

CHAPTER 7

FOREIGN TRADE AND BALANCE OF PAYMENTS

7.1 The rise in the price of petroleum in 1973 led to a serious deterioration in the balance of payments of India in common with other non-oil developing countries. The widening deficits in the balance of payments had to be bridged with great difficulty and at great cost. A series of internal measures, fiscal and administrative, were taken to limit the consumption of oil products and to increase internal production and thus reduce the dependence on imports. Simultaneously the drive to increase exports was intensified. As a result India's overall export earnings have shown a healthy rising trend. Net invisible receipts have also benefited from the drive to check leakages in the inflow of foreign exchange, and from the encouragement of remittances from abroad. Currently our foreign exchange reserves stand at an all time high level. It must, however, be emphasised that this result has been achieved partly at the cost of investment for growth. Also the high prices of crude oil have resulted in a large hump in the country's import bill which will always be troublesome whenever the need to adopt adjustment policies arises in future.

Movements in Foreign Exchange Reserves and Overall Balance of Payments Trends

7.2 Since detailed data pertaining to India's balance of payments accounts are not available at present beyond March 1975, the main features of her overall balance of payments position have to be gauged from the movement of her foreign exchange reserves, foreign trade data published by the D.G.C.I.&S., receipts from external assistance and such provisional data as has become available in respect of gross inward remittances.

7.3 India's foreign exchange reserves comprise of gold which is valued at a fixed price, Special Drawing Rights and holdings of foreign currency assets. Since gold reserves are not used for current transactions and SDR holdings are subject to only small variations, the movements in foreign exchange reserves held in foreign currency assets reflect the net outcome of the country's external transactions. Table 7.1 brings out the movements in India's foreign exchange reserves (excluding gold and SDRs) during 1976-77 as also in the preceding years together with the transactions with the IMF.

TABLE 7.1
Movements in India's Foreign Exchange Reserves (excluding Gold and SDRs)

End of year	Foreign Exchange Reserves (f)	Variation in Reserves	Net Drawings from (+) and Repayments (-) to IMF	(Rs. crores) Variation in Reserves Ex- clusive of Transactions with IMF (3-4)
1	2	3	4	5
1971-72	480.4	...	..	..
1972-73	478.9	-1.5	..	-1.5
1973-74	580.8	+101.9	+62.0	+39.9
1974-75	610.5	+29.7	+484.7	-455.0
1975-76	1491.7	+881.2	+207.1	+674.1
1976-77(a)	2863.0	+1371.3	-302.8	+1674.1

N.B. : At the end of March 1977 India's holdings of monetary gold valued at Rs. 84.39 per 10 grams stood at Rs. 187.8 crores which included Rs. 5.3 crores of gold received by India under the Restitution Scheme of the IMF. Holdings of SDRs were 187.4 million SDRs (Provisional).

(1) 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 Marks 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.

(a) Provisional.

7.4 During 1974-75 India's balance of payments had come under heavy pressure and despite borrowings of the order of Rs. 484.7 crores from the IMF her reserves had shown a small increase of Rs. 29.7 crores. The pressure on the balance of payments persisted during the earlier part of 1975-76 and in August 1975 India drew an amount of Rs. 207.1 crores (SDRs 201.3 million) from the IMF under the 1975 Oil Facility. In the second half of the year there was an abatement of these pressures and over the full year 1975-76 India's foreign exchange assets (excluding gold and SDRs) recorded a rise of Rs. 881.2 crores. Excluding the amount of Rs. 207.1 crores drawn under the 1975 Oil Facility the rise in these reserve assets came to Rs. 674.1 crores.

7.5 The substantial improvement in the balance of payments during 1975-76 was the outcome of a spurt in net invisible receipts on account of remittances from abroad and a sizeable increase in the net receipts from external assistance. Also the trade deficit was only slightly larger than in the previous year because of a sharp deceleration in the rate of growth of imports and continued increase in exports though at a rate lower than in 1974-75.

7.6 In the absence of detailed balance of payments accounts it is indeed difficult to draw any firm inferences in regard to the particular items which contributed to the improvement in net invisible receipts in recent periods. Such information in respect of gross inward remittances as has become available for the years 1974-75, 1975-76 and 1976-77, however, shows a progressive rise in the volume of these inflows. Gross inward remittances are really all non-export receipts and include items such as airlines and shipping receipts, insurance receipts, dividend receipts, tourism receipts, besides items like remittances for family maintenance, savings of non-residents, migrants' transfers, and money order receipts which are more relevant to the term 'inward remittances'. Since there are no reasons to believe that dramatic improvements have taken place in such invisible receipts as earnings from shipping and airline and tourism, etc. it is reasonable to conclude that this increase is due to the improvement in inward remittances. A number of factors such as the large increase in the number of Indians working abroad, the checking of smuggling, the narrowing down of the gap between internal and external prices of gold and the improvement in the strength of the rupee seem to have increased the inflow of remittances through authorised banking channels. The special schemes introduced by Government to attract the savings of non-resident Indians do not seem to have contributed greatly to this upsurge in remittances.

7.7 During 1976-77 the favourable trends in India's external payments position continued and as a consequence of the small surplus in the trade balance and the buoyancy in net invisible receipts the rise in the level of foreign exchange reserves was much larger than in 1975-76. Without allowing for the repayments made to the IMF, India's foreign exchange reserves (excluding gold and SDRs) which at the end of March, 1977 stood at Rs. 2863.0 crores were Rs. 1674.1 crores higher than that at the end of March, 1976. India made an advance and full repayment of an amount of Rs. 64.7 crores in April 1976 against the drawal made by her from the IMF under the Compensatory Financing Facility in February 1974, and in September 1976 she made repurchases of Rs. 238.1 crores from the IMF towards an advance and full repayment of the amount drawn against the 1974 Oil Facility and also towards a part repayment of the loan under the First Credit Tranche taken in 1974. As a result of these repayments, India's outstanding repurchase obligations to the IMF were substantially reduced.

7.8 With a view to imparting greater stability to the effective exchange rate of the rupee in a situation where the major world currencies were floating the rupee was delinked from the pound sterling on September 25, 1975. Since then, the external value of the rupee is being determined in terms of a basket of currencies of countries which are India's major trading partners. Since the introduction of this system the exchange rate of the rupee in terms of the intervention currency has been changed on several occasions and the experience thus far suggests that the system has worked well and has not imparted any instability to our external trade.

Balance of Trade and Direction of Trade

7.9 Due to the sharp rise in the costs of India's main imports viz. petroleum, food and fertilizers, the value of her imports had increased by 58 and 53 per cent during 1973-74 and 1974-75 respectively. While as a result of the increase in the overall volume and significant gains from the international commodity boom the total value of her exports increased by 28 percent in 1973-74 and 32 per cent in 1974-75, her trade deficit had increased from Rs. 432 crores in 1973-74 to Rs. 1190 crores in 1974-75. The terms of trade moved against India by 14.5 per cent and 27.4 per cent in 1973-74 and 1974-75 respectively. During 1975-76 due to the slackening of the commodity boom and the recession in industrial countries there was deceleration in the rate of growth of exports. The total value of the India's exports during 1975-76

came to Rs. 4042.8 crores showing a rise of 21.4 per cent over the previous year. As against this the total value of her imports aggregated to Rs. 5265.2 crores being 16.5 per cent higher than in 1974-75. It was the sharp deceleration in the growth of imports that made the trade deficit at Rs. 1222.4 crores only marginally larger than that in 1974-75, in spite of a further deterioration of some 9 per cent in the terms of trade.

7.10 According to provisional DGCI&S data, the value of India's imports and exports for 1976-77 was placed at Rs. 4908.2 crores and Rs. 4980.6 crores respectively which showed a surplus of Rs. 72.4 crores as against a deficit of Rs. 1222.4 crores in 1975-76. The rate of growth of exports in 1976-77 was 23.2 per cent as compared to 21.4 per cent in 1975-76. Imports declined by 6.8 per cent in 1976-77 in contrast to an increase of 16.5 per cent in 1975-76.

7.11 The rise in the country's imports and exports during 1975-76 was accompanied by some noticeable shifts in the directional pattern of trade. There was a sharp increase in imports from the North American region and the share of this region in the total value of imports increased from 19.2 per cent in 1974-75 to 29.0 per cent in 1975-76. On the other hand, the value of imports from the ESCAP region and the

East European countries witnessed a sizeable decline. With regard to exports while the share of OPEC countries, North America and ESCAP regions recorded some increase relative to the preceding year, that of the East European countries registered a sizeable decline.

Imports

7.12 The total value of India's imports during 1975-76 amounted to Rs. 5265.2 crores and was 16.5 per cent higher than imports in 1974-75. The increase in the value of imports was principally on account of foodgrains, capital goods and petroleum oils and lubricants, which together accounted for 67.3 per cent of total imports. On the other hand, the value of the imports of metals and fertilisers was lower compared to the previous year. Overall, according to the revised series of indices compiled by the DGCI & S with 1968-69 as base, the volume of imports recorded a decline of about 1 per cent in 1975-76 while the unit value index of imports rose by about 17 per cent.

7.13 The trends in the broad commodity composition of our imports during recent years as also in the first nine months (April-December) of 1976-77 are brought out in the following table :

TABLE 7.2
Value of India's Imports by Major Commodity Groups

Commodity	1972-73	1973-74	1974-75	1975-76	April—Dec.		Percentage change in April-Dec. 1976-77 over April—Dec. 1975-76
					1975-76	1976-77	
1	2	3	4	5	6	7	8
1. Food	80.8	473.1	763.8	1338.3	949.3	790.1	-16.8
2. Raw Cotton	90.9	52.0	27.4	28.2	24.7	68.0	+175.3
3. Raw Wool	8.9	16.1	26.3	24.5	20.0	19.1	-4.5
4. Animal & Vegetable Oils & Fats	24.9	64.9	34.9	18.3	14.4	74.2	+415.2
5. Fertilisers & Fertiliser Materials	145.7	226.8	588.9	556.3	504.8	158.8	-68.6
6. P.O.L.	204.0	560.3	1156.9	1225.7	911.3	930.4	+2.1
7. Chemical Elements and Compounds	91.4	109.7	186.2	177.4	135.5	98.4	-27.3
8. Paper and Paper Board and Manufactures thereof	31.4	29.2	59.5	56.2	51.2	52.8	+3.1
9. Metals (Iron & Steel & Non-ferrous)	334.9	389.8	602.4	403.5	308.5	291.7	-5.5
10. Capital Goods	550.8	673.5	723.3	910.7	690.3	700.6	+1.4
11. Others	303.7	360.0	349.2	418.7	306.2	407.5	+33.1
<i>Total Imports</i>	1867.4	2955.4	4518.8	5157.8*	3916.2	3591.8	-8.3

*Revised figure of total imports in 1975-76 is Rs. 5265.2 crores. Commodity-wise breakdown of the revised total is not yet available.

7.14 Food was the largest single item of import during 1975-76 and accounted for about a quarter of the total value of our imports. It exceeded the value of imports of even POL. As against 5.6 million tonnes in 1974-75, 7.9 million tonnes of foodgrains were imported in 1975-76 with a view to building up adequate buffer stocks. The larger quantity and an increase of 23.2 per cent in the unit value contributed to the higher import bill on this account. Imports of POL during 1975-76 declined in volume terms by 6.5 per cent to 16.1 million tonnes. However, due to the unit value increase of 13.3 per cent the total value of POL imports recorded a rise of 5.9 per cent over the imports in the previous year. The imports of capital goods items rose on the other hand by 26 per cent in 1975-76 because of liberalised import policy.

7.15 On the other hand, the value of fertilisers and fertiliser materials imports fell by Rs. 31.6 crores in 1975-76. This was due to a substantial decline in the quantity of crude as well as manufactured fertiliser imports even though the unit values were significantly higher. The decline in the quantity imported was partly due to higher domestic production but mainly due to lower offtake because of the high price of fertilisers. Imports of iron and steel, non-ferrous metals and chemical elements and compounds registered a decline. The value of iron and steel imports declined by Rs. 118 crores in 1975-76 due to a decline in quantity of 52 per cent. This was made possible by an increase in domestic production. However, an increase in unit value led to a decline of only 27 per cent in the import bill. The value of non-ferrous metals imports also recorded a fall of 45.3 per cent due to a decline in the quantity imported from 152,000 tonnes in 1974-75 to 84,000 tonnes in 1975-76 as also a further fall in the unit values of copper, aluminium, lead, zinc and tin. Only in the case of nickel was there a rise in the unit value of imports. Chemical elements and compounds imports recorded a small decline in value terms for the first time in several years.

7.16 As stated above, India's imports in 1976-77 aggregated to Rs. 4908.2 crores. Commodity-wise

details are, however, available at present only for the first nine months of the year. The decline in imports in this period was essentially due to a marked reduction in the imports of food and fertilisers. The record harvest of 1975-76 and the large buffer stock made it unnecessary to import more food and the quantities imported related to contracts in the pipeline. A sharp increase in domestic production of fertilisers was responsible for the large fall in imports. In part the decline under these heads was off-set by increases in the value of the imports of raw cotton, animal and vegetable oils and fats, etc.

Exports

7.17 Following the trend of progressive increases in the value of exports in recent years, India's total export earnings rose by 21.4 per cent during 1975-76. While in value terms the rate of growth of 21.4 per cent does not compare favourably with the growth rates of 28 and 32 per cent respectively achieved during 1973-74 and 1974-75, it is significant that this order of increase took place during a period when due to recessionary conditions in industrialised countries the volume of world trade had registered a decline and the exports of some of the major items like jute manufactures and cotton fabrics had come to be adversely affected. There was a sizeable increase in the volume of our export trade. According to the revised series of index numbers with 1968-69 as base the volume of India's exports increased by about 10.5 per cent during 1975-76 as against an increase of 6.4 per cent during 1974-75, the average rate of increase during these two years being close to 8.5 per cent per annum. However, due to lower unit value realisations for several of our export items the overall unit value index of exports as per the same series recorded only a moderate increase of 7.7 per cent in 1975-76. As against this, the overall unit value index had shown an increase of the order of 25.3 per cent in 1974-75 and of 21.7 per cent in 1973-74.

7.18 The broad trends in the commodity-wise composition of India's exports during recent years and the first nine months of 1976-77 (April-December) are shown in Table 7.3 :

TABLE 7.3

Value of India's Exports by Major Groups

Item/Group	1973-74	1974-75	1975-76	Percentage variation in 1975-76 over 1974-75	April—December		Percentage variation in Apr.—Dec. 1976-77 over Apr.—Dec. 1975-76
					1975-76	1976-77	
1	2	3	4	5	6	7	8
1. Oil cakes	178.2	96.0	86.1	-10.3	54.9	141.2	156.8
2. Tobacco	70.9	82.2	98.4	19.7	87.8	87.6	-0.2
3. Fish & fish preparations	89.2	66.2	126.6	91.2	93.4	137.9	47.6
4. Tea	146.0	228.1	236.8	3.8	179.8	216.2	20.2
5. Coffee	46.0	51.4	66.7	29.8	53.0	85.1	60.5
6. Sugar	42.7	339.0	472.3	39.3	308.9	103.2	-66.6
7. Cashew kernels	74.4	118.2	96.1	-18.7	80.6	95.4	18.3
8. Groundnuts	35.8	25.6	49.8	94.5	18.8	35.5	88.8
9. Spices	55.1	51.4	71.0	15.6	37.7	34.2	-9.3
10. Iron ore	132.9	160.4	213.8	33.3	139.0	157.7	13.4
11. Raw cotton	32.4	15.2	38.8	155.3	16.2	26.6	64.2
12. Cotton fabrics	195.0	158.9	158.7	-0.1	99.0	178.9	80.7
13. Cotton apparel	67.4	96.9	144.9	49.5	83.4	175.3	110.1
14. Art silk fabrics	28.3	18.4	15.1	-17.9	10.5	21.1	101.3
15. Jute manufactures	227.5	296.8	248.3	-16.3	187.6	137.6	-26.6
16. Coir yarn and manufactures	15.3	17.9	19.0	6.1	13.5	18.0	33.7
17. Leather & leather manufactures (excluding footwear)	172.2	145.0	201.3	38.8	133.4	189.9	42.3
18. Engineering goods	201.7	356.7	408.7	14.6	285.6	391.4	37.0
19. Handicrafts	173.6	186.6	224.1	20.1	152.2	285.7	87.7
20. Chemical & allied products	50.3	92.9	84.5	-9.0	64.9	79.8	23.0
21. Iron & steel	26.2	21.1	68.2	223.2	37.9	206.5	444.5
22. Vegetable oils (essential and non-essential)	37.9	43.0	37.2	-13.5	33.0	43.1	30.7
23. Others	424.4	651.0	775.3	19.1	544.0	908.3	66.9
TOTAL	2523.4	3328.8	3941.6*	18.4	2715.0	3557.9	31.0

*Revised figure of total exports for 1975-76 is Rs. 4042.8 crores. Commodity-wise details of the revised total is not yet available.

7.19 The largest increase occurred in the exports of sugar in 1975-76. India exported 1.20 million tonnes, 73 per cent more than in 1974-75. World sugar prices, however, had receded from the peak levels reached in 1974 and therefore there was a decline of 19.4 per cent in unit values.

7.20 Other items the exports of which recorded large increases in 1975-76 were fish and fish preparations, iron ore and leather and leather manufactures. While the increase in the first item was due both to increases in quantum and unit value, the increase in the export of iron ore was due to an increase in unit value from Rs. 73 to Rs. 93 per tonne. The increase in the value of leather exports reflects the impact of the policy of progressively increasing the exports of finished leather which has a higher value added element than semi-finished leather and skins.

7.21 The export of tea increased by only 3.8 per cent. This was due to an increase in unit value of 11.4 per cent while the quantity exported declined by 8.6 per cent. On the other hand, coffee exports rose by Rs. 15.3 crores in 1975-76 due to an increase of 18 per cent in volume and 10 per cent in unit value.

7.22 In manufactures, substantial increases were recorded by engineering goods, iron and steel and cotton apparel. The exports of engineering goods rose by 14.6 per cent in 1975-76, partly as a result of better product adaptation and partly aggressive marketing and favourable export policies. The increase in iron and steel exports reflects the lack of demand at home. Cotton apparel exports increased by 49.5 per cent and became one of the fastest growing items developed mostly by individual initiative. In contrast, the exports of cotton fabrics did not show any improvement.

7.23 The exports of oilcakes, jute manufactures, cashew kernels and chemicals and allied products declined in 1975-76. Export earnings from oil cakes fell by 10.3 per cent because of a 24 per cent fall in unit value due to stiff competition from large supplies of soyabean meal from the USA. On the other hand, the decline in earnings of 18.7 per cent in cashew kernels was due to a reduction of about 17 per cent in the quantity exported, as the import of raw nuts from Mozambique was not adequate. The decline in the earnings from jute was due to a 12 per cent decline in quantum and 5 per cent decline in price. The slackening in demand was due to competition from synthetics and from Bangla Desh.

7.24 As mentioned earlier, India's exports in 1976-77 amounted to Rs. 4980.6 crores. Commodity-wise details are, however, available for only the first nine months of the year. In this period a wide range of our primary as well as manufactured items of exports have shown sizeable increases. Among primary products, oilcake exports registered an increase of 156.8 per cent. Others which recorded substantial gains were fish and fish preparations, coffee, cashew kernels, groundnuts, raw cotton and vegetable oils (essential and non-essential). Tea exports were higher by 20.2 per cent. The exports of iron and steel increased by 444.5 per cent reflecting partly the inability of the Indian economy to use this basic developmental good. Cotton apparel, cotton fabrics and handicrafts also recorded handsome gains. Other manufactured items which have shown encouraging increases are leather and leather manufactures, coir yarn and manufactures, engineering goods and chemical products. On the other hand, exports of sugar and jute manufactures suffered a sharp decline and those of tobacco and spices were also lower.

Trade Policy Developments

7.25 India's trade policy in 1976-77 continued to lay emphasis on increasing exports and encouraging import substitution. While introducing a considerable degree of liberalisation, further procedural simplifications and certain shifts of emphasis the import policy sought to achieve faster economic growth by providing essential imported inputs for enlarging the production base for exports.

7.26 Some of the more salient features of the 1976-77 import policy representing a significant liberalisation were as follows :—

- (a) The system of automatic licences for imported raw materials and components introduced in 1975-76 was enlarged to cover the

totality of the users' previous year's utilisation. For all small scale industries a 20 per cent increase in the automatic licences entitlement was provided.

- (b) Supplementary licensing which was earlier limited to certain priority industries was extended to all industries where production in the previous year had been low.
- (c) Import replenishment percentages as well as the shopping lists for registered exporters were considerably enlarged and even where some raw materials or components were indigenously available, these were allowed to be imported if the domestic supplies were inadequate, delivery schedules too long, prices uneconomic and the quality below the export standard requirements.
- (d) Earlier, replenishment licences were allowed only for raw materials and to a very limited extent for capital goods. The scope of these licences was extended to allow for import of machinery for modernisation, balancing, replacement or research and development for export purposes.
- (e) The system of O.G.L. which covered 6 selected items and free trade zones under the 1975-76 policy was extended to include machinery required by the leather industry as well as some iron and steel items.
- (f) In respect of 51 canalised items for which the actual users earlier required release orders, it was decided that these items would be available directly from the canalising agencies without the need to secure a release order.
- (g) While continuing the system of advance licences introduced earlier, a duty exemption scheme covering 55 specified items under advance licences was introduced. On the basis of experience gained this facility could be extended to other items.
- (h) While retaining the classification of 'select' and 'non-select' industries introduced in the preceding year's policy, eight more export-oriented industries, namely tea, coffee, jute textiles, cotton textiles, cashew, coir products, sugar and unmanufactured tobacco were added to the list of 'select' industries.
- (i) Imports of permissible spare parts by actual users engaged in industrial production were placed under O.G.L.

7.27 After the announcement of the policy further liberalisation was made in the course of the year in regard to imports under O.G.L. by increasing the coverage to include 244 drug items, 33 chemicals and 23 iron and steel items. To overcome domestic shortages the import of edible oils was liberalised. The import of man-made fibres and dry fruits and dates was put under free licensing. Further, customs duties (60 per cent basic plus 15 per cent auxiliary ad valorem) were abolished on imports of groundnut oil and seeds, palm oil, rapeseed oil, soyabean oil and sunflower oil.

7.28 The broad framework of export policy was left unchanged. Among the more recent steps taken during 1976-77 to promote exports mention may be made of the facility whereby the exporters have been enabled to secure interest free bank loans against their drawback entitlements. This should go a long way in meeting the complaint of the exporters that the drawback payments take a long time. The scheme of cash compensatory support was extended to March, 1979 for most items so that the exporters could plan their export strategy in the medium-term with the assurance of stable assistance. More emphasis is sought to be placed on post-import checking rather than on pre-import scrutiny. Further, with a view to providing reasonable financial support to Indian businessmen and others proceeding abroad especially for export promotion activities, the quantum of foreign exchange available to them was increased in August, 1976 to meet the rise in the cost of living in several countries.

7.29 Keeping in view the trends in international prices and other relevant factors certain changes were made in the export duties in respect of coir yarn, hides and skins, leather (tanned and untanned) as well as jute canvas, tarpaulin and webbing. With effect from April 22, 1976 the export duty on three items of jute manufactures namely, jute canvas, tarpaulin and webbing was abolished. As from June 18, 1976 the export duty on coir yarn was also abolished. On the other hand, the export duty on hides and skins and leather (tanned and untanned) was increased from 20 per cent to 25 per cent ad valorem with effect from May 1, 1976. With effect from January 24, 1977 the export duty on cattlefeeds (cottonseed cake and linseed cake) has also been abolished. Simultaneously, exports of castor and linseed oil have been banned with effect from February 6, 1977. With effect from April 9, 1977 an export duty of Rs. 5 per kg. has also been levied on tea and the rebate scheme in force earlier has been withdrawn. However, no duty is to be levied on instant tea, package tea not exceeding one kilogram net of tea and tea bags containing 2.5* grams (net) or less of tea.

7.30 The import policy for 1977-78 announced on

27th April, 1977 has been so designed as to promote national self reliance, the development of industries and the creation of employment opportunities in the decentralised sector. It also seeks to promote progressive import substitution and a larger diversified production base for a vigorous export drive. The new policy aims at fulfilling the legitimate requirements of industry for imported raw materials in full but also seeks to balance the liberalisation of import policy against the considerations of protecting the legitimate interests of the indigenous industry.

7.31 India signed a five-year trade agreement with USSR on 15th April, 1976. This agreement was operative from January, 1976. Aside from the Trade Plan for 1977 the USSR signed another Protocol with India in February, 1977 whereby the USSR will supply 1 million tonnes of crude oil to India against Indian goods of equal value. The mechanics of this arrangement have been finalised and built into the trade plan for 1976-80. A trade agreement between India and Australia was also signed in August, 1976. Among other developments in the sphere of trade relations mention may be made of the signing of the Trade Plan with Bulgaria and the Protocol with Hungary.

External Assistance

7.32 The volume of external assistance received by India had shown a continuous decline since 1968-69 and had touched its lowest level in 1972-73. However, the gross inflow of external assistance has shown an upward trend since 1973-74. Yet, notwithstanding this improvement, the proportion of imports financed by gross external assistance remained the same in 1975-76 as in 1972-73 at approximately 36 per cent. In view of the anticipated lower level of gross aid receipts during 1976-77 relative to 1975-76, this proportion is likely to show a decline compared to 1975-76.

7.33 The overall trends in the gross and net inflow of external assistance in the period since 1967-68 are brought out by the figures given in Table 7.4. The gross disbursement of external assistance which stood at Rs. 1196 crores in 1967-68 declined continuously in the next five years and reached a low level of Rs. 666 crores in 1972-73. The declining trend was reversed by an increase of 50 per cent in 1973-74 and in 1974-75 the gross flow of external assistance further increased by nearly 34 per cent, reflecting the impact of such factors as grants under the U.N. Emergency Operation Scheme, the USSR wheat loan, larger IDA assistance and oil credits. In 1975-76 gross aid disbursements increased by a further 37 per cent to reach a figure of Rs. 1839 crores. This increase was mainly due to the assistance from friendly oil producing countries and from I.D.A.

*Revised to not more than 5 grams with effect from 9th May, 1977.

TABLE 7.4

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	1976-77**
1	2	3	4	5	6	7	8	9	10	11
I. Gross Disbursements	1196	903	856	791	834	666	999	1337	1839	1747
of which :										
(a) PL-480 Food*	285	131	128	57	..	..	..	..	92	67
(b) PL-480 Non-Food	57	27	41	32	112	4	..	..	..	..
(c) Other Food	45	55	19	36	32	..	150	162	97	66
II. Total Debt Servicing	333	375	412	450	479	507	595	626	686	761
of which :										
(a) Amortisation Payments	211	236	268	290	299	327	399	411	463	503
(b) Interest Payments	122	139	144	160	180	180	196	215	223	258
III. Net Inflow of Assistance (I-II)	863	528	444	341	355	159	404	711	1153	986

*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.

7.34 The net availability of external assistance i.e. after allowing for the repayment of principal and interest charges on foreign loans has also shown an improvement in recent years after touching a low ebb in 1972-73. As against Rs. 863 crores in 1967-68 and only Rs. 159 crores in 1972-73 the volume of net external assistance amounted to Rs. 1153 crores in 1975-76. During 1976-77 the net availability of aid was lower than in 1975-76.

7.35 At the annual meeting of the Aid India Consortium held in Paris in May 1976 the donor countries and the IBRD/IDA pledged assistance to India for an amount of US \$ 1677 million, US \$ 98 million less than in 1975-76. Of this, some U.S. \$ 977 million was to be provided by donor countries and the balance of US \$ 700 million comprises of assistance from the IBRD/IDA. While some of the donor countries had increased their pledges in terms of their currencies this was not reflected in dollar figures due to the strengthening of dollar vis-a-vis some other currencies. Assis-

tance from the World Bank group was lower compared to 1975-76. Along with a decline in total assistance there was a fall of US \$ 130 million in non-project assistance. The amount of debt relief indicated at around US \$ 160 million for 1976-77 was also marginally less than debt relief of US \$ 167 million pledged in 1975-76.

7.36 Of late there has been some further improvement in the quality of assistance provided by some of the donor countries. Assistance from the United Kingdom, which has for some time now been entirely in the form of grants, was larger in 1976-77. Assistance from the Federal Republic of Germany was provided on IDA terms. Netherland's assistance to India was also on IDA terms and increased significantly in volume in 1976-77. While Sweden and Norway were already providing assistance to India in the form of grants, the grant element in the assistance provided by Canada and Denmark also showed an increase.