CHAPTER 8.

FOREIGN TRADE AND BALANCE OF PAYMENTS

8.1 The Balance of Payments situation deteriorated sharply in 1980-81 for the reasons that were anticipated in last year's Economic Survey. The doubling of OPEC oil prices from December 1978 to January 1980 had already inflated the import bill in 1979-80, but its full impact was only felt in 1980-81. The import bill in 1980-81 is expected to be about Rs. 11,300 crores. Exports remained sluggish partly reflecting continued domestic supply constraints and partly also unfavourable world market conditions. The trade deficit is likely to exceed Rs. 4000 crores. With the surplus on net invisibles remaining roughly at last year's level, the current account deficit is likely to be over Rs. 2000 crores. External assistance will cover less than half of this amount. Normally, this situation would have meant a massive drawdown in reserves. However, the impact on reserves in the current year has been cushioned by the use of IMF resources amounting to Rs. 815 crores. In spite of this, foreign currency assets of the RBI had declined by Rs. 313 crores by the end of January 1981 and are likely to decline further in the last two months of the fiscal year.

Foreign Exchange Reserves and the Overall Balance of Payments

8.2 The weak Balance of Payments position in 1980-81 was reflected in a sharp decline in foreign currency assets of the RBI. The declining trend in these assets had already started in the latter half of 1979-80, when the trade deficit began to widen in the wake of the very sharp increases in oil prices. After several years of successive and substantial increases in reserve levels, foreign currency assets declined by Rs. 56 crores in 1979-80. The rate of drawdown accelerated sharply in 1980-81. Foreign currency assets declined at an average rate of Rs. 147 crores per month upto August 1980 when the reserves position was bolstered by the inflow of Rs. 815 crores from the IMF comprising a Trust Fund loan of Rs. 541 crores and drawing of Rs. 274 crores under the Compensatory Financing Facility. However, the continued deficit on external payments meant that this boost was only temporary. By the end of January 1981, there was a decline of Rs. 313 crores in the foreign currency assets compared with the position at the start of 1980-81. Without the recourse to IMF resources, the overall reserve drawdown would have been Rs. 1129 crores in the first ten months of the fiscal year. Table 8.1 shows the movements in RBI's foreign currency assets since 1971-72.

8.3 The complete balance of payments data for 1979-80 and 1980-81 are not yet available but a broad picture of developments on the balance of

TABLE 8.1

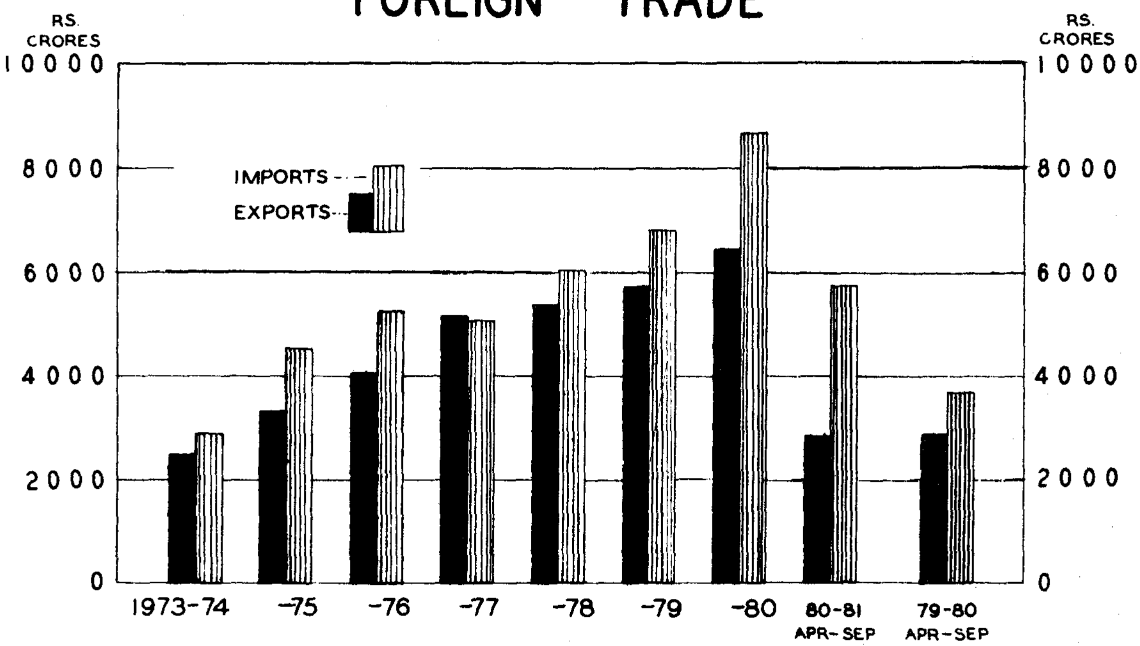
Movements in RBI's Foreign Currency Assets

(Rs. crores)

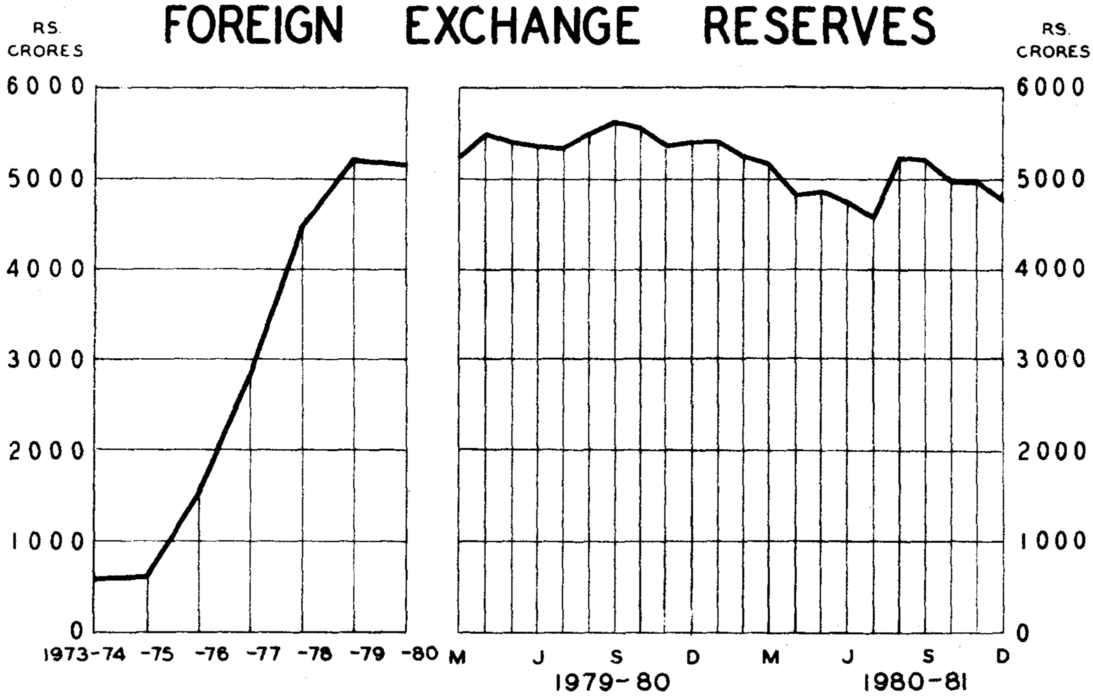
End of year/period	Foreign currency Assets	Variation in foreign currency assets	Net drawings from (+)/ repayments (—) to IMF	Variation in foreign currency assets exclusive of transactions with IMF (3—4)
1	2	3	4	5
1971-72	480.4	+42.3	..	+42.3
1972-73	478.9	—1.5	..	—1.5
1973-74	580.8	+101.9	+62.0	+39.9
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	4499.8	+1636.8	—248.6	+1885.4
1978-79	5219.9	+720.1	—206.9	+927.0
1979-80	5163.7	—56.2	—55.1	—1.1
1980-81				
January 31, 1981	4850.5	—313.2	+810.3	—1123.5

N.B. :—On January 31, 1981 India's holdings of monetary gold valued at Rs. 84.39 per 10 grams stood at Rs. 225.6 crores. Holdings of SDRs were 493.5 million SDR s(Provisional).

FOREIGN TRADE



FOREIGN EXCHANGE RESERVES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

payments can be presented based on partial data. The most important single factor accounting for the deterioration in the payments position is the doubling of oil prices between December 1978 and January 1980. This price increase, and the associated increases in prices of other critical imports such as fertiliser, has meant a sharp increase in import values in the past two years even though import volumes have increased only modestly. The total import bill on the basis of DGCI&S data increased from Rs. 6814 crores in 1978-79 to Rs. 8795 crores in 1979-80. This, however, did not reflect the full impact of the oil price level reached in January 1980, which is reflected in the import bill for 1980-81. Imports in the first seven months of 1980-81, have already amounted to Rs. 6616 crores, and are likely to be about Rs. 11,300 crores for the year as a whole. At a time when the import bill is rising rapidly, exports have remained sluggish. Exports in 1979-80 amounted to Rs. 6,427 crores showing an increase of only 12 per cent over the previous year. Much of this was due to higher prices and exports in volume terms were probably stagnant. For 1980-81, data are available only upto October 1980. and these show only a marginal increase of 3 per cent in value terms compared with the provisional data for April—October 1979. However, these data are misleading because of incomplete reporting from Palam Airport (Delhi). Dum Dum Airport (Calcutta) and Calcutta Port. Making due allowance for these factors, and in the light of other available information, it appears that exports in value terms will grow by about 10 per cent in 1980-81, reaching a level of Rs. 7,100 crores. This means that exports in volume terms will show little or no growth over the previous year.

8.4 The trade deficit in 1980-81 is likely to exceed Rs. 4,000 crores compared with only Rs. 1,088 crores two years ago and Rs. 2,368 crores in 1979-80. This very sharp increase in the trade deficit is not matched by any comparable increase in the surplus on net invisibles. As noted in last year's Economic Survey the major factors which accounted for the continuously rising surplus on net invisibles in the past several years had already lost momentum in 1979-80. The flow of remittances has already reached a level from which only modest further increases could be expected. On the whole, it is unlikely that the surplus on net invisibles in 1980-81, will be much above the level of 1979-80. This in turn means that the large increase in the trade deficit in 1980-81 is likely to be reflected almost fully in an increase in the current account deficit. Accordingly, the current account is expected to show a movement from a surplus of Rs. 533 crores in 1978-79, to a small deficit of Rs. 186 crores in 1979-80 and a large deficit of about Rs. 2,000 crores in 1980-81.

Imports

8.5 Over the past two years India's imports have increased sharply in value terms. Total imports amounted to Rs. 6,814 crores in 1978-79. This increased to Rs. 8,795 crores by 1979-80 and the import bill in the current year is likely to be about Rs. 11,300 crores. The major portion of the increase is accounted for by the sharply rising cost of POL imports. In 1978-79, total POL imports were only Rs. 1,677 crores whereas in 1980-81 the POL import bill is likely to be around Rs. 5,600 crores. Thus out of the increase of Rs. 4,500 crores in the total import bill over the past two years, the increase in POL imports alone accounts for Rs. 3,923 crores or about 87 per cent.

8.6 The trends in broad category-wise imports are indicated in Table 8.2.

TABLE 8.2

India's imports by major commodity—groups

(Rs. crores)

	1975-76	1978-79	1979-80*	Percentage change in 1979-80 over 1978-79	April—September 1979	April—September 1980*	Percentage change in April-Sept. 1980 over April-Sept. 1979
1. Cereals and cereal preparations	1342.8	86.9	106.7	22.8	44.5	32.8	—26.3
2. Raw cotton	28.2	26.4	0.1	—99.6	0.1	Neg.	..
3. Raw wool	25.9	29.9	28.3	—5.4	16.7	18.4	10.2
4. Synthetic and regenerated fibres (man made fibres)	6.3	197.6	107.2	—45.7	52.6	33.9	—35.6
5. Vegetable oil fixed (edible oils)	14.2	537.1	442.1	—17.7	166.2	347.8	109.3
6. Fertilizers and fertilizer raw materials	533.8	449.0	546.1	21.6	208.1	304.4	46.3
7. P.O.L.	1226.1	1676.8	3023.5	80.3	1220.6	2320.1	90.1
8. Chemical elements & compounds	180.2	230.8	312.4	35.4	141.6	148.7	5.0
9. Paper & paper boards and manufacture thereof	57.7	104.7	154.7	47.8	72.0	81.5	13.2
10. Pearls, precious and semi-precious stones	84.2	466.6	347.1	—25.6	169.8	235.4	38.6
11. Metals (Iron & steel & non-ferrous)	412.3	717.6	1234.7	72.1	502.5	458.4	—8.8
12. Capital goods	967.7	1300.6	1358.4	4.4	707.3	620.1	—12.3
Total (including others)	5264.8	6814.3	8687.5 (8795.2)**	27.5 (29.1)**	4098.4	5781.6	41.1

*Provisional

**Revised.

8.7 During 1979-80, the largest increase was recorded under POL. While the volume of POL imported increased only by 1 million tonnes, in value terms these increased by 80.3 per cent to Rs. 3,024 crores. This was because of an increase of about 71 per cent in the unit price of POL. Imports of iron and steel went up from 11.6 lakh tonnes in 1978-79 to 16.97 lakh tonnes in 1979-80. This combined with a 26 per cent increase in unit price, resulted in raising the value of imports from Rs. 472 crores in 1978-79 to Rs. 872 crores in 1979-80. Similarly imports of non-ferrous metals increased in value by about 48 per cent to Rs. 363 crores. Substantial increase was also recorded under chemical elements and compounds. In value terms imports of these items increased from Rs. 231 crores in 1978-79 to Rs. 312 crores in 1979-80. In volume terms imports of fertilisers and fertiliser raw materials declined by about 7 per cent, but there was a 30 per cent increase in unit price leading to a 22 per cent increase in the import bill for these items. Imports of paper, paper board and manufactures thereof, recorded an increase of 48 per cent to Rs. 155 crores due to a mark up in the quantity imported from 2.58 lakh tonnes in 1978-79 to 3.35 lakh tonnes in 1979-80. The average unit price also increased from Rs. 4,063 per tonne to Rs. 4,612 per tonne. Capital goods recorded only a marginal increase of 4.4 per cent in value to Rs. 1,358 crores.

8.8 In contrast, significant declines were recorded in imports of synthetic fibres and vegetable oils. Imports of raw cotton levelled off following comfortable domestic supply position. Synthetic and regenerated fibres declined by 46 per cent in value and by about 52 per cent in volume terms. Imports of edible oils declined from 10.4 lakh tonnes in 1978-79 to 6.8 lakh tonnes in 1979-80, and in value terms these declined by about 18 per cent to Rs. 442 crores.

8.9 During the first half of 1980-81, value of imports went up by 41 per cent. As in the previous years, bulk of the increase has come about on account of POL, fertilizers and edible oils. In all the three cases there have been significant increases in unit values. In the case of POL imports, the large import bill for 1980-81 is in part due to the fact that domestic production of petroleum products was disrupted because of the agitation in Assam and the resulting interruption of the flow of crude oil from Assam to the refineries in Digboi, Gauhati, Bongaigaon and Barauni. The total loss of production on this account is estimated at about 3.7 million tonnes of petroleum products. This led to additional imports of 1.5 million tonnes of petroleum products in 1980-81 above the level originally planned. The additional cost on account of these imports is approximately Rs. 370 crores. Supplies of imported crude oil during 1980-81 were also disrupted on account of the Iran-Iraq war and this led to *ad hoc* purchase of crude oil in the spot market of about 1 million tonnes.

Sources of Imports

8.10 There has been a significant change in sources of imports by regions during the past decade. The OPEC countries together registered an average annual growth rate of 38.5 per cent between 1970-71 and 1979-80. Consequently, their share in India's total imports had gone up from 7.7 per cent in 1970-71 to 27.1 per cent in 1979-80. This is largely a reflection of the steep increases in POL prices which have sharply increased the share of POL imports in India's total import bill. The European Common Market countries have also increased their share substantially from 19.5 per cent in 1970-71 to 24.4 per cent in 1979-80 with an annual growth rate of 23.5 per cent. Likewise, imports from Economic and Social Commission for Asia and the Pacific regions (excluding Iran and Indonesia which are grouped under OPEC) were stepped up by 25.8 per cent per annum from Rs. 172 crores in 1970-71 to Rs. 1,356 crores in 1979-80. Of the total imports from this region, imports from Japan account for more than 50 per cent. From Rs. 83 crores in 1970-71, imports from Japan grew by about 25 per cent per annum to Rs. 610 crores in 1979-80. Imports from East European countries, have increased more slowly than total imports and their relative share in India's total imports had gone down from 13.9 per cent in 1970-71 to 11.5 per cent in 1979-80. However, the share of USSR increased from 6.5 per cent to 8.4 per cent. The share of USA in India's total imports shows a steep decline from 33.2 per cent in 1970-71 to 10.0 per cent in 1979-80. The levels of imports from USA during this period showed an erratic pattern. From Rs. 452 crores in 1970-71, imports from USA reached the peak level of Rs. 1,285 crores in 1975-76 due to large imports of foodgrains and fertilizers. With the phasing out of food imports it declined gradually to Rs. 762 crores in 1978-79. However, it picked up again to Rs. 870 crores in 1979-80.

Exports

8.11 Exports have been sluggish for the past three years due to a combination of domestic supply constraints and adverse external circumstances. After growing very rapidly between 1973-74 and 1976-77, export growth slowed down to 5 per cent in 1977-78 and 6 per cent in 1978-79. In 1979-80 exports totalled Rs. 6,427 crores recording 12 per cent increase over the figure of Rs. 5,726 crores for 1978-79. However, 1979-80 was a year in which prices both domestically and internationally had risen sharply. After adjusting for the price increase, the volume of exports in 1979-80 probably declined. The performance in 1980-81 has continued to be sluggish and the overall increase is expected to be about 10 per cent in value terms implying continued stagnation in volume terms.

8.12 The trends in exports of major commodities are shown in Table 8.3.

8.13 The commodity-wise export performance in 1979-80 shows that it was the traditional export items which registered substantial increases in value of exports and contributed in a large measure to the overall

TABLE 8.3

India's Exports by Major Commodity—Groups

(Rs. crores)

Commodity	1978-79	1979-80@	Percentage change in 1979-80 over 1978-79	April—September 1979	April—September 1980*	Percentage change
1. Oil cakes	115.8	115.1	—0.6	66.4	43.1	—35.1
2. Tobacco	116.3	113.4	—2.5	65.0	109.7	68.8
3. Fish and Fish preparations	223.8	249.1	11.3	142.7	83.1	—41.8
4. Tea and mate	340.5	355.3	4.4	147.7	143.1	—3.1
5. Coffee and coffee substitutes	145.1	163.3	12.5	87.8	112.5	28.1
6. Cashew kernels	80.2	110.6	37.8	62.4	70.8	13.5
7. Sugar and sugar preparations	136.1	145.8	7.1	56.5	13.6	—75.9
8. Spices	148.1	148.9	0.5	69.2	49.8	—28.0
9. Iron ore	232.9	289.3	24.2	113.3	129.0	13.9
10. Raw cotton	16.0	74.9	368.0	20.9	77.3	269.9
11. Cotton fabrics	223.9	284.7	27.1	134.8	130.4	—3.3
12. Ready-made garments	421.2	453.7	7.7	240.3	166.3	—30.8
13. Jute manufactures	165.6	341.2	106.0	165.0	146.9	—11.0
14. Coir manufactures	26.3	34.2	29.9	16.9	11.3	—33.1
15. Leather and leather manufactures	326.3	542.9	60.9	262.9	142.3	—45.9
16. Metal manufactures	209.4	207.9	—0.7	105.6	87.4	—17.2
17. Machinery and Transport Equipments	395.0	421.9	6.8	215.3	237.2	10.2
18. Handicrafts	914.3	743.1	—18.8	383.9	298.0	—22.4
of which :—						
Pearls, precious and semi precious stones	710.6	481.4	—32.3	255.5	191.3	—25.1
19. Chemicals and Allied Products	146.3	199.8	36.6	84.2	105.1	24.8
20. Iron and Steel	221.5	100.6	—54.6	66.9	29.4	—56.0
21. Silver	94.4	2.2	—97.7	2.1	..	..
Total (including others)	5726.3	6426.8	12.2	3110.8	2853.8	—8.3

*Data are provisional and incomplete.

@ Provisional.

increase in export earnings. Prominent among the items showing high growth in 1979-80 was jute manufactures whose export earnings more than doubled from Rs. 166 crores in 1978-79 to Rs. 341 crores in 1979-80. This was because of an increase in quantity exported from 3.3 lakh tonnes to 4.9 lakh tonnes and also an improvement in unit values. Cashew kernels which had suffered a decline by 46 per cent in 1978-79 made a welcome recovery, and the value of exports increased by about 38 per cent to Rs. 111 crores. This was because of a 28 per cent increase in the quantity exported. Exports of iron ore increased by 24 per cent from Rs. 233 crores to Rs. 289 crores in contrast to a decline of 3.3 per cent in 1978-79. Earnings from exports of raw cotton increased by Rs. 59 crores because of an increase in quantity exported from 11.8 thousand tonnes in 1978-79 to 66.4 thousand tonnes in 1979-80. Coffee exports increased by 12.5 per cent but this was solely due to higher unit values. The quantity exported declined from 66.3 million kgs. in 1978-79 to 61.9 million kgs. in 1979-80. Exports of tea in volume terms increased by 14 per cent from 172.4 million kgs. in 1978-79 to 196.6 million Kgs. in 1979-80 but unit values declined from Rs. 19.75 per kg. in 1978-79 to Rs. 18.07 per kg. in 1979-80, so that total value of exports increased only marginally by 4.4 per cent. In respect of spices while quantity exported increased by about 12 per cent the increase in value terms was only marginal at 0.5 per cent due to a sharp reduction in the unit value realisation from Rs. 15.09 per kg. in 1978-79 to Rs. 13.61 per kg. in 1979-80. Exports of sugar and sugar preparations also increased by Rs. 10 crores to Rs. 146 crores. Exports of oil cakes and tobacco, on the other hand, recorded marginal declines in value terms due to lower unit value realisation.

8.14 Among the usually dynamic items of India's exports, notable increases were recorded in respect of leather and leather manufactures, chemical and allied products and cotton fabrics. Export earnings from leather and leather manufactures increased by about 61 per cent to Rs. 525 crores. A notable feature of recent years is that finished leather has emerged as the single largest commodity in the group of leather and leather manufactures replacing East India tanned hides and skins which had been the largest earner till 1975-76. The share of value added items of leather in the total exports of leather and leather manufactures has also gone up substantially which is in line with Government's policy to encourage progressively exports of finished leather etc. Exports of chemical and chemical products increased to Rs. 200 crores recording a growth rate of 36.6 per cent. Exports of cotton fabrics which had declined by 11 per cent in value terms in 1978-79 made a welcome recovery and the value of exports increased by 27 per cent to Rs. 285 crores. This was made possible by improved servicing of export orders and better utilisation of export quotas.

8.15 Some of the normally fast growing items did not perform upto expectations. Exports of ready made garments increased only by 7.7 per cent to Rs. 454 crores as against the increase of 47 per cent in 1978-79. Exports of fish and fish preparations increased in value by 11 per cent to Rs. 249 crores entirely due to higher unit value realisation. In both items sluggish demand and trade restrictions played a role in limiting export growth. Machinery and transport equipment showed a growth rate of only 6.8 per cent in value terms. Exports of iron and steel declined by 55 per cent from Rs. 222 crores in 1978-79 to Rs. 101 crores in 1979-80. Exports of metal manufactures also declined marginally. In these cases domestic supply constraints were an important factor inhibiting export growth.

8.16 There was a sharp decline in exports of handicrafts particularly gems and jewellery in 1979-80. In contrast to an increase of 26.7 per cent in 1978-79 export values fell by 18.8 per cent in 1979-80. This was mainly because of a sharp fall in exports of pearls, precious and semi-precious stones from Rs. 711 crores in 1978-79 to Rs. 481 crores in 1979-80. The decline could be traced to sluggish export demand because of depressed economic conditions in industrial countries.

8.17 Commodity-wise data on India's exports for 1980-81 are available only for the first six months of the year. According to these data, the export performance during April—September, 1980 in respect of most of the commodities is quite discouraging. However, as noted above the figures for April—September, 1980 are only partial and the performance may look somewhat better when full information becomes available subsequently.

Direction of Exports

8.18 The trends in market-wise distribution of exports during the past several years show that exports to OPEC countries registered the highest annual growth rate of 26.6 per cent from Rs. 103 crores in 1970-71 to Rs. 859 crores in 1979-80. The market share of these countries in India's total exports also doubled from 6.7 per cent in 1970-71 to 13.4 per cent in 1979-80. European Common Market countries, which come next in the order, increased their imports from India by 22 per cent per annum between 1970-71 and 1979-80. Consequently, their share in India's total exports had gone up from 18.2 per cent in 1970-71 to 26.2 per cent in 1979-80. The share of USA more or less remained at 13.0 per cent which obtained in 1970-71. However, the level of exports to USA increased from Rs. 207 crores in 1970-71 to Rs. 809 crores in 1979-80 registering an annual growth rate of 16.4 per cent. Exports to ESCAP region (excluding Iran and Indonesia which are grouped under OPEC) increased by Rs. 1,144 crores during this period. However, its share declined by about 1 per cent mainly due to the decline in Japan's share from 13.3 per cent in 1970-71 to 10.3 per cent in 1979-80. Exports to East European countries during 1970-71 to 1979-80 registered only a nominal growth of 5.4 per cent per annum. Their share in India's total exports, declined sharply from 23.6 per cent in 1970-71 to 9.1 per cent in 1979-80.

The Import-Export Policy—1980-81

8.19 The Import-Export policy during 1980-81 continued to be broadly in line with the thrust of the past several years. That is, a continued liberal import policy, along with substantial support to exports. The major elements of the import policy are as follows :—

In respect of raw materials, components and consumables including spares, the Import Policy contains lists of Banned items, Restricted items and Canalised items (*i.e.* those the imports of which are canalised through designated public sector agencies). Raw materials, components and consumables which do not appear in any of these lists can be imported by Actual Users (Industrial) under Open General Licence. Similarly, spares which do not appear in the Banned list can be imported under OGL by Actual Users. Items in the Restricted list are allowed to Actual Users liberally through the system of Automatic licences and Supplementary licences. Automatic licences are given on the basis of actual consumption of these items in any of the two previous years. Actual Users who need more of imported inputs than what is provided through the Automatic licences can apply for supplementary licences. Supplementary licences are issued on the recommendations of sponsoring authorities. To a limited extent, items in the Banned list can also be imported by Actual Users. Automatic licences are valid for such items upto 10 per cent of the value of the licence subject to a single item not exceeding Rs. 50,000 in value. There are some items in the Banned list for which this facility of import is not available. Import of banned items of a higher value can be granted on the recommendation of the sponsoring authority concerned, having regard to indigenous production.

8.20 As regards Capital goods, the Import Policy contains a list of banned items which are not normally allowed. There is also a list of Capital goods which are allowed under OGL by Actual Users. Items which do not appear in the Banned or OGL list, can be allowed on the basis of individual licences issued to Actual Users based on essentiality certificates and indigenous clearance.

8.21 A number of items of consumer interest are allowed freely under OGL to all persons. These include technical books, drugs and medicines, life saving equipments, spices, pulses, rock salt, photographic colour film and paper, and dry fruits.

8.22 There is a separate policy to permit imports as replenishment against exports. Under this policy, import replenishment licences are issued to Registered Exporters for banned and canalised items and packing materials to the extent these are required for export production. The purpose of allowing banned items and direct imports of canalised items for export production is to enable Indian products to become competitive in the international markets in terms of quality, price and delivery.

8.23 Amongst the Registered Exporters, there is a separate category of Export Houses. Export Houses are those which have an export turnover above a specified limit. The limit is Rs. 5 crores for non-select products and Rs. 1 crore for select products. In the case of small scale manufacturers, the said limits have been reduced to Rs. 2 crores and Rs. 25 lakhs respectively.

8.24 Export Houses, apart from being eligible for the normal REP licences, are granted Additional licences for import of Restricted items for a value calculated at 33⅓ per cent of the f.o.b. value of exports of select products manufactured by small scale units, and 7½ per cent of the f.o.b. value for export of select products manufactured by other units.

8.25 In recognition of the severe strains on the Balance of Payments in the coming years and the urgent need to expand exports, the Government introduced a number of measures aimed at promoting exports. These measures are listed below :

(i) It has been decided that production for export will be outside the licensed capacity for any industrial undertaking. Executive instructions to implement this measure are under issue.

(ii) Exports will be excluded while computing the production of an undertaking for considering the question of its "dominance" under the MRTP Act. Hence dominance of an industrial unit for MRTP purposes will be determined only with reference to its sales in the domestic market.

(iii) It has been decided that in allowing automatic expansion to the industrial units including those attracting dominance under MRTP Act, favourable consideration will be given for previous export performance.

(iv) It has also been decided that there will be flexibility of operation within an industrial licence so that an industrial undertaking licensed for a product under generic description will be permitted production of a product for export which is only a variation.

(v) With a view to up-dating the technology for export production, applications for technology imports which involve only a lumpsum payment of royalty would be considered more liberally. The permissible royalty rates for export sales can also be higher than for domestic sale. The existing procedures of permitting such imports have also been decentralised and streamlined.

(vi) A scheme has been initiated to enable 100 per cent export-oriented industrial units to be set up anywhere in India with facilities similar to those normally available only in Free Trade Zones. This will encourage the exports of non-traditional manufactured exports.

(vii) The procedures and time taken for disbursement of duty draw back have been streamlined.

(viii) Under the revised guidelines for package clearance to the proposals for export of engineering goods on deferred payment basis and for turn-key projects abroad, important relaxations have been made in the amount and period of deferred credit, the interest on deferred receivables and provision for bridging finance in foreign exchange. It has also been decided to extend pre-shipment credit at the concessional rate of interest at 11 per cent upto 180 days, in respect of important export commodities which fall within the dynamic sector such as handicrafts, leather, marine products and engineering goods.

(ix) It has been decided to establish an EXIM Bank to handle the financing of foreign trade.

(x) Action has been initiated to link up supplies of raw materials with export production in order to ensure the timely deliveries and achievement of the export targets. For example, the steel requirements of engineering industry have been adequately provided for.

(xi) The improvement of infrastructure facilities is engaging the urgent attention of the Government. Transport problems and bottlenecks inhibiting exports are being tackled on a priority basis. These measures constitute major policy initiatives to help revive the export performance during 1980-81 and the coming years.

External Assistance

8.26 Net external assistance received by India has been declining since 1976-77. From Rs. 1,154 crores in 1975-76, it declined to Rs. 844 crores in 1976-77, to Rs. 469 crores in 1977-78, and further to Rs. 384 crores in 1978-79. It picked up slightly to Rs. 483 crores in 1979-80. The share of imports financed by net external assistance continued to decline from

22 per cent in 1975-76, to less than 8 per cent in 1977-78, and to less than 6 per cent in each of the years 1978-79 and 1979-80. The low percentage in 1978-79 and 1979-80 reflects the dominance of oil bill in the total imports. According to Budget Estimates, net aid is expected to increase to Rs. 1459 crores in 1980-81. It includes Rs. 541 crores from the I.M.F. Trust Fund.

8.27 Trends in the gross and net inflow of external assistance since 1970-71 are shown in Table 8.4. Gross inflow of external assistance had dropped sharply from Rs. 1,841 crores in 1975-76 to Rs. 1,290 crores in 1977-78, and further to Rs. 1,266 crores in 1978-79. It picked up slightly in 1979-80 and stood at Rs. 1,367 crores. In 1980-81, however, it is expected that gross aid would be higher at around Rs. 2341 crores (including the amount of Rs. 541 crores borrowed from the Trust Fund of I.M.F.).

8.28 Debt service payments comprising amortisation and interest amounted to Rs. 884 crores in 1979-80 which were marginally more than Rs. 882 crores for 1978-79. At this level, debt service payments in 1979-80 siphoned off as much as 65 per cent of gross aid receipts.

8.29 The Aid India Consortium met in Paris on July 3 and 4, 1980. The meeting recognised the difficult balance of payments situation facing the country in the coming few years because of worsening of terms of trade following steep rise in prices of petroleum and related commodities. The Consortium members agreed to increase assistance to India and improve its composition by providing more fast disbursing aid. For the year 1980-81, the Consortium members pledged a total assistance of U.S. $ 3.4 billion which is about $ 100 million more than last year's level.

TABLE 8.4

Inflow of External Assistance : Gross and Net

(Rs. crores)

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81@
I. Authorisations . . .	762	929	676	1171	1671	2654	1286	1897	2334	1860	2567*
II. Gross Disbursements .	791	834	666	1036	1314	1841	1599	1290	1266	1367	2341
Of which : Debt Relief .	77	61	106	117	116	133	102	28	7	11	16
III. Debt Servicing . . .	450	479	507	596	626	687	755	821	882	884	882
IV. Net inflow of assistance .	341	355	159	440	688	1154	844	469	384	483	1459**

@Provisional estimates.

*April—December, 1980.

**Includes Rs. 541 crores from I.M.F. Trust Fund.

8.30 India was able to obtain in August 1980 a loan equivalent to SDR 525.5 million (Rs. 541 crores) from the Trust Fund administered by the I.M.F. which provides balance of payments assistance on concessional terms to eligible members qualifying for such assistance. The loan which carries an interest rate of ½ of one per cent per annum is repayable in ten semi-annual instalments which shall begin not later than the end of first six months of the sixth year and be completed at the end of the tenth year after the date of disbursement. The I.M.F. has also agreed to a purchase of foreign exchange by the Government of India under the Fund's Compensatory Financing Facility because of an export shortfall experienced during the twelve month period ended March 1980. The purchase is equivalent to SDR 266 million (Rs. 274 crores) or 23.2 per cent of India's quota in the Fund. The drawings under this facility are to be repaid over a four year period with interest rates ranging from 4.375 to 5.875 per cent.

8.31 In recent years, there has been a gradual softening of the terms of assistance offered by individual donor countries. The assistance from the U.K., Sweden and E.E.C. continues to be mainly in the form of grants.

Outlook for 1981-82

8.32 The balance of payments situation facing the country will remain under pressure in the coming years. The deterioration in the trade balance poses severe problems over the medium term. Imports are heavily dominated by crude oil, petroleum products and fertilisers, and prices of these items are likely to rise more rapidly than international prices. By contrast, export prices at best will rise at the same rate as international prices. The resulting deterioration in the terms of trade means a larger trade deficit at current prices. On the other hand, export volumes will be constrained by the likely recession in world demand conditions and the increase in protectionism. It will be unrealistic to expect any significant growth in the net surplus on invisibles in the coming years. The growth in foreign remittances had already levelled off in 1978-79 and in view of the considerable uncertainties regarding ability of the Gulf countries to absorb more labour, a continued growth under this head cannot be expected. Interest earnings from reserves will also decline in the future. These considerations point to continued difficulties on the external payment front for some years to come.

8.33 A strategy for management of the Balance of Payments over the medium term is being evolved which will tackle the problem on several fronts. This would involve effective import substitution in certain key areas such as steel, cement, non-ferrous metals and fertilisers where at present domestic capacities are underutilised. It will also be necessary to achieve a substantial increase of exports, and for this all possible steps have to be taken so that the environment facing exporters improves substantially. The country's dependence on imported oil has to be reduced by stepping up domestic exploration, developing alternative energy sources, promoting efficient use of energy and appropriate pricing of oil and oil products. Finally to retain a measure of flexibility, it is important that the foreign exchange reserves are not allowed to go down substantially. This would imply an external financing strategy which ensures that essential imports needed by the economy, especially those for development, are not constrained, cost of borrowed funds from abroad is minimised and debt servicing obligations are kept within prudent limits.