CHAPTER 7

FOREIGN TRADE AND BALANCE OF PAYMENTS

7.1 One of the striking features of India's economic performance in the past two years or so has been the marked improvement in her external payments position. This improvement owes as much to the continued rise in merchandise exports as to the increase in invisible receipts. At the same time the upsurge in imports witnessed in the earlier years levelled off due to a sharp reduction of food and fertiliser imports which constituted 37 per cent of the country's imports in 1975-76. These developments in exports, imports and invisibles have brought about a dramatic improvement in the country's foreign exchange reserves.

Foreign Exchange Reserves and Overall Balance of Payments Trends

7.2 India's foreign exchange reserves (excluding gold and SDRs in which variations are marginal) not taking into account transactions with the IMF which had risen by Rs. 674.1 crores in 1975-76 rose further by Rs. 1674.1 crores in 1976-77. In the ten months of the current year ending January 1978, the reserves have shown a further rise of Rs. 1344.9 crores. The growth of reserves has been larger this year than in the corresponding period of 1976-77. The following table (Table 7.1) shows the variations in India's foreign exchange reserves since 1971-72.

TABLE 7.1

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

(Rs. crores)

End of year/Period	Foreign Exchange Reserves	Variation in Reserves	Net Drawings from (+)/and Repayments(—) to IMF	Variation in Reserves exclusive 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	2863.0	+1371.3	—302.8	+1674.1
*1977-78	3959.3	+1096.3	—248.6	+1344.9

N. B. (1) At the end of January 1978, India's holdings of monetary gold valued at Rs. 84.39 per 10 grams stood at Rs. 193.1 crores which included Rs. 5.3 crores of gold received by India under the Restitution Scheme of the IMF. Holdings of SDRs were 164.0 million SDRs (Provisional).

(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 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 the 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.

*As on 31st January, 1978.

7.3 The pressure on India's balance of payments eased considerably in 1975-76, thanks to a spurt in net invisible receipts on account of remittances from abroad and a sizeable increase in receipts from external assistance. Although exports increased by Rs. 714 crores, imports rose a little more and there was a record trade deficit of Rs. 1222 crores in 1975-76 as compared with that of Rs. 1190 crores in 1974-75. Nevertheless, reserves went up because of the rise in net current invisible receipts and aid flows and a drawing under the IMF Oil Facility.

7.4 There was a further improvement in India's external payments position during 1976-77. A modest trade surplus of Rs. 69 crores emerged with exports rising to Rs. 5143 crores and imports showing a decline to Rs. 5074 crores. Inward remittances from abroad continued to rise helped by factors such as the checking of smuggling, a large increase in the number of Indians working abroad and uncertainty regarding some of the world's important currencies. Although net aid receipts declined by Rs. 306 crores, the country's foreign exchange reserves rose during 1976-77 by Rs. 1674 crores as compared with Rs. 674 crores in 1975-76. In view of these substantial accretions to her foreign exchange reserves, India repaid to the IMF Rs. 302.8 crores in 1976-77, in contrast to a borrowing of Rs. 207.1 crores in the preceding year.

7.5 During the current year the trends in merchandise transactions and invisibles noticed in 1976-77 have continued. According to preliminary data compiled by DGCI&S, exports during April—November 1977 totalled Rs. 3472 crores while imports amounted to Rs. 3400 crores leading to a surplus of Rs. 72 crores. This together with the continued favourable trends in invisibles have boosted the foreign exchange reserves further. During the current financial year upto January 31, 1978, reserves have shown a rise of Rs. 1345 crores as compared with the rise of Rs. 1201 crores during the same period in 1976-77. The country made a further repayment to the IMF of Rs. 248.6 crores in July 1977 thus reducing the outstanding liabilities to the Fund to Rs. 207 crores, the drawing made in August 1975 under the Oil Facility.

7.6 The continued external strength of the economy has opened up policy options to step up investment and to accelerate the growth process. The import policy for 1977-78 has carried further the process of import liberalisation with a view to strengthening the production base and thus increasing the growth rate of the economy. Imports of a number of essential commodities have been liberalised. The current import policy is so oriented as to meet all legitimate requirements of industry for raw materials and components for increasing production both for domestic use and for exports. Imports of leather and garment making machinery and a large number of drugs and medicines, chemicals, electronic goods and iron and steel items have been placed under OGL whose scope has been enlarged. Besides, a variety of items such as spare parts of imported machinery, certain machinery items which are not indigenously available, polyester fibre, watch parts and dry fruits have been placed under free licensing. Further, in order to improve domestic availability and thereby control prices, liberal imports of essential commodities like edible oils, raw cotton and man-made fibres have been allowed. In an effort to step up domestic investment, Government has been adopting a policy of greater flexibility in the use of imported plant and equipment especially in important sectors like power, fertiliser and cement.

7.7 All these steps to liberalise imports to increase domestic supplies of essential commodities and to step up investment will show results in the coming months. Already the liberalisation of import policy is getting reflected in the volume of import licences issued which has shown a large rise. Import licences worth Rs. 4147 crores were issued in April—October 1977 as against Rs. 2149 crores in the corresponding period of 1976. Of these licences worth Rs. 3280 crores were against free foreign exchange, taking advantage of the comfortable foreign exchange position. In view of the continued external strength of the economy, Government have recently relaxed restriction on foreign travel by Indians.

7.8 The country's foreign exchange position is greatly improved at present, as compared to what it was a few years ago. Given the extent of fluctuations in agricultural production and the fact that India, unlike developed countries, has no secondary line of reserves to fall back upon in case of need, it would be desirable for the country to hold a sizeable volume of foreign exchange reserves. However, since they represent valuable resources, there is an urgent need to use them for development purposes.

7.9 It will be recalled that the Indian rupee was delinked from the pound sterling on September 25, 1975 and was linked instead to a basket of currencies of India's major trading partners with a view to imparting greater stability to the effective exchange rate of the rupee. The pound sterling, however, continues to be the intervention currency. In September 1975, a middle rate of Rs. 18.3084 per pound sterling had been fixed. Since then, the middle rate has been adjusted several times on the basis of the basket of currencies; the last adjustment was on November 1, 1977 when the middle rate was fixed at Rs. 15.75 per pound.

Balance of Trade and Direction of Trade

7.10 The year 1976-77 marked a turning point in India's external trade transactions. The sharp deterioration suffered in the wake of the rise in the prices of petroleum, food, fertilisers and industrial raw materials was checked in 1976-77 and a small surplus of Rs. 69 crores emerged on trade account. The value of exports in 1976-77 rose by 27 per cent to Rs. 5143 crores but the increase in volume was as high as 18 per cent. An export growth of 27 per cent was noteworthy when compared to the rate of growth of world exports of 13.6 per cent and that of industrial countries of 11 per cent. Imports, on the other hand, declined by 3.6 per cent to Rs. 5074 crores. This decline in imports was due to a fall in volume and unit price in almost equal proportions. The decline in the terms of trade in the previous years was also arrested in 1976-77 and the net terms of trade improved by 7.4 per cent over the previous year.

7.11 According to the provisional DGCI&S data, the value of India's imports and exports during the first eight months of 1977-78 came to Rs. 3400 crores and Rs. 3472 crores respectively showing a trade surplus of Rs. 72 crores as against a trade deficit of Rs. 98 crores in the first eight months of the previous year. The rate of growth in exports decelerated during this period to 9 per cent as against a growth of 31 per cent recorded in the first eight months of 1976-77. The value of imports, however, registered a small increase of 3.8 per cent as compared to a decline of 6.7 per cent in the same period last year.

7.12 The trade performance in 1976-77 revealed that several items like oil-cakes, fish and fish preparations, cotton apparel, iron and steel, engineering goods, chemicals and handicrafts have emerged with substantial export potential adding buoyancy and resilience to exports. There was also some noticeable shift in the direction and pattern of trade. Exports to EEC registered a sharp increase taking its share in total exports from 21.1 per cent in 1975-76 to 25.9 per cent in 1976-77. The share of Eastern Europe which had declined from 20.6 per cent in 1974-75 to 17.0 per cent in 1975-76 fell further to 15.4 per cent in 1976-77. The share of the U. S. also declined to 11.0 per cent in 1976-77 from 12.9 per cent in the previous year, mainly due to a reduction in the exports of jute manufactures and sugar. The share of oil exporting countries declined rather sharply from 14.2 per cent in 1975-76 to 10.6 per cent in 1976-77 on account of a sharp reduction in Iran's share from 6.7 per cent in 1975-76 to 2.8 per cent in 1976-77. While Japan more or less maintained her share of Indian exports at 10.5 per cent, the share of 'other countries' improved to 26.6 per cent in 1976-77 from 24.1 per cent in the previous year.

7.13 The share of the U. S. in India's imports declined to 21.0 per cent in 1976-77 from 24.4 per cent in 1975-76, mainly due to reduced imports of foodgrains. Similarly, the share of the EEC declined from 20.8 per cent in 1975-76 to 18.9 per cent in 1976-77, due to reduced import of items like foodgrains and fertilisers. The share of Eastern Europe which had declined to 11.0 per cent in 1975-76 from 14.6 per cent in the previous year, fell further to 9.7 per cent in 1976-77. The share of oil exporting countries which had declined to 20.4 per cent in 1975-76 from the previous year's 24.6 per cent recovered to 24.0 per cent in 1976-77 largely because of a rise in oil prices. While the share of 'other countries' improved further from 16.5 per cent in 1975-76 to 20.5 per cent in 1976-77, that of Japan declined from 6.9 per cent to 5.9 per cent.

Imports

7.14 The value of India's imports during 1976-77 aggregated to Rs. 5074 crores and was 3.6 per cent lower than the level of imports in 1975-76. There was a decline of Rs. 887 crores in the imports of foodgrains, fertilisers and iron and steel. The proportion of these three items in total imports, which was as high as 42.6 per cent in 1975-76, dropped to 26.7 per cent in 1976-77. However, the decline in the value of imports on account of these items was to a considerable extent off-set by significant increases in the imports of raw cotton, vegetable oils and fats, petroleum and its products, capital goods and non-ferrous metals. Raw cotton and vegetable oils and fats together accounted for an increase of Rs. 188 crores, petroleum and its products for Rs. 187 crores, capital goods for Rs. 40 crores and non-ferrous metals for Rs. 59 crores.

7.15 The trends in the broad commodity-wise composition of imports during recent years as also in the first quarter of 1977-78 are indicated in the following Table :

TABLE 7.2

Value of India's Imports by Major Commodity Groups

(Rs. crores)

Commodity	1973-74	1974-75	1975-76	1976-77	Percentage change in 1976-77 over 1975-76	April—June* 1976-77	April—June* 1977-78	Percentage change in April—June 1977-78 over April—June 1976-77
1. Food	473.1	763.8	1342.8	878.6	—34.6	219.2	21.9	—90.0
2. Raw cotton	52.0	27.4	28.2	129.5	+359.2	7.2	8.7	+20.8
3. Raw wool	16.1	26.3	24.5	26.3	+7.3	4.7	5.7	+21.3
4. Animal and vegetable oils and fats	64.9	34.9	17.0	118.0	+594.1	13.3	111.9	+741.4
5. Fertilisers and fertiliser materials	226.8	588.9	591.8	261.2	—55.9	27.9	54.7	+96.1
6. P.O.L.	560.3	1156.9	1225.7	1412.1	+15.2	288.7	251.4	—13.0
7. Chemical elements and compounds	83.4	129.7	122.2	137.2	+12.3	31.7	36.1	+7.3
8. Paper and paper board and manufactures thereof	29.2	59.5	57.7	62.2	+7.8	13.0	12.0	—7.7
9. Metals (Iron and Steel and Non-ferrous)	389.8	602.4	412.3	379.5	—8.0	86.7	64.4	—25.6
10. Capital goods	673.5	723.3	967.7	1007.8	+4.1	242.1	222.4	—8.1
11. Others	386.3	405.7	475.3	662.0	+39.3	127.2	189.9	+49.3
Total Imports	**2955.4**	**4518.8**	**5265.2**	**5074.4**	**—3.6**	**1061.7**	979.1	**—7.8**

*Provisional.

7.16 Petroleum and its products (POL) as a group constituted the largest single item of import in 1976-77 and accounted for more than a quarter of the total value of imports. Unlike in the previous year, the quantity of imports of POL in 1976-77 increased by 3 per cent. The unit value also was up by 11.7 per cent and as a result, the value of imports of POL registered an increase of 15 per cent. The value of imports of raw cotton recorded a more than four-fold increase from Rs. 28.2 crores in 1975-76 to Rs. 129.5 crores in 1976-77. While the quantity of imports of raw cotton doubled, the unit price rose sharply by 130 per cent. Import of raw cotton was necessary to cover the gap between requirement and reduced domestic production. Import of vegetable oils and fats likewise registered a seven-fold increase in value during the period due mainly to a substantial step-up in the quantity of imports in order to make up for shortfall in domestic production. Imports of non-ferrous metals rose in value terms by 59.2 per cent to Rs. 160 crores due to a significant increase in the quantity of imports from 84.5 thousand tonnes in 1975-76 to 140.7 thousand tonnes in 1976-77 as well as a further rise in the unit prices of nickel, aluminium, tin and lead. Imports of capital goods increased by 4.1 per cent to Rs. 1008 crores following the liberalisation in import policy.

7.17 On the other hand, food, which was the largest single item of import in 1975-76, recorded a decline in value by 34.6 per cent to Rs. 878.6 crores. This was due to a fall in the import of wheat from 7.1 million tonnes to 5 million tonnes as well as a small decline in the unit price by 5 per cent. The value of import of fertilisers and fertiliser materials registered a sharp decline by Rs. 330.6 crores to Rs. 261.2 crores during the period. This was due mainly to a fall in the unit price of crude fertiliser by 77 per cent and fertiliser manufactured by 57.5 per cent. The quantity of fertilisers and fertiliser materials imported, however, increased by about 1.5 million tonnes to 4.5 million tonnes. The increase in the quantity of imports of fertilisers and fertiliser materials was necessitated by a spurt in domestic off-take of fertilisers following the lowering of fertiliser prices. The value of iron and steel imports decreased by Rs. 92 crores mainly due to a fall in the quantity of imports by 30 per cent. The increase in domestic production helped in reducing the quantity of import of iron and steel.

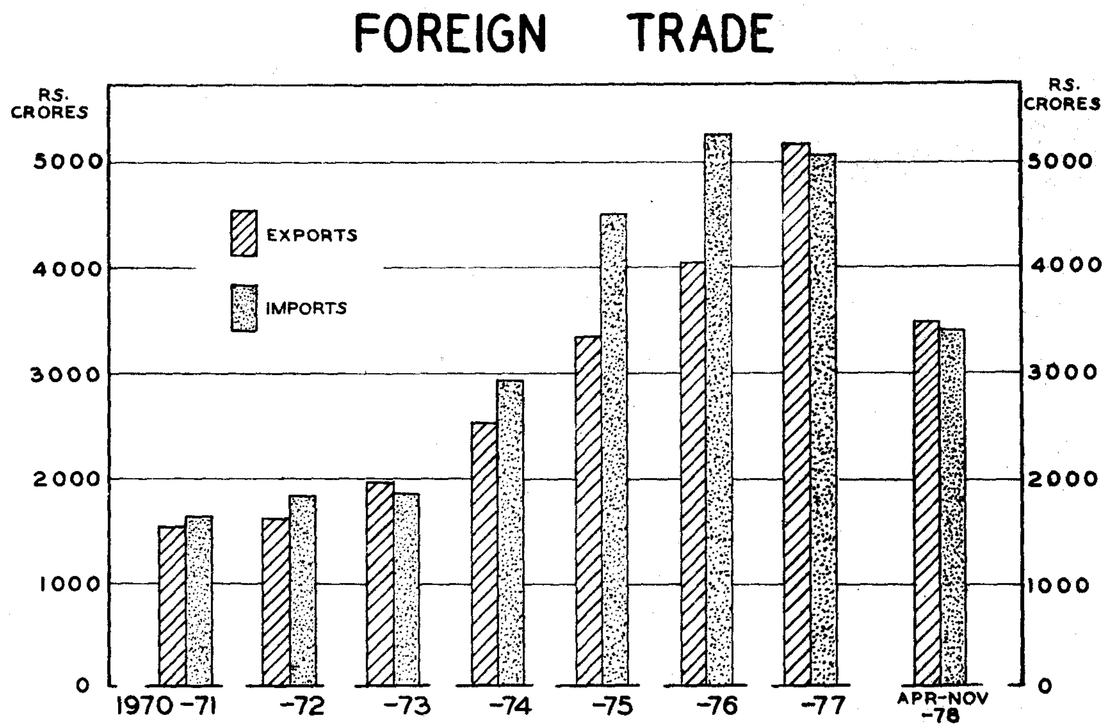
7.18 During the first eight months of 1977-78, the value of imports at Rs. 3400 crores registered an increase of 3.8 per cent over the level of imports in the eight months of 1976-77. Food imports during this period have been negligible whereas they accounted for Rs. 696 crores in the first eight months of the previous year. Adjusting for this, non-food imports in the first eight months of the current year show an increase of 32 per cent over the level of non-food imports in the corresponding period of 1976-77. Commodity-wise details are available only upto the first quarter of the current year. These indicate a decline in food imports of about Rs. 200 crores on the one hand and significant increases in the imports of cashew nuts, vegetable oils and fats, plastic materials, non-metallic mineral manufactures, general industrial machinery and equipment and fertilisers.

Exports

7.19 Exports in 1976-77 recorded an impressive gain in both volume and value terms. Total export earnings rose by 27 per cent to Rs. 5143 crores. Spurred by the recovery of economic activity and the replenishment of inventories in developed countries as also the vigorous domestic drive for exports, the volume of exports recorded a substantial increase of 18 per cent as against an average rate of increase of 8.5 per cent in the previous two years. The unit value of exports registered only a moderate increase of 6.6 per cent as against an increase of 7.7 per cent in 1975-76 and 25.3 per cent in 1974-75.

7.20 The broad trends in the commodity-wise composition of India's exports during recent years and the first quarter of 1977-78 are shown in Table 7.3.

7.21 The commodity-wise break-up shows that items like oil cakes, cotton and art silk fabrics, coffee and tea which were depressed in 1975-76 recorded substantial gains during 1976-77. Other items like marine products, leather and leather manufactures, handicrafts, chemicals, engineering goods and cotton apparel, maintained and improved their upward trend in export earnings. Iron and steel which did not figure significantly in export earnings in earlier years contributed handsomely to our export earnings. On the other hand, earnings from jute manufactures were depressed further and those from sugar declined sharply.



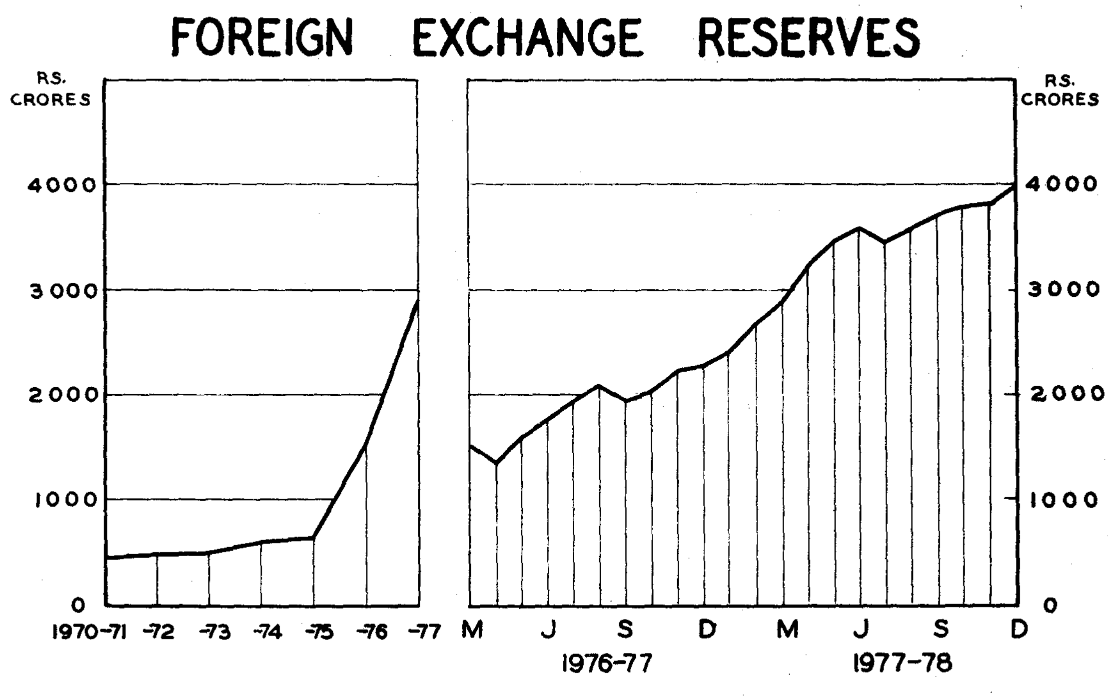


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TABLE 7.3

Value of India's Exports by Major Commodity Groups

(Rs. crores)

Items	1973-74	1974-75	1975-76	1976-77	Percentage variation in 1976-77 over 1975-76	April—June* 1976-77	April—June* 1977-78	Percentage variation in April—June 1977-78 over April—June 1976-77
1. Oil cakes	178.2	96.0	96.5	223.8	131.9	39.4	65.5	66.2
2. Tobacco	70.9	82.2	98.4	102.1	3.8	50.6	62.6	23.7
3. Fish and fish preparations . . .	89.2	66.2	127.2	180.3	41.7	38.8	40.8	5.2
4. Tea	146.0	228.1	236.9	292.9	23.6	36.3	93.8	158.4
5. Coffee	46.0	51.4	66.7	114.1	71.1	32.2	64.8	101.2
6. Sugar	42.7	339.0	472.3	148.1	—68.6	59.8	10.5	—82.4
7. Cashew kernels	74.4	118.2	96.1	106.0	10.3	34.2	51.2	49.7
8. Groundnuts	35.8	25.6	62.9	65.2	3.7	28.9	0.5	—98.3
9. Spices	55.1	61.4	71.5	72.9	2.0	11.5	25.5	121.7
10. Iron ore	132.9	160.4	213.9	238.5	11.5	57.1	64.7	13.3
11. Raw cotton	32.4	15.2	41.3	27.0	—34.6	11.2	..	..
12. Cotton fabrics	195.0	158.9	161.2	254.0	57.6	43.7	59.0	35.0
13. Cotton apparel	67.4	96.9	146.4	257.0	75.5	73.4	56.5	—23.0
14. Art silk fabrics	28.3	18.4	15.4	28.9	87.7	5.2	6.5	25.0
15. Jute manufactures	227.5	296.8	250.9	200.8	—20.0	45.5	38.4	—15.6
16. Coir yarn and manufactures . . .	15.3	17.9	19.0	24.0	26.3	6.1	4.6	—24.6
17. Leather and leather manufactures (excluding footwear)	172.2	145.0	201.5	263.5	30.8	69.8	65.7	—5.9
18. Engineering goods	201.7	356.6	413.0	554.4	34.2	118.1	137.7	16.6
19. Handicrafts	173.6	186.6	252.0	402.4	59.7	50.5	84.8	67.9
20. Chemicals and allied products . .	50.3	92.9	85.3	109.1	27.9	20.4	28.1	37.7
21. Iron and steel	26.2	21.1	68.0	283.0	316.2	66.2	54.6	—17.5
22. Vegetable oils (essential and non-essential)	37.9	43.0	39.5	52.6	33.2	2.5	4.7	48.0
23. Others	424.4	651.0	806.9	1142.8	41.6	207.5	204.2	—1.6
TOTAL	**2523.4**	**3328.8**	**4042.8**	**5143.4**	**27.2**	**1108.9**	**1224.7**	**10.4**

*Provisional

7.22 Among the items in the non-manufactures group, tea, coffee, iron ore, oil cakes, cashew kernels and fish and fish preparations recorded moderate to sizable increases in export earnings. The value of tea exports rose by 23.6 per cent helped by an increase in quantity of 14.5 per cent and a gain in unit value of 8 per cent. The market for tea abroad turned favourable towards the second half of 1976-77 following a short-fall in supply from competing countries like Kenya and Sri Lanka. Export of coffee gained 71 per cent in value terms due entirely to an unprecedented rise in unit value of 114 per cent. The coffee market abroad hardened significantly due to large scale buying operations undertaken by Brazil, the world's largest coffee producer. Export earnings from coffee would have been larger but for the constraint in domestic supply. Actually, the quantity of coffee exports fell by 20 per cent in 1976-77.

7.23 Exports of oil cakes which had remained depressed in the previous two years recovered in 1976-77 and recorded an impressive gain of 132 per cent in value. The unit value of oil cakes rose by 47 per cent while the quantum of export increased by 58 per cent. A tight world market created by a short-fall in sunflower and soyabean crops was largely responsible for a rise in demand as well as price. Fish and fish preparations exports also recorded a significant increase of 42 per cent largely because of an increase in unit value of 26.3 per cent. The export of iron ore, similarly, rose in value terms by 11.5 per cent following an increase in the quantity of exports of 3.5 per cent and a rise in unit value of 7.7 per cent. The export of cashew kernels recorded a moderate increase of 10.5 per cent in value due entirely to a rise in unit value by 14.5 per cent.

7.24 In the manufactures group, substantial increases were recorded by iron and steel, engineering goods, cotton fabrics, cotton apparel, art silk fabrics, leather and leather manufactures and handicrafts. In fact, iron and steel accounted for the largest increase in export earnings in 1976-77, contributing Rs. 283 crores as against only Rs. 68 crores in 1975-76. This was due mainly to larger quantity of exports. The export of engineering goods rose by 34.2 per cent due partly to favourable markets in the Gulf countries and partly to improved marketing and better export facilities.

7.25 The demand for cotton fabrics witnessed a recovery and export earnings rose by 57.6 per cent in 1976-77. The quantity of exports registered an increase of around 30 per cent and the unit value of mill-made fabrics rose by 24.4 per cent. The value of exports of art-silk fabrics increased by 88 per cent following a doubling of the quantity of exports and a small decline of 6 per cent in unit value. Cotton apparel recorded an impressive gain of 76 per cent and thus maintained its record as one of the fastest growing items of export. Leather and leather manufactures gained further in 1976-77 and the value of exports rose by 31 per cent reflecting the success of the policy of encouraging the exports of finished leather and leather goods which have a higher value-added element than semi-finished leather and skins. The value of export of handicrafts increased by 60 per cent due mainly to larger demand and market opportunities for precious and semi-precious stones particularly from the Gulf countries.

7.26 The exports of jute manufactures and sugar declined significantly in 1976-77. Jute manufactures suffered a decline of 20 per cent in export earnings due to lower off-take and a fall in unit value by 8.4 per cent. Progressive inroads by synthetics and stiff competition from other exporters were primarily responsible for the slack in demand and fall in prices abroad. Sugar exports crashed from Rs. 472 crores in 1975-76 to Rs. 148 crores in 1976-77 following a fall in unit value of 35 per cent and a decline in the quantity of export by 52 per cent. This was due to the comfortable world sugar situation.

7.27 In the first eight months of 1977-78, exports at Rs. 3472 crores have risen by 9.3 per cent as against a rise of 31 per cent recorded in the comparable period in the previous year. This considerable deceleration reflects in part the decreased off-take by developed countries following a slow-down in the rate of their economic growth and the tapering-off of the demand for inventories. Commodity-wise data available on a firm basis so far up to the first quarter of 1977-78 show a distinct down-turn in export earnings from items like iron and steel, due to a worldwide slump in demand, leather and leather manufactures and cotton apparel on account of increasing import restrictions in developed countries. These three items had contributed Rs. 804 crores in 1976-77 and had accounted for as much as 35 per cent of the total increase in the value of exports of Rs. 1100 crores. The export of sugar continued to decline and added only Rs. 10.5 crores in the first quarter as against Rs. 59.8 crores in the corresponding quarter of the last year. Exports of jute manufactures have declined further in the first quarter. On the other hand, fish and fish preparations as well as engineering goods have recorded only moderate increases of 5 per cent and 16.6 per cent respectively in the first quarter of the current year. On the whole, the export performance so far this year has been moderately encouraging. Only the exports of tea and coffee have maintained spectacular rates of increase.

Trade Policy Developments

7.28 The broad parameters of the trade policy continue to aim at expanding the production base, promoting faster economic growth and encouraging exports. The import policy for 1977-78 was substantially liberalised not only to meet the input requirements of industries in full but also to help maintain the price level particularly in respect of mass consumption goods.

7.29 As a measure of liberalisation of imports, a large number of items such as spare parts of imported machinery, polynosic and viscose fibres, edible oils, watch parts, dry fruits etc. were placed under free licensing. Alongside, the scope of Open General Licence (OGL) was further widened and the import of leather machinery, garment making machinery as well as a large number of drugs, medicines, chemicals, electronic items, iron and steel items and scientific and technical books was placed under OGL. Imports of machinery, raw materials and other consumables into free trade zones were also placed under OGL.

7.30 The system of automatic licensing was made more flexible by permitting such licences on the basis of actual consumption of imported raw materials, without reference to the value of such licences issued in the previous year. The scheme of direct allotment of canalised items to actual users without release orders introduced in 1976-77 was enlarged to include almost all canalised items.

7.31 The scope of favourable treatment accorded to the small scale sector industries was sought to be widened. Thus, a blanket increase of 20 per cent was made on the entitlement of these industries for imported raw materials and components. Further the cumbersome procedure for capacity assessment was done away with and the supplementary licensing facility was made available to small scale units at par with DGTD units.

7.32 The policy for registered exporters was re-oriented in order to provide the necessary impetus for a vigorous export effort. The 'shopping-list' was abolished and exporters were allowed to import within the value of their replenishment entitlements, necessary raw materials and components subject to certain restrictions to safeguard the legitimate interests of indigenous industries. This was done to enable exporters to diversify and improve the quality of their products. Exporters were also allowed to nominate any manufacturer to obtain import replenishment licences on their behalf. In addition, more items were brought under the scheme of exemption of customs duty against advance licences and procedural simplifications aimed at helping exporters for maintaining continuity in production and execution of export orders were made.

7.33 The policy for banning/prohibiting imports was changed significantly in line with the liberal tone of the new import policy. In place of the last year's prohibited list of 59 items, a list of 17 'absolutely non-permissible' items was introduced. These items are not permitted for imports in view of their indigenous availability.

7.34 The broad pattern of export trade control policy was left unchanged. Following the removal of licensing formalities on August 5, 1975 in regard to nearly two-thirds of the 300 items which were subject to export licensing earlier, only a limited number of items is now subject to control. Many of these items were placed on OGL. Keeping in view the trend in domestic availability and prices a few items were either banned or regulated for export purposes during 1977-78. These include pulses and wheat seeds, H.P.S. groundnut, seeds and oils of sesamum, kardi and niger, onions, potatoes, fresh vegetables, salt and milk powder.

7.35 Export promotion policy was also left more or less unchanged. In the field of export promotion, the grant of cash compensatory support, replenishment entitlement, duty draw-back and pre-shipment and post-shipment credit on concessional terms were allowed to continue. Exporters were allowed the facility of direct import of canalised items against REP licences and the system of issuing licences in the name of the canalising agency with letters of authority to the importers was discontinued. The facility of granting adequate foreign exchange to businessmen and others proceeding abroad especially for export promotion activities was liberalised. Export houses were permitted to spend foreign exchange for specified activities connected with export promotion up to 2.5 per cent of the f.o.b. value of their exports. In order to develop export potential in consultancy services and turn-key projects, continued encouragement was given for the formation of consortium of exporters in these fields. The system of compulsory export obligation, applicable to certain industries, was dispensed with although the Government reserved the right to require any industry using imported machinery or imported inputs to show certain export obligations for a period of time.

7.36 Keeping in view the trend in international prices and domestic availability, suitable changes were made in export duties in respect of a few items. Similarly, import duties on some items were modified in line with the liberalisation of imports of these items and in particular to encourage larger imports of mass consumption goods. Important items on which export duties were changed are coffee, tea, minor oilseed cakes, wheat bran and deoiled rice bran. The export duty on coffee was increased from Rs. 1300 per quintal to Rs. 2200 per quintal on April 26, 1977 in order to mop up the windfall profits earned by exporters following sharp increases in international price of coffee. Subsequently, the export duty was revised downwards substantially with the decline in international prices. An export duty of Rs. 5 per kg. was imposed on tea on April 9, 1977 to mop up excess profits accruing to exporters consequent upon a steep rise in the price of tea abroad and also to ensure adequate supply for domestic consumption. Tea bags, packet tea and instant tea were, however, exempted from the duty in order to encourage export in a manufactured form. Import duty on edible oils and seeds was removed with effect from January 22, 1977. Similarly, raw cotton was exempted from basic import duty from April 1, 1977 and newsprint, viscose filament yarn were totally exempted from customs duties with effect from August 15, 1977. These were done with a view to ensuring larger imports of these items and easing the domestic supply situation. Downward adjustments in import duties were also made in respect of a number of other items like furnace oil, palm kernel oil, stainless steel plates etc. in order to serve domestic consumer interests. With the same end in view, import duties on life-saving drugs were removed in January, 1978.

7.37 During the year under review, India became a signatory to the New International Sugar Agreement. In the field of trade agreements, an important develoment was the decision to convert the rupee trade with Hungary into one in convertible currencies with effect from January, 1978 and with North Korea from March, 1978.

External Assistance

7.38 Net external assistance received by India increased from Rs. 159 crores in 1972-73 to Rs. 1154 crores in 1975-76. In 1976-77, however, it declined to Rs. 844 crores. Consequently, the proportion of imports financed by external assistance which was 22 per cent in 1975-76 fell to 17 per cent in 1976-77. In view of the anticipated lower level of net aid in 1977-78, this proportion is likely to go down further.

7.39 The overall trends in the gross and net inflow of external assistance in the period since 1967-68 are given in Table 7.4. The continued increase in the gross disbursement of external assistance between 1973-76 reflected the impact of such factors as grants under the U. N. Emergency Operations Scheme, the USSR Wheat Loan, larger IDA assistance and oil credits. In 1976-77, however, gross inflow of external assistance came down by 13 per cent compared to the level of gross aid in 1975-76 due mainly to lower assistance from oil producing countries and virtual absence of grants under the U.N. Emergency Operations Scheme.

7.40 At the annual meeting of the Aid-India Consortium held in Paris in July 1977, the donor countries and the IBRD/IDA pledged assistance to India for an amount of US $ 2.1 billion, US $ 423 million more than in 1976-77. Of this, US $ 978 million is to be provided by industrial donor countries and US $ 22 million by the E.E.C. as an organisation. The balance of US $ 1100 million comprises of assistance from the IBRD/IDA. The assistance from the World Bank group is higher as compared to that in 1976-77. The amount of debt relief indicated at around US $ 43 million for 1977-78 is significantly lower than the debt relief of US $ 160 million for 1976-77.

7.41 There has been a gradual softening in recent years in the terms of assistance offered by individual countries. The United Kingdom, Sweden and Norway are already providing aid in the form of grants. Assistance from West Germany and the Netherlands is on IDA terms, West German assistance is also untied. The grant element in the assistance provided by Canada and Denmark has been increasing in recent years. Development loans from Canada do not carry any interest and are repayable over a period of fifty years, inclusive of an initial grace period of ten years. Belgian assistance whose terms have been gradually softening in recent years was made interest-free in 1977-78. The terms of Treasury assistance from France for 1977-78 have been improved by an extension of the maturity period from 25 years to 28 years. Japan's aid now has a grant element of 54.7 per cent.

TABLE 7.4

Inflow of External Assistance : Gross and Net

(Rs. crores)

Item	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977**-78
1	2	3	4	5	6	7	8	9	10	11	12
I. Gross Disbursements of which :	1196	903	856	791	834	666	1036	1314	1841	1599	1585
(a) PL 480 Food*	285	131	128	57	..	..	..	..	92	68	22
(b) PL 480 Non-Food	57	27	41	32	112	4	..	..	..	..	..
(c) Other Food	45	55	19	36	32	..	150	162	97	48	32
II. Total Debt Servicing of which :	333	375	412	450	479	507	596	626	687	755	842
(a) Amortisation payments	211	236	268	290	299	327	400	411	463	507	594
(b) Interest payments	122	139	144	160	180	180	196	215	224	248	248
III. Net Inflow of Assistance (I—II)	863	528	444	341	355	159	440	688	1154	844	743

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

** Estimates.

Note—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 includes USSR wheat assistance, oil credits and assistance made available under the United Nations Emergency Operations Scheme.