates and coverage of such incentives have been introduced recently. Thus, cash compensatory support which was earlier admissible mainly to exports of engineering goods, chemicals, sports goods, plastics and processed food, has been extended to certain other export items including some traditional export items, such as jute carpet backing, speciality jute products, coir products, woollen carpets, druggets and durries. With a view to encouraging export production, it was decided in principle that raw materials imported against advance licences be exempted from duty. Procedural simplifications in application forms for claiming incentives and their disbursements have been carried out. It has been decided that 95 per cent of the cash assistance claimed by exporters could be provisionally sanctioned straightaway by appropriate licensing authorities on the support of export documents, shipping bills, etc. It has also been agreed in principle to make payment of drawbacks through commercial banks. Earlier the export duties on jute carpet-backing and hessian were removed altogether in order to boost up their sagging export demand. With effect from 12th February, 1976 jute sacking, jute webbing, jute yarn and jute twine have been completely exempt from export duty with a view to improving their competitive position in the international markets. Simultaneously the export duty on coffee was raised from Rs. 50 to Rs. 300 per quintal and groundnuts in kernel and groundnuts in shell were subjected to an export duty of Rs. 800 and Rs. 600 per tonne respectively.

7.49 The most significant feature of the new export drive relates to stepping up of export production and other promotional activities. A fresh emphasis has been placed on expanding exports of growth items like engineering goods, chemicals and allied products as well as on finding potential export items from the kitty of traditional and non-traditional goods produced in the country. The principle of automatic growth of capacities was introduced for the first time in engineering industry. Some fifteen export-oriented engineering industries were allowed to increase without prior permission their capacities by 25 per cent in physical terms in five years. The procedure for allocation of indigenous steel for export-production was simplified and facilities for import of steel for export production were liberalised. The rate of cash compensatory support assistance for export of capital goods and turnkey projects was allowed to be protected till the end of the contract. Similarly, such export contracts were allowed protection against upward revisions of JPC steel prices. The pre-shipment, post-shipment and packaging credit along with deferred payment facilities were liberalised. In order to facilitate participation of Indian construction and engineering firms in long-term construction programmes for ports, harbours, airports, highways, bridges, hospitals, residential buildings and a variety of civil amenities in the Gulf Area, the Government initiated steps like organising the construction companies into consortia and helping them to participate in works abroad. The 25 per cent added-value scheme for twelve engineering items which depend on indigenous steel for their production was withdrawn to allow for flexibility of exports of these items. With a view to increasing the supply of marine products for export purposes, a separate Trawler Development Fund was created for financing purchase of trawlers for deep sea catches. To promote exports of tea, a major foreign exchange earner, drawback facilities on aluminium foil used in packets were allowed. Two cells namely Export Planning and Export Project Planning Cell have been created in the Ministry of Commerce to co-ordinate the country's export efforts. There is now a separate Cabinet Committee on Exports which has inter-alia undertaken planning of measures for individual items.

7.50 In the sphere of developing closer commercial and economic relations with other countries a new Trade and Payments Agreement was concluded with Afghanistan during the current year; a Protocal was also entered into with Czechoslovakia regarding trade and technical cooperation. Among the annual Trade Protocols concluded for 1975 an important one was with the U.S.S.R. A new landmark in Indo-Soviet economic relations will be the fresh long-term Trade and Payments Agreement for 1976-1980 expected to be concluded shortly. Trade Agreement with Sudan and Arab Republic of Egypt were signed breaking the stalemate in our commercial relations with these two countries. Simultaneously, India co-operated successfully with other interested producing countries to bring into existence the Association of Iron Ore Exporting Countries with a view to securing equitable prices from iron ore exports. A very recent development in the field of trade is the coming into force of the United States GSP Scheme with effect from 1st January, 1976.

External Assistance

7.51 Since about the year 1968-69, the volume of external assistance received by India had been showing a continuous decline and touched its lowest level in 1972-73. During 1973-74, there was some increase in the value of aid received by India, reflecting in part the wheat assistance received from the USSR in that year. In the subsequent two years, there was further improvement in the inflow of external assistance. However, the proportion of imports financed by gross inflow of assistance from abroad has shown a continuous decline. This works out at about 60 per cent in 1967-68 but declined to 36 per cent in 1972-73. Despite the increase in the nominal value of assistance subsequently, the proportion of imports financed from external assistance declined further and formed 30 per cent of the value of India's imports during 1974-75. Notwithstanding a further improvement in aid receipts envisaged during 1975-76, the proportion of imports financed therefrom is anticipitated to be the same as in the previous year.

7.52 The gross inflow of aid from all sources abroad, which had steadily declined from Rs. 1196 crores in 1967-68 to Rs. 666 crores in 1972-73, rose to Rs. 999 crores in 1973-74. During 1974-75, there was a further increase in gross aid disbursements to Rs. 1337 crores which reflected in part a somewhat larger availability of IDA loans, receipts of grants under the U.N. Emergency Operation Scheme, USSR Wheat assistance and credits negotiated with some of the oil producing countries. In 1975-76, gross aid disbursements are expected to increase further by about 22 per cent to an estimated figure of Rs. 1639 crores reflecting larger aid availability from traditional Consortium sources, including IDA and IBRD and the United Kingdom.

TABLE 7.5

Inflow of External Assistance : Gross and Net

(Rs. crores)

Items	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76**
I. Gross Disbursements of which :	1196	903	856	791	834	666	999	1337	1639
(a) PL 480 food*	285	131	128	57	..	..	..	..	98
(b) PL 480 Non-food	57	27	41	32	112	4	..	..	..
(c) Other Food Assistance	45	55	19	36	32	..	150	162	58
II. Total Debt Servicing of which :	333	375	412	450	479	507	595	626	700
(a) Amortisation payments	211	236	268	290	299	327	399	411	470
(b) Interest payments	122	139	144	160	180	180	196	215	230
III. Net Inflow of Assistance (I—II)	863	528	444	341	355	159	404	711	939

*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 which is inclusive of debt rescheduling/postponement, etc. Debt service payments relate to those involving foreign exchange and through exports of goods.

2. Figures for 1973-74 include USSR wheat assistance and those for 1974-75 and 1975-76 include USSR wheat assistance, oil credits and assistance made available under the United Nations Emergency Operations Scheme.

7.53 While considering the volume of gross aid disbursements allowance has to be made for the reverse flows on account of interest payments and repayments of principal of foreign loans. Net of the debt servicing payments, there was a substantial decline in the nominal transfer of resources from Rs. 863 crores in 1967-68 to Rs. 159 crores in 1972-73. Thereafter there has been an improvement. The net inflow of external assistance amounted to Rs. 711 crores in 1974-75 and is estimated at Rs. 939 crores for 1975-76. Table 7.5 brings out the trends in the gross as well as net inflows of external assistance in recent years.

7.54 As brought out in the foregoing table, India's debt servicing obligations have been showing a progressive increase during recent years and have absorbed about 20-25 per cent of the country's annual export earnings thereby impinging on the country's ability to deploy the external resources accruing from year to year for financing vital import needs. India has, therefore, been seeking and to an extent has received debt relief. The Aid India Consortium provided India with debt relief on an average of US $100 million a year for the four years 1968-69 to 1971-72. The amount of debt relief in the subsequent years was comparatively larger and in 1974-75, this is placed at US $ 196 million. For 1975-76, a debt relief corresponding to U.S. $ 167 million is expected.

7.55 At the Aid India Consortium Meeting held in June 1975, total aid commitments of an aggregate amount of $ 1775 million including debt relief were announced. The total non-project assistance is expected to be $ 1085 million including debt relief of $ 167 million. While the bilateral assistance of $ 1075 million is about $ 100 million more than that in the preceding year, there is some reduction in the commitments by IBRD/IDA. It may, however, turn out that eventually the assistance from the World Bank group might also be higher. In the event, the aid in pipeline as also actual disbursements in 1975-76 might be higher than last year.

7.56 It is now widely recognised that the poorer oil-importing developing countries, which have been seriously affected by the recent inflation, rise in the price of oil and recession in the developed countries, would require substantial concessionary assistance for some years to come, if they are to achieve a tolerable level of economic growth. The Oil Facility instituted by the IMF in 1974 and 1975 has, to some extent, mitigated the harsh effects of the hike in oil prices on these countries by providing short-term accommodation. The World Bank is also to operate a Third Window designed to provide assistance to poorer countries at terms which are intermediate between the Bank loans and the loans extended on soft terms by IDA. Besides these international efforts, there has been also some progress towards the softening of the terms of aid extended to the poorer countries bilaterally. Mention in this connection may be made of the recent decision by U.K. to extend assistance to countries with per capita income of less than $ 200 in the form of outright grants. Another significant move in this direction was made by the Federal Republic of Germany when it decided to extend its future assistance to India on IDA terms. The assistance provided by friendly oil producing countries particularly Iran and Iraq has also been of considerable help in tiding over the immediate difficulties. While these are some of the favourable features of recent international economic developments it has at the same time to be recognised that the flows of external assistance are as yet nowhere near the levels necessary for meeting the essential developmental requirements of countries like India and this reinforces the need for continued efforts to promote exports for maintaining external viability.