CHAPTER 8

FOREIGN TRADE AND BALANCE OF PAYMENTS

Following the second oil shock of 1979-80, India's balance of payments had deteriorated markedly in the first two years of the Sixth Plan with the trade deficit reaching a peak of 4.7 per cent of GDP in 1980-81. As a result of strong adjustment measures carried out during the Sixth Plan, especially in the form of rapid import substitution in the oil sector, the balance of payments situation improved substantially with the trade deficit declining to 3.1 per cent of GDP in 1984-85 and the current account deficit to 1.6 per cent of GDP. In spite of this very substantial improvement, the Economic Surveys of recent years had predicted a difficult balance of payments situation for the latter half of the decade on account of an expected deceleration in indigenous oil production, protectionist tendencies in international trade, the bunching of repayment obligations on past borrowings from the IMF and other sources, the unfavourable climate for concessional assistance and uncertainties about the inflow of remittances from Indians working abroad.

8.2 These adverse factors made their presence felt in 1985-86 when, according to DGCI&S data, exports (net of crude oil exports) increased by only 5.7 per cent in rupee terms, imports rose by 15.1 per cent and trade deficit increased sharply to Rs. 8747 crores. The increase in foreign exchange reserves, in rupee terms, was less than one-half the increment in the preceding year. In anticipation of the emerging pressures on the balance of payments, the Government undertook a series of corrective measures during the course of 1985-86 and 1986-87 to boost the growth of exports and curb the increase in imports. A wide range of export enhancing initiatives were launched during this period. On the import side the focus was on measures to encourage indigenous production of key bulk import items such as sugar, edible oils and fertilizers. These measures, together with the sharp fall in international prices of crude oil contributed to the healthy increase of 17.3 per cent in exports, in rupee terms, in April—November, 1986 over April—November, 1985 and the curbing of import expansion to only 1.4 per cent over the same period. Excluding crude oil, exports increased by 19.6 per cent. As a result, the trade deficit in April—November, 1986 showed a decline of 18.3 per cent or Rs. 1001 crores as compared to value attained in April—November, 1985

8.3 These recent trends in the country's external trade account are clearly welcome, but they should not induce any complacency. Full balance of payments data are not available beyond 1984-85 but the available information suggests significant balance of payments pressure in the current year despite the improvement on trade account. Overall foreign exchange reserves, movements in which reflect the net result of all transactions in the external sector of the economy, recorded a decline of Rs. 160 crores by the end of January, 1987 as compared to increases of Rs 577 crores and Rs. 1271 crores in 1985-86 and 1984-85 respectively. This suggests that the improvement on the trade account was offset by negative factors such as the increase in debt service payments and a possible slackening in the flow of remittances from Indians working abroad. However, the overall foreign exchange reserves position continues to be comfortable with holdings equivalent to over four months' import requirements.

Balance of Payments and Foreign Exchange Reserves

8.4 We now have the balance of payments data available for all the years of the Sixth Five Year Plan and key indicators are shown in table 8.1. Following the second oil shock, the balance of payments position became especially difficult during the first two years of the Sixth Plan. The situation started to improve in 1982-83 and the improvement continued in the subsequent years of the Plan. As a percentage of GDP at current market prices, exports posted increase from year to year except during 1983-84 while both imports and the trade deficit recorded continuous decline except during 1984-85. There was a declining trend in net invisibles as a per cent of GDP throughout the Sixth Plan period largely on account of the fact that while gross invisibles receipts increased at a compound rate of 15.2 per cent, payments increased at a much higher rate of 25.5 per cent. The current account deficit rose to a peak of 1.9 per cent of GDP in 1981-82 and then declined subsequently as adjustment measures took hold.

TABLE 8.1

Sixth Plan Balance of Payments : Key Indicators
(As per cent of GDP)

Item	1980-81	1981-82	1982-83	1983-84	1984-85
1	2	3	4	5	6
Exports . .	5.2	5.3	5.6	5.2	5.6
Imports . .	9.8	9.4	9.1	8.3	8.7
Trade Balance .	—4.7	—4.2	—3.5	—3.0	—3.1
Invisibles (net) .	2.9	2.2	1.8	1.6	1.5
Current Account Balance . .	—1.7	—1.9	—1.7	—1.4	—1.6

NOTE : The ratios have been computed on the basis of the country's balance of payments as given in appendix table 6.2 and the CSO estimates of GDP at current market prices.

8.5 Balance of payments data for the full fiscal year 1985-86 are not yet available. But the small increase in total foreign exchange reserves in 1985-86 compared with the preceding year and the large trade deficit (DGCI&S trade statistics) during 1985-86 at Rs. 8747 crores as against Rs. 5318 crores in 1984-85 testify to the pressure on India's external payments position during 1985-86. Foreign exchange reserves, including gold and SDRs, increased by Rs. 577 crores in 1985-86, which was less than one half of the increase of Rs. 1271 crores in the preceding year. Excluding capital transactions with the IMF, reserves at the end of 1985-86 were higher by Rs. 904 crores, compared with Rs. 1208 crores rise over previous year (Table 8.2).

TABLE 8.2

Movements in Foreign Exchange Reserves

(Rs. crores)

Year	Foreign exchange reserves including gold and SDR at the end of the year	Movements in foreign exchange including gold and SDR	Net drawals of IMF
1	2	3	4
1979-80 . .	5934	108	—55*
1980-81 . .	5544	—390	814**
1981-82 . .	4024	—1520	637
1982-83 . .	4782	758	1893
1983-84 . .	5972	1190	1342
1984-85 . .	7243	1271	63
1985-86 . .	7820	577	—327**
1986-87 . . (Upto Jan., 1987)	7660	—160	—649**

*Includes voluntary repurchase of Rs. 20 crores and sales of Rs. 35 crores by the IMF under the General Resources Account.

**Includes Trust Fund loan drawals and repayments.

In SDR terms, total foreign exchange reserves stood at SDR 5728 million at end-March, 1986 and SDR 6004 million at the end of March, 1985. The country's overall foreign exchange reserves thus declined by SDR 276 million in 1985-86 in contrast with an increase of SDR 696 million during 1984-85.

8.6 The available DGCI&S data on foreign trade, partial information on invisibles and movements in foreign exchange reserves suggest that the balance of payments continued to be under strain in the current financial year. In spite of a 18.3 per cent decline in the trade deficit in the first eight months of the current year, total foreign exchange reserves declined by Rs. 160 crores between end-March, 1986 and end-January, 1987 as against a fall of Rs. 324 crores in the same period of the previous year. Net invisible receipts are not anticipated to increase in 1986-87 in view of the sharp fall in the international prices of crude oil which, in turn, has further dampened economic activity in the oil-based economies of West Asia and private transfers from that area.

8.7 With respect to non-factor services, travel and transfer payments have emerged as important sources of foreign exchange receipts in recent years. In the current financial year earnings from tourism are expected to go up considerably in view of the significant increase in tourist arrivals in the country. Foreign tourist arrivals in India crossed the one million mark in a single calendar year for the first time in 1986. If an integrated approach is adopted through improvement in existing infrastructure, enhancement of the facilities at important tourist spots of particular interest to foreign tourists and devising suitable incentives for those associated with tourism sector, the earnings from this sector can be increased rapidly in the coming years. Current transfer receipts consisting mainly of remittances by expatriates, played an important part in the improvement of the balance of payments in the Sixth Plan period. Future prospects are less encouraging mainly because of the slowdown of economic activity in West Asia. As for net investment income, there has been a steady increase in net payments on account of mounting interest payments on foreign loans and credits in recent years and this trend is likely to continue.

8.8 Capital inflows to deposit accounts from non-resident Indians have continued to provide substantial support to our balance of payments position. The interest rates offered on Non-Resident (External) Rupee Account (NRER) deposits continued to have a premium of 2 per cent over the rates applicable to domestic deposits of comparable maturities. The rates of interest on Foreign Currency Non-Resident Accounts (FCNR) were revised downwards twice in the current financial year, in May and September, 1986, in line with trends in interest rates in international capital markets. The rates of interest prevailing on February 12, 1987 on deposits in NRER and FCNR Accounts are given in table 8.3.

TABLE 8.3

Rates of Interest on Term Deposits under Non-Resident External Rupee (NRER) and Foreign Currency Non-Resident (FCNR) Accounts

(Per cent per annum)

Maturity	Current rate of interest@	
	NRER	FCNR
6 Months & above but less than 1	8.0 8.5	8.0 8.5
(a) One year and above but less than two years . . .	10.5 10.5	8.0 10.0
(b) Two years and above but less than three years . . .	11.0 11.0	8.5 10.5
(c) Three years and above but less than five years . . .	12.0 12.0	9.0* 11.0
(d) Five years only . . .	13.0 13.0	..

*Three years only. Oct 12,

@As of ~~February 12,~~ 1987.

8.9 During 1985-86, accretions to foreign accounts at Rs. 1831.1 crores almost doubled from those of Rs. 950 crores in the preceding year. More than one half of the inflow to these deposits was accounted for by the dollar denominated deposits. The buoyancy in the inflow has continued in the current financial year also and accretions upto December, 1986 have amounted to Rs. 1739.3 crores compared with an inflow of Rs. 1209.3 crores in the same period of the previous year. In this period also the dollar denominated deposits at Rs. 1074.5 crores contributed to more than one-half of the increase. Pound denominated deposits have increased marginally by Rs. 11.3 crores. NRER deposits include accrued interest also. If adjustment is made for the interest included in these deposits, the inflow would work out to be lower. Table 8.4 shows the outstanding amount under these accounts.

8.10 The external value of the Rupee continued to be determined in relation to a weighted basket of currencies of India's major trading partners with Pound sterling as the intervention currency. The exchange rate between Rupee and Pound sterling has been adjusted from time to time in line with changes in exchange rates of currencies in the basket. The latest adjustment was made on February 12, 1987 when the middle rate was fixed at Rs. 19.80 per Pound sterling.

TABLE 8.4

Outstanding Amounts in Various Types of External Accounts

As on 31st March	Non-resident external rupee accounts* Rs. Crores	Foreign currency non-resident accounts§			
		US $ Accounts		£Sterling accounts	
		$ Million	Rs. Crores	£Million	Rs. crores
1	2	3	4	5	6
1981	937.74	140.29	115.66	19.78	36.60
1982	1259.04	107.32	100.55	27.64	46.16
1983	1679.20	151.50	150.81	68.23	100.63
1984	2254.26	373.81	403.04	136.19	211.78
1985	2863.95	499.05	617.57	218.16	337.05
1986	3461.42	1419.42	1758.58	236.07	429.64
30 Dec., 1986**	4114.91	2185.75	2833.04	229.07	440.97

§Figures do not include accrued interest.

*Figures include accrued interest.

**Provisional data.

Imports

8.11 According to DGCI&S trade statistics, imports at Rs. 19759.43 crores in 1985-86 showed an increase of 15.1 per cent over the preceding year—a significantly faster growth than the 8.5 per cent increase recorded in 1984-85. In US dollars, however, imports increased at the lower rate of 11.8 per cent in contrast with a decline of 5.7 per cent during the preceding year. Imports during 1985-86 in rupee terms were higher mainly because of increases in the imports of capital goods, iron & steel, medicinal and pharmaceutical products and non-ferrous metals. Imports of petroleum, petroleum products and related material displayed a fall both in volume and value. In contrast with an increase of 15.4 per cent in 1984-85, the unit value of petroleum imports fell by 4.4 per cent during 1985-86 following a softening of crude oil prices in the international market. Non-oil imports recorded substantially higher rate of growth of 25.6 per cent in 1985-86 compared with an increase of 7 per cent in the previous year.

8.12 In the first six months of the current financial year, imports have risen marginally by 1.1 per cent in sharp contrast to an increase of 24.5 per cent in the corresponding period of 1985-86. There was a conspicuous fall in the imports of edible oils, finished fertilizers, sugar and petroleum and petroleum products. While the sharp decline in the value of imported POL products was mainly attributable to the steep fall in the international prices for crude oil, the reductions in imports of edible oils, sugar and fertilizers reflected the success of the Government's policies to encourage import substitution in these areas.

8.13 The imports of capital goods, iron and steel, medicinal and pharmaceutical products, organic and inorganic chemicals and pearls, precious and semi-precious stones recorded significant increases. Non-oil imports, as a whole, went up substantially by 24.9 per cent during April—September, 1986 whilst the value of imports of petroleum, petroleum products and related material fell by 58.1 per cent.

8.14 Table 8.5 shows the commodity composition of imports during 1984-85, 1985-86 and the first six months of 1985-86 and 1986-87. The data, compiled by DGCI&S from customs returns, are likely to be revised as and when additional information is received.

8.15 A graphic presentation of the commodity composition of imports during the last three years is given in chart attached. The share of petroleum imports declined from 31.6 per cent in 1984-85 to 25.3 per cent in 1985-86 which is the lowest since the second oil shock of 1979-80. The fall in the international prices of crude oil in the latter part of 1985-86 partly accounted for the decline. In the first half of 1986-87, the gross imports of petroleum, petroleum products and related material were markedly down by 58.1 per cent over the corresponding period of 1985-86 mainly because of a significant fall of 52.1 per cent in the unit value which, in turn, resulted in import savings of about Rs. 1200 crores during that period. The volume of imports also declined by 12.5 per cent. The share of cereals and cereal preparations declined further to less than half per cent of the total imports during 1985-86 reflecting the comfortable stock position of foodgrains. In fact vigorous efforts were made to export wheat as excess stocks were available for disposal.

TABLE 8.5

Imports by Major Commodity Groups

(Value in Rs. Crores)

Sl. No.	Commodity	1984-85	1985-86	Percentage change 1985-86 / 1984-85	April—September 1985	April—September 1986	Percentage change April—Sept. 1986 / April—Sept. 1985
1.	Capital goods*	3167.80	3683.73	16.29	1621.19	2371.67	46.29
2.	Cereals & cereal preparations	242.00	88.88	—63.27	41.82	17.14	—59.01
3.	Chemical materials & products	135.48	116.57	—13.96	42.65	48.41	13.51
4.	Edible oils	921.07	614.27	—33.31	446.24	323.84	—27.43
5.	Fertiliser crude	137.47	124.44	—9.48	56.10	69.64	24.14
6.	Fertiliser finished	1006.57	822.53	—18.28	386.09	249.69	—35.33
7.	Iron & steel	941.10	1230.85	30.79	496.85	734.68	47.87
8.	Medicinal & pharmaceutical products	137.14	163.57	19.27	59.88	75.64	26.32
9.	Non-metallic mineral manuf. excluding pearls	82.18	81.48	—0.85	34.07	43.82	28.62
10.	Non-ferrous metals	411.73	468.51	13.79	203.51	197.07	—3.16
11.	Organic & inorganic chemicals	856.65	879.38	2.65	344.13	438.29	27.36
12.	Paper, paper board & manufactures thereof	195.48	195.24	—0.12	92.08	108.09	17.39
13.	Pearls, precious & semi-precious stones	1032.11	1106.26	7.18	538.72	678.77	26.00
14.	Petroleum, petroleum products & related material (gross)	5409.05	4990.14	—7.74	2621.83	1098.60	—58.10
15.	Professional, scientific, controlling instruments, photographic optical goods, watches and clocks	287.06	347.99	21.23	155.78	204.27	31.13
16.	Synthetic & regenerated fibres	60.27	55.72	—7.55	15.41	24.53	59.18
17.	Others	2111.04	4777.21	126.30	1985.28	2554.86	28.69
	Total Imports	**17134.20**	**19746.77**	**15.25**	**9141.63**	**9239.01**	**1.07**

*Includes manufactures of metals, machinery (including electrical machinery) and transport equipment.

NOTES : 1. All figures are provisional.

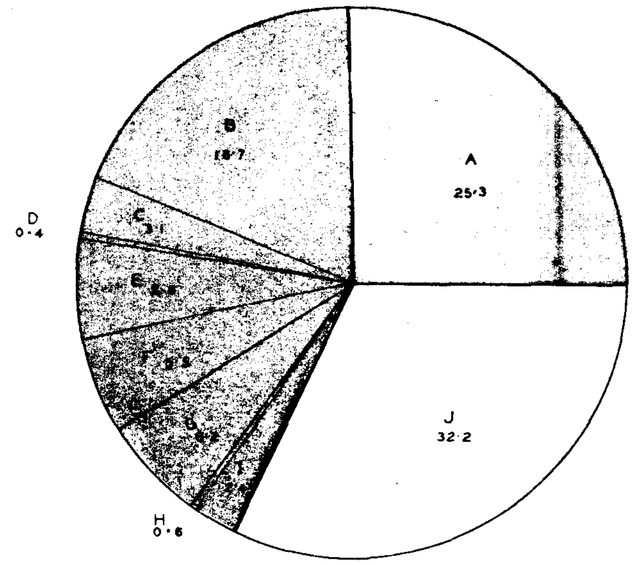
2. Total imports for 1984-85 and 1985-86 have since been revised to Rs. 17173.25 crores and Rs. 19759.43 crores, respectively.

3. Total imports (provisional) amounted to Rs. 12289.36 crores during April—November, 1985 and Rs. 12466.49 crores during April—November, 1986. Commodity-wise details are not available.

COMPOSITION OF INDIA'S IMPORTS
(IN PER CENT)

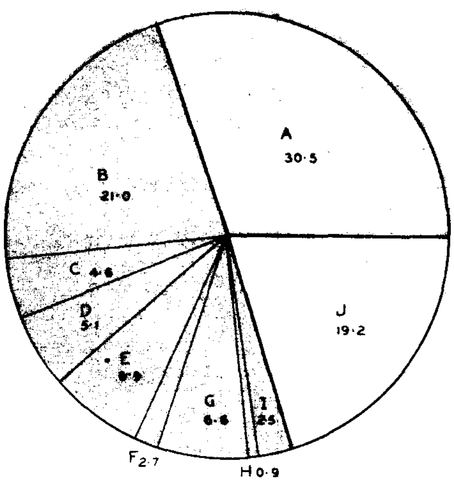
A PETROLEUM, OIL AND LUBRICANTS
*B CAPITAL GOODS
C EDIBLE OILS
D CEREALS AND CEREAL PREPARATIONS
E PEARLS, PRECIOUS AND SEMI-PRECIOUS STONES, UN-WORKED OR WORKED
F FERTILIZER & FERTILIZER MATERIALS
G IRON AND STEEL
H CHEMICAL MATERIALS AND PRODUCTS
I NON-FERROUS METALS
J OTHERS

1985-86



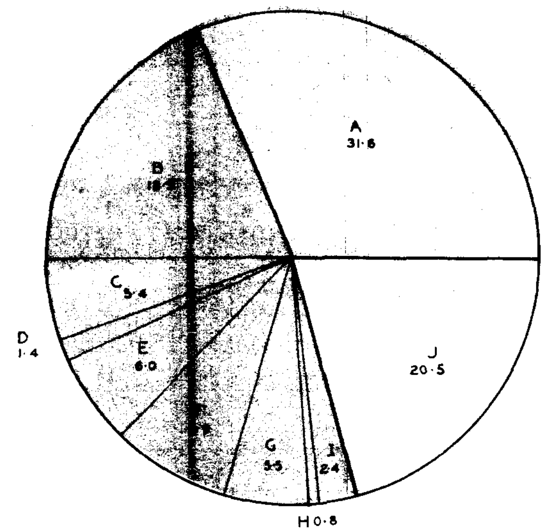
RS. 19747 CRORES

1983-84



RS. 15832 CRORES

1984-85



RS. 17134 CRORES

*INCLUDES MANUFACTURES OF METALS, MACHINERY (INCLUDING ELECTRICAL-MACHINERY) AND TRANSPORT EQUIPMENTS.

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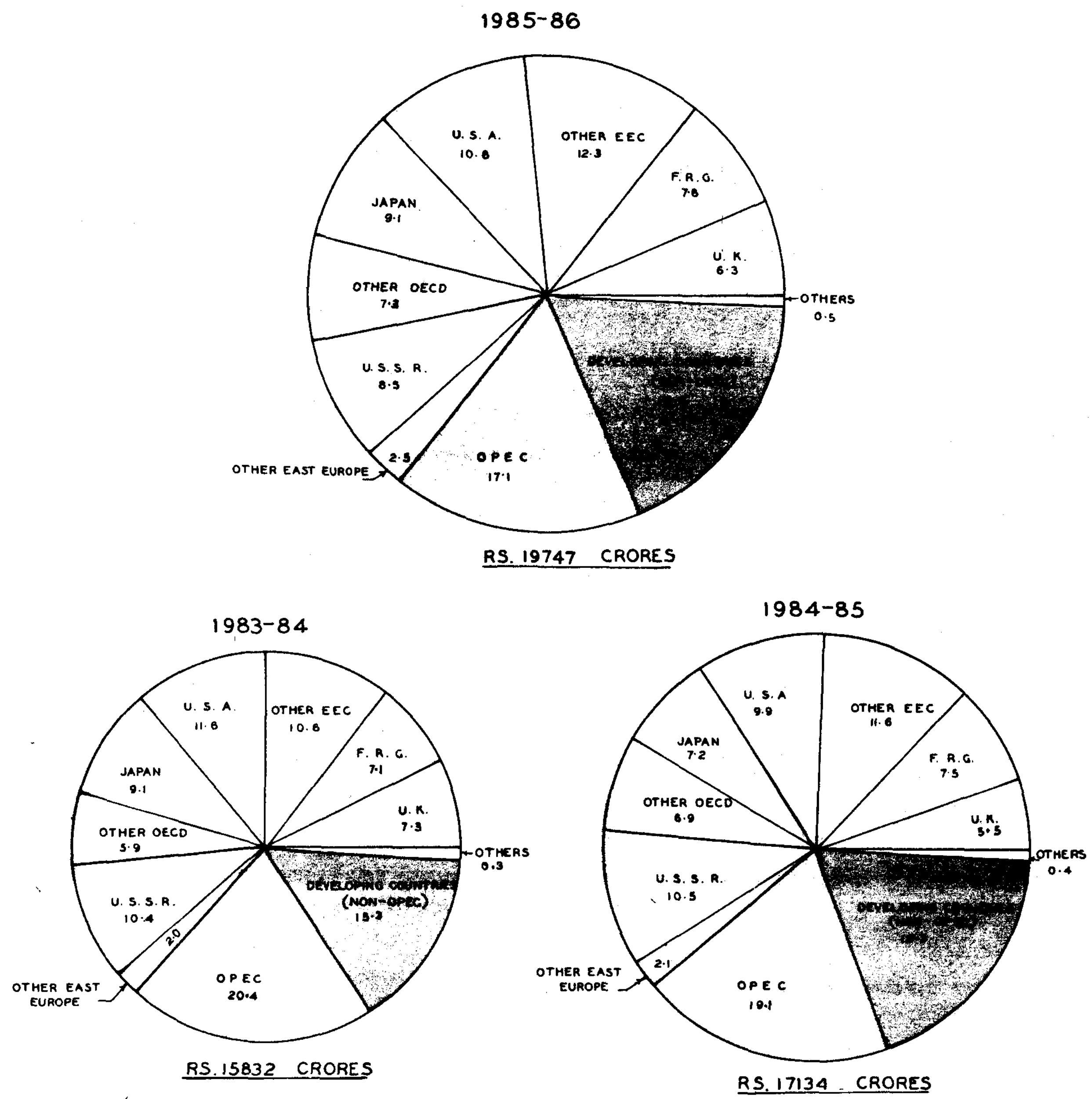
SOURCES OF INDIA'S IMPORTS

(IN PER CENT)



MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP/PLU/302/1/FIN/86-87

8.16 The share of edible oils also declined to 3.1 per cent in 1985-86 from 5.4 per cent in 1984-85 as the value of imports of edible oils fell by 33.3 per cent during the year. This was mainly due to a fall in import volume of 20.8 per cent. reflecting the Government strategy to restrict imports and encourage indigenous production. The decline in imports has continued in the first half of current financial year.

8.17 As the imports of fertilizers and fertilizer raw materials declined by 18.5 per cent, its share in total imports fell from 7.9 per cent in 1984-85 to 5.6 per cent in 1985-86. The decline in the value of imports in 1985-86 was largely due to a 26 per cent fall in import volume. The reduction in fertilizer imports reflected the Government's success in increasing indigenous production. In April—September, 1986 while the imports of crude fertilizers have gone up by 24.1 per cent, those of finished fertilizers have declined by 35.3 per cent.

8.18 Imports of iron and steel went up substantially by 30.8 per cent in 1985-86 to account for 6.2 per cent of the total imports compared with a share of 5.5 per cent in 1984-85. The increase in the unit value of imports by 22.9 per cent was the principal reason for higher import value; the volume of iron and steel imports increased only by 6.4 per cent. During April—September, 1986 also these imports have shown a brisk increase of 47.9 per cent as the domestic production has failed to keep pace with the rising demand, partly on account of power shortage in the steel producing region of the country.

8.19 The value of capital goods imports rose by 16.3 per cent in 1985-86. As a result, the share of capital goods imports increased to 18.7 per cent in 1985-86 from 18.5 per cent in 1984-85. The rising trend has continued during the current financial year also with imports moving up by 46.3 per cent in April—September, 1986 over the corresponding period of the preceding year. Higher imports of capital goods can be attributed to the buoyancy in the climate for industrial investment and the accent on the modernisation and upgradation of technology.

Sources of Imports

8.20 The composition of imports, by source, during the last three years is presented in chart attached. The pattern of imports in these years has remained almost unchanged. A little over one half of the imports came from the OECD countries, about one fifth from the OPEC, one sixth from developing countries (non-OPEC) and around an eighth from Eastern Europe. The decline in the share of OPEC countries continued in 1985-86 primarily because of the fall in the international prices of crude oil. The share of OECD countries rose to 53.4 per cent in 1985-86 from 48.7 per cent in 1984-85 partly because of higher imports of capital goods from these countries. The imports from Eastern Europe were a shade higher by 0.3 per cent in 1985-86 leading to a fall in their share to 10.9 per cent as compared with 12.6 per cent in 1984-85.

8.21 The United States was the single largest source of India's imports in 1985-86 not only within the OECD group but also among all countries. She regained this position by displacing the USSR to the second place. Imports from the USA increased by 22.7 per cent during 1985-86 whereas those from the USSR registered a decline of 6.5 per cent. Among the other important countries in the OECD group, the shares of Belgium, the UK, France and the FRG moved up while those of the Netherlands and Canada declined. The share of developing countries. (non-OPEC) declined during the year to 18 per cent from 19.3 per cent in 1984-85 mainly because of a fall in the share of Asian developing countries.

Exports

8.22 After a record increase of 21.3 per cent in 1984-85, exports in 1985-86 fell by 7.1 per cent. Much of this decline in growth is attributable to the stoppage of crude oil export after April, 1985 following the setting up of the requisite refining capacity within the country. Thus, exports net of crude oil increased by 5.7 per cent in rupee terms compared with an increase of 20.5 per cent registered in 1984-85; the growth in US dollar terms was 2.7 per cent in 1985-86. The slow growth of world trade in 1985 and increasing protectionist barriers erected by the industrial countries created an unfavourable environment for export growth by developing countries including India. The marked fall in the international prices of some of the commodities of export interest to India has also constrained export earnings. The important commodites which contributed to the increase in non-oil exports during 1985-86 included cashew kernels, coffee and coffee substitutes, spices, marine products, raw cotton, rice, iron ore, readymade garments and pearls, precious and semi-precious stones. There was a decline in the exports of oil cakes, tea and mate, tobacco, cotton fabrics, leather and leather manufactures, engineering goods and jute manufactures.

8.23 During the first half of the current financial year, exports on a provisional basis have shown a significant growth of 13.1 per cent compared with a marginal increase of 0.7 per cent in the same period last year. In terms of the US dollar, exports were higher by 10.6 per cent. Non-oil exports rose by 16.1 per cent in rupee terms and 13.6 per cent in US dollar terms. The commodities showing export value growth include coffee and coffee substitutes, tobacco, spices, cashew kernels, oil cakes, raw cotton, marine products, leather and leather manufactures, ready-made garments, gems and jewellery and cotton fabrics. The exports of rice, tea and mate and jute manufactures have fallen. The commodity composition of exports, in recent years, is shown in table 8.6 and the attached chart.

8.24 The share of crude oil in total exports fell sharply to just 1.2 per cent in 1985-86 as its exports tapered off and ceased after April, 1985 due to the commissioning of suitable refining capacity within the country. Only Rs. 135.15 crores worth of crude oil was exported in 1985-86 as against exports of Rs. 1563.16 crores in 1984-85. There will not be any export of crude oil in the near future.

8.25 After a decline of 4.5 per cent in 1984-85, the exports of pearls, precious and semi-precious stones displayed an impressive increase of 24 per cent in 1985-86 and as a result accounted for 13 per cent of the total exports. The increase followed a pick up of demand in the importing countries. The rise in exports has continued in the first half of the current year when these exports registered an increase of 33.5 per cent over April—September, 1985. Government on its part has announced a number of measures to help exporters exploit the export potential particularly in the field of plain and studded jewellery. The details of these measures are listed separately in the section on export promotion measures. For a major breakthrough in exports the Government's efforts need to be supplemented by the trade through higher productivity and better product and design adaptation to the foreign demand by an outward looking attitude.

TABLE 8.6

Exports by Major Commodity Groups

(Value in Rs. Crores)

Sl. No.	Commodity	1984-85	1985-86	Percentage change 1985-86 / 1984-85	April—September 1985	April—September 1986	Percentage change April—Sept. 1986 / April—Sept. 1985
1.	Cashew kernels	179.68	215.33	19.84	123.39	192.10	55.69
2.	Coffee & coffee substitutes	210.22	235.64	12.09	109.11	203.86	86.84
3.	Marine products	381.37	388.60	1.90	162.17	180.45	11.27
4.	Oil cakes	136.92	123.54	—9.77	45.18	89.93	99.05
5.	Raw cotton	59.73	65.82	10.20	46.19	84.12	82.12
6.	Rice	169.19	192.94	14.04	95.48	85.49	—10.46
7.	Spices	206.67	255.00	23.39	64.55	163.09	152.66
8.	Sugar	36.13	10.99	—69.58	0.20	0.74	270.00
9.	Tea & mate	766.69	611.91	—20.19	256.97	207.66	—19.19
10.	Tobacco	178.34	146.69	—17.75	64.17	130.06	102.68
11.	Iron ore	459.44	554.59	20.71	221.07	226.13	2.29
12.	Engineering goods*	880.25	760.29	—13.63	354.25	416.17	17.48
13.	Chemicals & allied products	482.86	285.89	—40.79	157.63	187.29	18.81
13.	Cotton fabrics	450.50	371.57	—17.52	166.81	209.08	25.34
15.	Iron & steel	75.73	48.12	—36.46	26.07	31.31	20.10
16.	Jute manufactures	341.26	269.60	—21.00	129.26	108.92	—15.74
17.	Leather & leather manufactures incl. footwear	743.22	520.94	—29.91	260.87	283.67	8.74
18.	Readymade garments	919.23	1007.50	9.60	397.56	489.90	23.23
19.	Handicrafts	1655.27	1850.15	11.77	836.92	1084.03	29.53
	Of which : Pearls, precious & semi-precious stones	1153.27	1429.91	23.99	637.15	850.39	33.47
20.	Others	3410.98	3096.85	—9.21	1663.12	1483.44	—10.80
	Of which : Crude oil	1563.16	135.15	—96.04	135.15	0.00	
	Total Exports	**11743.68**	**11011.96**	**—6.23**	**5180.97**	**5857.44**	**13.06**

*Includes machinery and transport equipment and metal manufacture excluding iron and steel.

NOTES : 1. All figures are provisional.
2. Total exports for 1984-85 have since been revised to Rs. 11855.15 crores.
3. Total exports (provisional) amounted to Rs. 6819.14 crores during April—November, 1985 and Rs. 7996.93 crores during April—November, 1986. Commodity-wise details are not available.

8.26 The share of tea exports declined to 5.6 per cent in 1985-86 from 6.5 per cent in the preceding year consequent to a fall in tea exports by 20.2 per cent during the year. The fall in exports was wholly contributed by the decline in the unit value realisation in 1985-86 due to downward trend in the international prices. The decline in exports has spilled over in April—September, 1986 when it fell by 19.2 per cent over April—September, 1985 because of further drop in unit price in the international market and also due to decline in the export of packet teas and tea bags.

8.27 The share of marine products in total exports rose to 3.5 per cent in 1985-86 from 3.3 per cent in the previous year as its exports grew by 1.9 per cent during the year. This increase was mainly contributed by a 3.3 per cent increase in export volume. The unit value was lower by 1.4 per cent. The revival of demand from the importing countries was the primary reason for higher exports during the year. However, during April—September, 1986 the exports registered a higher increase of 11.3 per cent.

8.28 The exports of eight other agro-based commodities taken together (coffee, oil cakes, tobacco, cashew kernels, spices, sugar, raw cotton and rice) went up during 1985-86 and consequently their share in total exports also rose to 11.3 per cent from 10 per cent in 1984-85. Cashew kernel exports moved up by 19.8 per cent on top of an increase of 19.2 per cent in 1984-85. The increase in volume by 15.7 per cent primarily contributed to higher exports of cashew kernels during 1985-86. During April—September, 1986 exports have spurted by 55.7 per cent over the same period of last year. The boom in the exports can be maintained during the remaining part of the year if the industry is provided with raw cashewnuts to keep it fully employed throughout the year, since the domestic production of cashewnuts is not adequate even to fulfil a third of its requirements. There does not appear to be any problem on the demand side. An increase was also recorded in the exports of rice by 14 per cent during 1985-86. The contribution of unit value increase was 15.3 per cent, which more than compensated for the 1.1 per cent fall in export volume. However, the decline of 10.5 per cent in exports was recorded in the first six months of current financial year also.

8.29 Despite a 18.3 per cent fall in volume, export earnings from spices went up by 23.4 per cent in 1985-86. This performance was quite impressive in the backdrop of a 77.1 per cent increase in exports in the previous year. The boom in exports has spilled over in April—September, 1986 with an increase of 152.7 per cent. Uptrend in the international price has benefited our exporters. For a sustained growth in spices exports, it is imperative that productivity is improved considerably, adequate exportable surplus is generated and the country remains competitive in the international market. The downtrend in the exports of oil cakes continued for the second successive year with a fall of 9.8 per cent in 1985-86, essentially because of a slump of 19.8 per cent in export volume. The poor performance of these in recent years has been largely on account of strict regulation of quality of the product imposed by the importing countries, Exports of tobacco were also lower by 17.8 per cent in 1985-86 on account of a decline in the volume of exports. The trend has fortunately reversed itself in April—September, 1986 with exports increasing by 102.7 per cent over the same period of last year partly because of abolition of export duty on unmanufactured tobacco. Coffee exports grew by 12.1 per cent in 1985-86 and the uptrend has continued in the first half of the current financial year. Raw cotton exports moved up by 10.2 per cent in 1985-86 solely because of an increase of 38.4 per cent in unit value. During April—September, 1986 also these exports showed a substantial rise of 82.1 per cent over April—September, 1985 because of comfortable stocks following consecutive good crops in the last two years. The Government has announced a long term policy for cotton exports so as to reduce uncertainty not only with regard to availability of the commodity for exports but also in respect of the assured remunerative prices for the farmers to prevent a decline in area under the crop.

8.30 The exports of readymade garments continued to grow in 1985-86 when it registered an increase of 9.6 per cent to account for 9.2 per cent of the total exports compared with 7.8 per cent in the previous year. Exports of cotton fabrics were lower by 17.5 per cent in 1985-86 due to a 23.5 per cent decline in the volume of exports. The unit value realisation was higher by 7.8 per cent. The reduced import of cotton fabrics by the USSR was the main cause of lower level of exports during 1985-86. Exports have recovered by 25.3 per cent in the first half of the current financial year over April—September, 1985.

8.31 The exports of engineering goods fell by 13.6 per cent in 1985-86 which was lower than the rise of 16 per cent in the preceding year. The level of exports at Rs. 760.3 crores during the year was nowhere near the peak level of Rs. 938.9 crores achieved in 1981-82. In fact, exports recorded a continuous decline in the next two years to Rs. 807.1 crores and Rs. 758.7 crores in 1982-83 and 1983-84 respectively. The lacklustre performance of the engineering exports in recent years has been due to many factors which, *inter alia,* include strong domestic demand for the industry's products, excessive protection of the domestic industry from outside competition, failure to modernise at a faster pace, high cost of inputs and raw materials, inefficiency and lower productivity, lack of quality consciousness and, above all, the lack of export culture in the industry. Besides, engineering exports have been constrained by adverse international factors, such as slow economic recovery in the western countries, the fall in international prices of oil which has induced OPEC countries to restrict their developmental programmes and the continued debt problems of the developing countries. A number of steps have been taken by the Government to remove some of the disadvantages faced by the industry like making available raw materials at international prices, liberalisation of industrial licensing to expand the capacity for the industry to have the benefits of economies of scale, financial incentives for faster modernisation, procedural simplification, etc. In April—September, 1986 engineering exports have risen by 17.5 per cent over the same period of the preceding year.

8.32 Iron ore exports grew by 20.7 per cent in value and 5.9 per cent in volume in 1985-86 in spite of tough competition from other exporting countries, particularly Australia and Brazil. Consequently its share in total exports increased to 5 per cent from 3.9 per cent in 1984-85. The export of 27 million tonnes in 1985-86 has been the highest level achieved so far in any single year. To maintain the same tempo of exports in the coming years efforts are being made to improve the infrastructure facilities at different ports and to develop new mines.

8.33 Exports of leather and leather manufactures declined by 29.9 per cent in 1985-86 because of slackening of demand in the importing countries and increasing international competition. The rise in prices of raw materials has blunted the competitive edge of our exporters. For sustained exports the requisite raw material would need to be provided at reasonable prices. In April---September, 1986 the exports have, however, increased by 8.7 per cent.

8.34 Exports of projects and services have been quite important in the recent past. These exports broadly comprise three components, *viz.,* construction and civil engineering projects; industrial turnkey projects; and consultancy services. With a large endowment of trained technical manpower, India is in a position to offer total range of services, including process design, engineering, procurement, construction, supervision, commissioning, project management, training, etc., in diverse fields like power generation and transmission system, petro-chemicals, steel plants, textiles, infrastructure, etc. There are about 200 consultancy organisations in the country, both in public and private sector, which can provide consultancy for a very broad range of activities.

8.35 There was a boom in construction project opportunities in the oil producing countries of West Asia after the oil price increase in early seventies. These countries undertook a large construction programme to set up massive infrastructure for faster development. Indian companies were able to secure projects worth about Rs. 5000 crores till 1981-82. Most of these projects were, however, concentrated in a few countries. In the last few years, there has been a decline in construction contracts secured by our companies because of the emergence of intense competition in the Gulf and African countries due to global recession, the long drawnout Iran-Iraq conflict, the fall in oil revenues of OPEC and the foreign exchange problems being faced by many African countries.

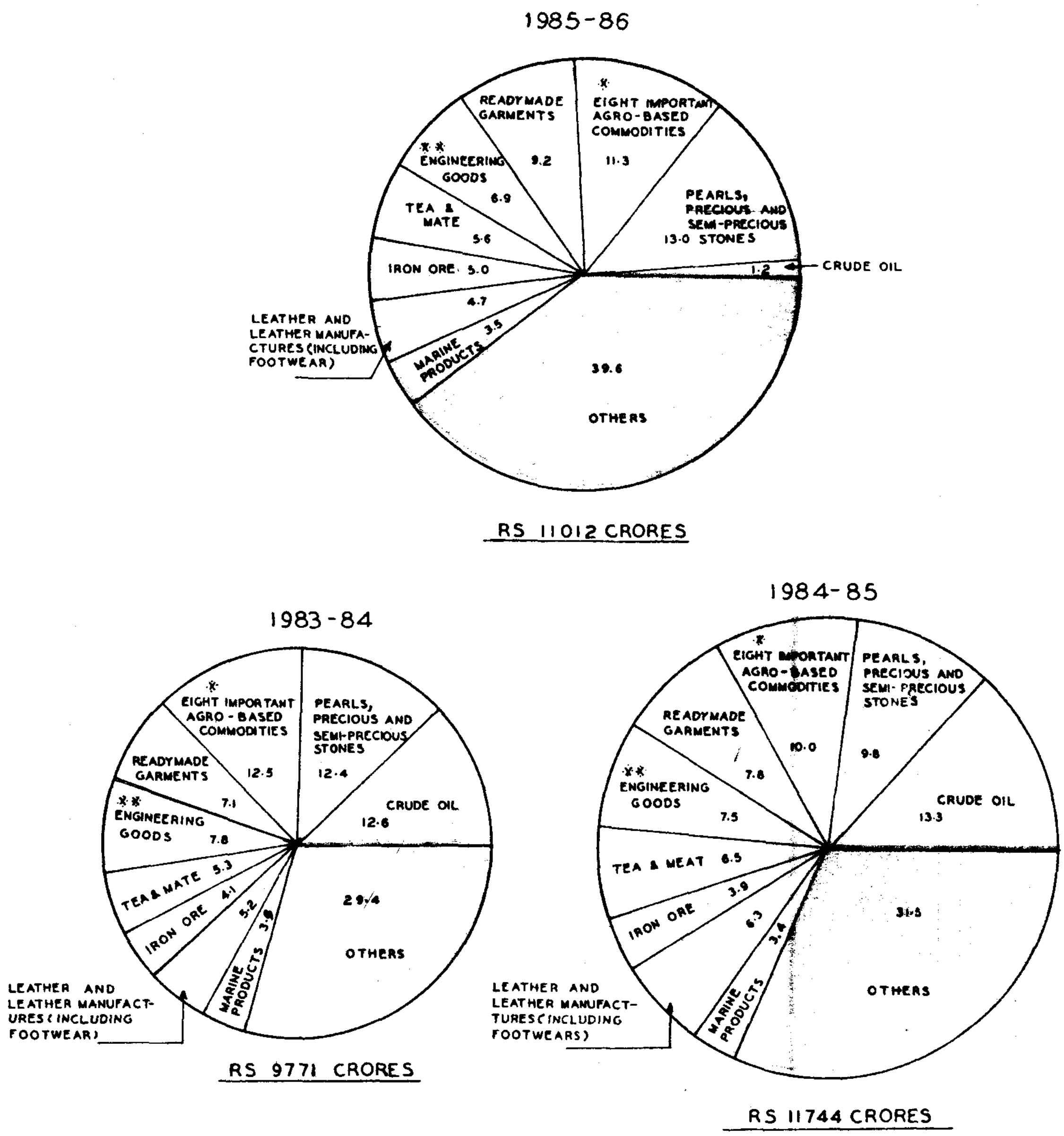
8.36 For turnkey projects, the market is more diversified but the total value of contracts secured by Indian companies is very small. Only Rs. 82 crores of turnkey contracts were secured in 1985 compared with Rs. 222 crores secured in 1983. One of the major problems faced by Indian companies has been their inability to offer credit terms in line with those offered by developed countries.

8.37 Similarly, the share of India in consultancy services in the international market is still very small, though our companies have made a beginning in developed countries also. Export earnings on account of technical and managerial services have been around Rs. 50 crores during last few years.

8.38 Projects and services have also been identified as one of the thrust industries having a good export potential. As a part of overall strategy to increase exports, a number of incentives have been announced by the Government to boost projects and consultancy exports which, *inter alia,* include project assistance of 10 per cent of net foreign exchange earnings from the service portion of the contract, market development assistance, etc.

COMPOSITION OF INDIA'S EXPORTS

(IN PER CENT)



* INCLUDE COFFEE AND COFFEE SUBSTITUTES, CASHEW KERNELS, RAW COTTON, OIL CAKES, RICE, SUGAR, TOBACCO AND SPICES.

** INCLUDE MACHINERY AND TRANSPORT EQUIPMENT AND METAL MANUFACTURES EXCLUDING IRON AND STEEL.

MINISTRY OF FINANCE, ECONOMIC DIVISION

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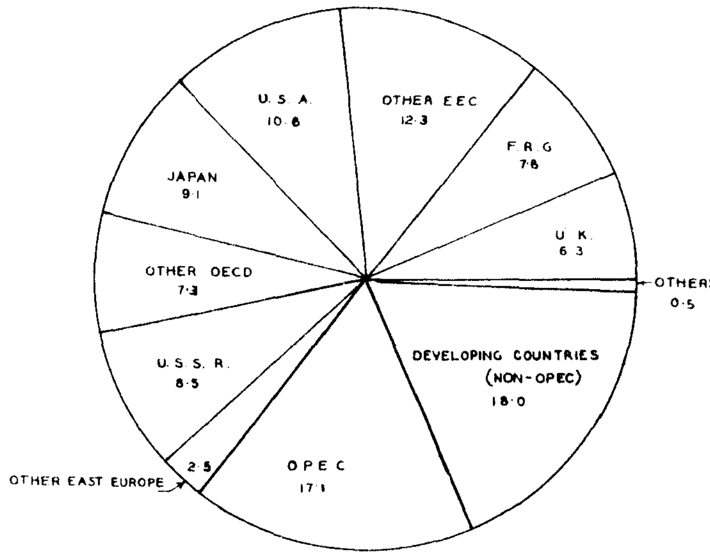
SOURCES OF INDIA'S IMPORTS

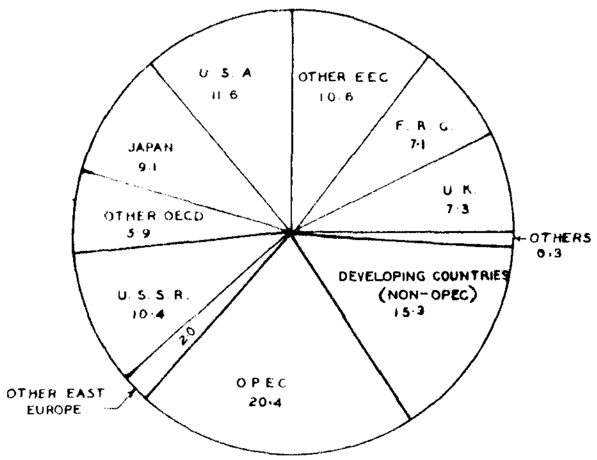
(IN PER CENT)

1985-86



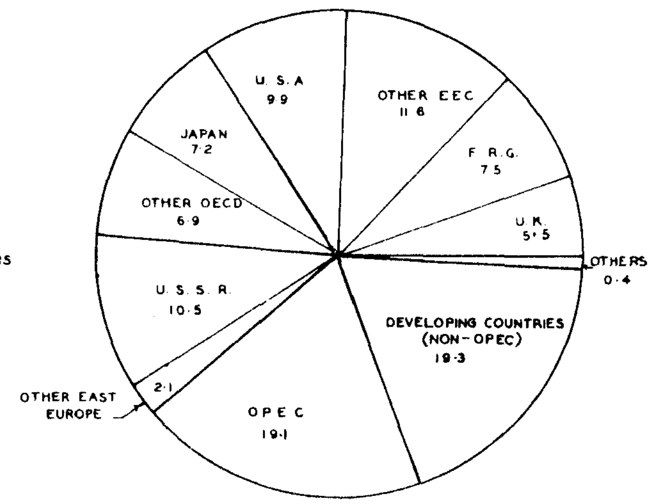
RS. 19747 CRORES

1983-84



RS. 15832 CRORES

1984-85



RS. 17134 CRORES

MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP/PLU/302/1/FIN/86-87

8.39 Overall export performance during 1985-86 was disappointing not only compared to the export performance in the Sixth Plan period but also with respect to the growth in exports envisaged for the Seventh Plan period at 6.8 per cent per annum in volume terms. Improvement in export performance is essential to achieve the Seventh Plan target for exports and relieve the strain on the country's balance of payments position. With this in view, the Government has taken wide-ranging steps which are detailed separately. The Government's initiatives have started showing results as in the first eight months of the current financial year exports have risen by 17.3 per cent against a negative growth rate of 3.4 per cent in the same period last year. With imports increasing at a smaller rate of 1.4 per cent, the trade deficit in the first eight months of the current year at Rs. 4470 crores was lower by Rs. 1001 crores.

Direction of Exports

8.40 The composition of exports by destination from 1983-84 to 1985-86 is given in attached chart. The destination-wise pattern of exports over these years has remained almost unchanged except for the 'other' category which declined to 4.9 per cent in 1985-86 from 15.7 per cent in the previous year due to stoppage of crude oil exports which were not being booked by destination. About half of the exports have gone to OECD countries in the last two years, a little less than a fifth to Eastern Europe, a seventh to developing countries and less than a twelfth to the OPEC.

8.41 The exports to OECD countries increased from 44.9 per cent in 1984-85 to 51.5 per cent in 1985-86 due to increase in exports by 7.5 per cent in 1985-86. At 18.1 per cent of the total exports going to the USA exceeded the share of exports accounted for by the USSR. Exports to the USA rose by 13 per cent in 1985-86 compared with a 3.1 per cent increase in the case of the USSR. The share of Eastern Europe further increased from 19.1 per cent in 1984-85 to 21.2 per cent in 1985-86 as the exports going to the region showed an increase of 4.2 per cent. Similarly, exports to developing countries (non-OPEC) rose to 14.7 per cent in 1985-86 from 12.3 per cent in the preceding year following a 12.1 per cent increase in exports going to this region. On the other hand, there was a fall in exports going to the OPEC region by 9.7 per cent.

Export Promotion Measures And Developments in Trade Policy

8.42 A multi-pronged strategy has been evolved for promotion of exports to achieve the goals envisaged in Seventh Five Year Plan. The broad strategy has been to identify sectors, industries and products having a good export potential and provide for a policy framework conducive to their export growth. Fourteen broad sectors have been identified for making special thrust in overseas markets. These sectors are : tea, especially in packaged and value added forms; cereals, in particular wheat; processed foods, including fruits and juices, meat and meat products and fresh fruits and vegetables; marine products, especially in value added form; iron ore; leather and leather manufactures, with an emphasis on the latter; handicrafts and jewellery; capital goods and consumer durables; electronic goods and computer software; basic chemicals; fabrics, piece goods and made ups; ready-made garments; woollen fabrics and knitwear; and projects and services. Within the above sectors, specific products/product groups have been identified, *e.g.*, in the engineering sector 35 industries have been identified. Similarly, certain countries have been selected in consultation with the export promotion councils, commodity boards and authorities for making special export promotion efforts. An integrated programme for promotion in these areas is also being evolved. For a co-ordinated approach on matters concerning exports and for speedy decision making, institutional arrangements upto the highest level have been established within the Government.

8.43 Efforts have to be made to promote exports of both primary commodities and manufactured products. While for commodities the volume of exports has to be raised, for higher unit value realisations exports in processed and value added forms would be necessary. The major growth, however, has to come from the manufacturing sector. In this sector, the strategy of exporting the available surplus will not suffice. It will be necessary to produce goods that are in demand in the international markets, latest in technology and use of materials, fulfilling the requirements of quality and performance, and at the same time competitive in prices.

8.44 In the light of these factors and after intensive consultations with trade and industry, a series of principles and guidelines have been approved by the Government recently. These include :

— a concessional rate of duty on imports of modern capital goods and machinery for export production or for improving the quality of products for exports, where such capital goods are not produced within the country;

- — extension of the scheme of supply of raw materials at international prices as are operating presently for steel, rubber and certain chemicals to other areas including aluminium, where they form a significant part of the cost;
- — a liberal approach, on a case by case basis, in making available contemporary technology for the thrust sectors, where necessary linked to export obligations;
- — permission, on a case by case basis, in selected areas to large firms to manufacture products which are in the small scale reserved sector, provided 60 per cent of the production is exported and such units are set up in backward districts;
- — full remission of excise and other duties borne by the products that are exported subject to certain exceptions;
- — exemption from the requirements of licensing of any expansion in capacity exclusively for export production; and
- — permission, in principle, to allow use of 5 to 10 per cent of the net foreign exchange earnings by exporters for export promotion under a new blanket permit scheme, to be announced by the Reserve Bank of India.

8.45 Bearing these guidelines in mind and with a view to imparting sustained impetus to the over-riding goal of export promotion, the Government has undertaken a series of initiatives which are summarised below :

Fiscal and Financial Measures

(a) New Cash Compensatory Support Scheme : A new scheme of CCS has been introduced with effect from July 1, 1986. The grant of CCS under the new scheme will be based on six principles. Firstly, the refund of indirect taxes including sales tax, etc. on inputs that are not refundable through the duty drawback mechanism will continue to be the main element for determination of the CCS rates. The incidence of indirect taxes will be worked out not only on the basis of unrebated indirect taxes paid on the inputs directly used in the production of export product at the last stage of production but also at earlier intermediate stages. Secondly, compensation for product/market development will be given in a highly selective manner. Thirdly, compensation for higher incidence of rate of interest on working capital for export production and pre-shipment/post-shipment credits has been taken out of the CCS scheme and will be provided under a separate scheme being operated by the Reserve Bank of India. Fourthly, for fruits and vegetables which are perishable in nature, special element of compensation will be the high cost of transportation within India. Fifthly, for handicraft items, value added by labour will be the main factor for determining CCS rates. And lastly, there would be neutralisation of discriminatory higher freight rates. Under the scheme, approximately 230 items have been granted CCS in the eight product groups *viz.*, engineering goods, chemicals and allied products, plastic goods, agricultural products and processed food items, leather goods, sports goods, textiles and handicrafts. Seven levels of CCS rates namely, 5 per cent, 8 per cent, 10 per cent, 12 per cent, 15 per cent, 18 per cent and 20 per cent have been prescribed. The rates of CCS in respect of all product groups excepting cotton textile items will be valid up to March 31, 1989. The CSS rates for cotton textile items will be valid up to December 31, 1988.

(b) Duty Drawback System : The Government introduced a new simplified procedure of drawback disbursement at all customs houses from February, 1986. Drawback claims are now sanctioned within twenty four hours of presentation and the amount is then transferred to the bank account of the exporter within fifteen days. The drawback rates for various export items have been critically reviewed taking into consideration the budgetary changes and the data furnished by the trade and those collected from various other sources. A new rationalised drawback schedule has been brought into effect from June 1, 1986. Some of the basic features of the rationalisation and simplification effected in the duty drawback system are indicated below :

—Certain thrust industries which have substantial exports or export potential were specially identified and after careful study of the duty suffered on various inputs, considerable improvements over the earlier drawback rates have been effected. In the garment sector, a revised rate of drawback of 10 per cent was announced on March 1, 1986. In leather industry also enhanced rates have now been fixed and include finished leather (revised from 4 per cent to 8 per cent), leather apparels (from 4 per cent to 7 per cent), leather shoes (from 4 per cent to 6 per cent), and leather uppers (4 per cent to 7 per cent).

Some of the other important items where increases have been effected are woollen hand-made carpets, plastic articles, instant coffee, hand-made fabrics, sports goods, lead acid storage batteries, tools of high speed steel and certain categories of chemicals and paints.

—In the 1986 Budget, the facility of MODVAT was made available in respect of 37 specified chapters of the revised Central Excise & Tariff Act whereby the final products get relieved of the input duties levied at various intermediary stages. Such products can be exported in bond and in that event, the duty relief in the form of drawback would be restricted only to basic customs and auxiliary duties suffered, if any, by the inputs. In such category fall the engineering goods, pipes and tubes, dropforged hand tools, tool tips, motor starters, manufactures of metals, etc. Since the excise duty and countervailing duty components have been taken care of through MODVAT, the drawback rates, wherever fixed, are understandably lower compared to the earlier rates.

—The content based approach followed in earlier years has been avoided and revised rates/entries in the drawback schedule will cut down drastically the need for detailed physical or chemical testing before exports. For textiles, articles of plastics and manufactures of metals, this testing would be greatly reduced. This will quicken disbursement of the drawback claims by custom houses in general.

—For a number of new items, all-industry rates have been fixed for the first time. These include hukkah tobacco paste, household articles of plastics, imitation plastic jewellery, copper/brass utensils and some specified drugs.

—In a few areas, residuary entries have been withdrawn but specific important products have been identified in those groups which have potential for export and rates have been fixed for them on a more realistic basis. This rationalisation has brought down the number of enteries in the schedule to a considerable extent.

(c) Deduction in respect of profits for exports under section 80 HHC of the Income Tax Act has been further liberalised to (a) 4 per cent of the net foreign exchange realisation; and (b) 50 per cent of so much of the profits derived from exports of such goods or merchandise as exceeds the amount referred to in clause (a); provided that the deduction under this sub-section shall not exceed the profits derived from the exports of such goods or merchandise.

(d) The rates of interest on pre-shipment and post-shipment credit for exports was reduced in August, 1986 from 12 per cent to a concessional rate of 9.5 per cent for a period below 180 days for all the products.

(e) In pursuance of the computer software policy the EXIM bank has decided to provide, *inter alia,* foreign currency and rupee term loans as also working capital loans to those entrepreneurs who are in a position to export 3.5 times of the c.i.f. value of their imports of computer hardware and/or software.

(f) All India financial institutions viz., IDBI, ICICI and IFCI have been operating a special scheme for the 100 per cent export oriented units under which incentive is provided to these units in the form of interest rebate of 1.5 per cent on the applicable rate of interest depending on their actual performance in meeting export obligation. The financial institutions have now announced a scheme to provide incentives to industrial concerns for improving their export performance under which a unit with export sales of 25 per cent or above in relation to its total sales of own manufactured goods will be entitled for an interest rebate to the extent of one fifth of its interest payments on rupee loans provided by the institutions. The rebate is subject to the floor interest rate of 10 per cent on the relative loans. The scheme is applicable to all loans granted on or after December 1, 1986.

(g) In order to improve the quality of production and upgradation of technologies import of machinery and equipment not domestically produced has been put on OGL for leather goods manufacture, garment manufacture, diamond cutting and polishing, selected equipment for processing and packaging marine products and modern coffee curing machines. A concessional rate of customs duty is now available in respect of specified items of such machinery and equipment.

(h) Export duty has been abolished on unmanufactured tobacco and excise duty withdrawn in case of branded cigars, cheroots and cigarilloes.

(i) For promoting exports of tea in bags and packets, tea bags have been exempted from excise duty and import duty on filter paper for the manufacture of tea bags has been abolished. Higher rate of CCS is allowed on tea bags, packet tea and instant tea. An excise rebate scheme for export of tea has been introduced. The Tea Development Scheme has been brought on par with the new Deposit Account Scheme introduced in the current year.

(j) The Reserve Bank of India has launched a new forward cover facility to cover exchange risk on export transactions.

(k) To promote exports of projects and consultancy, a scheme to grant 50 per cent subsidy for submission of tenders for overseas projects, subsidy for establishing consultancy offices abroad for a period of five years and 10 per cent of project assistance for consultancy export has been provided. Further, under the Income Tax Act, the deduction admissible in case of profits from project exports has been raised from 25 per cent to 50 per cent.

(l) The new industrial undertakings established in the Free Trade Zones have been allowed to avail the benefit of tax holiday for any five consecutive years falling within a period of 8 years from the year in which the undertaking begins to manufacture or produce.

(m) A textile modernisation fund of Rs. 750 crores has been created for the facilitation of the modernisation of the textile industry.

Measures relating to Industrial Licensing Policy :

(a) In selected areas industrial licensing policy has been liberalised with a view to make industry competitive internationally in regard to scales of production and technology. The policy of broad-banding has been extended to a large number of items particularly in identified thrust areas so as to provide production units with requisite flexibility to adjust their production to the prevailing international demand.

(b) Exemption from the requirement of licensing has been granted since September, 1986 for any expansion of capacity exclusively for export production. Relaxation from the provisions of the MRTP Act has also been made.

(c) A liberal approach would be adopted for constant upgradation of technologies in the key sectors, particularly engineering goods, which would be linked to export obligation, if necessary.

Measures relating to Import—Export Policy :

(a) In 1985-86, a stable framework was provided for export growth by having a three year import-export policy which has been maintained in 1986-87.

(b) In December, 1986 the Government announced a computer software policy to encourage an integrated development of the computer software industry, to promote computer software exports and to popularise the use of computers as a tool for decision making. Salient features of the policy in regard to export and import include the following :

—The foreign exchange requirements of a software company for importing hardware and/or software of computer/computer based system can be met from the Central Government or through non-resident participation or by entitlement as a result of excess exports or through foreign participation or by any other source permitted by the RBI or by a combination of any of these options.

—Permission to import will carry a software export obligation. Export obligation has been fixed separately for each source of import finance as a percentage of the foreign exchange used.

—Export obligation will be fulfilled in a four year period. Cumulative export targets for the second and third years of the export obligation have also been fixed. There is provision for payment of penalty for shortfall in meeting the export obligation.

—30 per cent of excess software earnings made over and above the export obligation can be used by the software exporter for importing new computer systems, software and hardware sub-systems and/or augmenting his existing computer installation and computer spare parts.

(c) For promoting exports of gems and jewellery, the advance licensing scheme was extended in August, 1986 to cover gold for qualified exporters; production of 9,14 and 18 carat gold jewellery has been permitted; and import of sockets and frames for being studded has been allowed. Jewellery complexes are being established in Delhi and Bombay.

(d) Export processing zones at Madras and Falta have become operational.

(e) Parameters of policy for 100 per cent export oriented units for deep sea fishing have been finalised and 46 proposals for such units have been cleared.

(f) Several procedural changes have been made and a review of the Advance Licensing Scheme and the Pass Book Scheme for providing easy access to imports for export production has been undertaken. The Advance Licensing Scheme originally restricted duty free imports only for items included in Annexure I of Appendix 19 but now it is proposed to be extended to all imported inputs, including consumables.

(g) Powers have been delegated to the port officers to a much higher limit for clearance of cases of various categories of licences.

(h) A three year export policy for raw cotton was announced in October, 1986 which envisages a minimum annual export of six lakhs of bales of various types of cotton beginning from current 1986-87 season. The exports would be subject to a minimum price which will be decided by a high powered committee.

(i) On the pattern of gold replenishment scheme, in December, 1986 a new scheme for export of silver jewellery and articles was announced which provides for replenishment of pure silver to the extent of the quantity used in the manufacture of silver jewellery and articles exported.

(j) Cotton garments and textiles have been brought under the Scheme of Contract Registration with a view to provide an element of certainty to exporters in the matter of CCS.

(k) A Fashion Technology Institute for education, research and training in the areas of fashion design for garment manufacture has been decided to be set up in Delhi. It will be operative very soon.

External Assistance

8.46 Gross disbursement of external assistance increased from Rs. 2354 crores in 1984-85 to Rs. 2938 crores in 1985-86. It is estimated that during 1986-87 there may be a further increase in such inflows to Rs. 3841 crores. Net assistance (net of debt servicing) received by India also showed an increase from Rs. 1178 crores in 1984-85 to Rs. 1571 crores in 1985-86. Net assistance is estimated to increase by about 43 per cent to Rs. 2241 crores in 1986-87. The details are given in table 8.7.

8.47 A consortium of Governments and institutions interested in extending development assistance to India met in Paris on June 16 and 17, 1986 under the chairmanship of World Bank. There was unanimous agreement at the meeting regarding need for concessional assistance to India. The meeting paid tribute to the quality of India's economic performance and management, and initiatives that have been taken in respect of fiscal, industrial and trade policies to accelerate growth and alleviate poverty. India's success in controlling inflation and her prudent management of debt was commended.

8.48 The total aid pledges indicated at the meeting were of the order of 4.5 billion dollars. While this included an element of increase on account of change in the value of dollar, even in terms of last year's exchange rate the increase was 8 per cent. In SDR terms, the total aid pledged was SDR 3.9 billion as against SDR 3.8 billion last year. Among countries which substantially increased their commitments were West Germany and Japan. The Asian Development Bank and Nordic Investment Bank pledged aid to India for the first time.

TABLE 8.7

Inflow of External Assistance : Gross and Net

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87**
1. Authorisations	3847@	2840	2949	2079	4692	5399	2016*
2. Gross disbursements	2162@	1870	2250	2268	2354	2938	3841
Of which : Debt relief	13	3	5	5	9	11	15
3. Debt servicing (including interest payments)	804	849	948	1033	1176	1367	1600
4. Net inflow of assistance	1358@	1021	1302	1235	1178	1571	2241

@Includes drawings under IMF Trust Fund.

*Authorisation on Government account only for April—September, 1986.

**Estimated.

NOTE : The data include Government and non-Government loans and grants (including food assistance grant but excluding other commodity grant assistance). They do not include suppliers' credits and commercial borrowings.

8.49 World Bank group lending to India during the Bank fiscal year 1986 (July 1985 to June 1986) was US dollar 2368.3 million as against US dollar 2346.9 million in the previous year. The IBRD lending to India in FY 1986 was US dollar 1743.2 million as against US dollar 1674 million in FY 1985, and the IDA lending in these years was US dollar 625.1 million and US dollar 672.9 million respectively. India's share in total World Bank lending fell from 14.7 per cent in FY 1985 to 13.2 per cent in FY 1986 in the case of IBRD loans and from 22.2 per cent to 19.9 per cent in the case of IDA credits.

8.50 The eighth replenishment of the International Development Association is scheduled to cover the period extending from 1st July, 1987 to 30th June, 1990, corresponding to World Bank fiscal years 1988 to 1990. Negotiations on IDA-8 have covered a number of issues, including the size of replenishment, lending terms, allocations and burden sharing. At the recent meeting of the IDA held on 15th December, 1986 the donors of IDA reached an agreement on the size of IDA-8. For these three years IDA is being provided with lending resources of US dollar 12.4 billion. Other proposals under consideration of the IDA include a reduction in final maturities from 50 years to 40 years for the "least developed countries" and to 35 years for other recipients. India has strongly opposed the hardening of IDA terms and the differentiation between "blend countries" and "least developed countries".

8.51 India has been one of the founder members of the Asian Development Bank (ADB) and currently is the fourth largest contributor to its capital stock. Although eligible, India had, until this year, voluntarily refrained from borrowing from the ADB. With the stagnation in the level of fresh commitments of concessional aid and official capital flows from other multilateral sources, it was deemed prudent to diversify the country's access to multilateral capital flows. India, therefore, has now commenced to borrow, to begin with, from ADB's ordinary capital sources. The first loan agreement signed on May 20, 1986 between ICICI and ADB was for a loan of US dollar 100 million. The total quantum of lending from the ADB during the financial year 1986-87 (up to December, 1986) was of the order of US dollar 250 million.

8.52 In view of the deteriorating environment for official and concessional capital flows-bilateral and multilateral-greater recourse had to be made to external commercial borrowings in recent years subject to the maintenance of a safe debt service capability. Approvals for external commercial borrowings were of the order of Rs. 7258 crores in Sixth Plan, Rs. ~~1700~~ crores in 1986-87 and Rs. 616 crores during the first six months of 1987-88.

8.53 India's prudent policies with regard to the foreign debt and her record of sound economic management have enabled the country to obtain excellent terms for borrowings in international capital markets. There has been significant improvement in the terms obtained in recent past. This has been brought about mainly by the past record of India's debt service and repayment obligations and increasing appreciation of the economic policies of the Government. The high credit rating that is enjoyed by India could improve further with diversification of sources of borrowings.

8.54 As indicated in the last year's Economic Survey, debt service ratios relating to India's external debts have been rising since 1981-82. It is estimated that the country's debt service in 1986-87 on external debts on Government account, non-Government account, IMF drawals and commercial borrowings including supplier's credit amounted to about ~~17~~ 21 per cent of the current receipts.

Outlook

8.55 Looking ahead, it seems clear that the adverse factors exerting pressure on the balance of payments can be expected to persist throughout the rest of the decade and into the 1990s. As pointed out in the last year's Survey, debt service on past borrowing is expected to increase in the years ahead. The flow of remittances from expatriate Indians may not be as buoyant as in the recent past. The recent relief from lower prices for imported oil could prove transitory as international oil prices recover from the trough of mid-1986 and as India's degree of self-sufficiency in petroleum declines further from the peak attained in 1984-85. Thus, for the foreseeable future the balance of payments will demand continuous and careful management.

8.56 The key to a viable balance of payment lies with strong and sustained growth of exports, of both goods and services and efficient import substitution. It is true that the environment for international trade is clouded with protectionist impediments and uncertainities. But the fact that India's exports account for hardly half a per cent of world exports suggest that the possibilities for growth are substantial even in difficult environment. To assure the realisation of this potential it is essential to maintain and even strengthen the thrust of the current policies aimed at improving the relative profitability of exports and systematically removing procedural and infrastructural bottlenecks to exporting. At the same time it has to be realised that the export performance cannot be realistically compartmentalised from the performance of the economy as a whole. Thus, sustained growth of India's manufactured exports can only be predicated on the base of a productive industrial sector, operating in a competitive, cost-conscious environment, with good opportunities for technological upgradation and able to reap available economies of scale. Nor should our export thrust be limited to commodities. Tourism earnings have been buoyant in recent years and should increase further if sufficient infrastructure facilities are available. In a nutshell, for India, export growth is not a luxury. It is a necessary prerequisite for assuring adequate foreign exchange earnings to maintain the tempo of economic development, without sacrificing the country's self-reliance.

8.57 With regard to imports the scope for efficient import substitution in key bulk import items remains substantial. Programmes for effective energy conservation command the highest priority. In the absence of major new discoveries of oil, it does not seem feasible to sustain growth in consumption of petroleum products at around 7 per cent per year, when indigenous production is only growing at about 4 per cent or so. Imports of machinery, raw materials and components are essential for our development. But we must ensure that the structure of customs tariffs and other indirect taxes on the one hand, and import licensing policy on the other, does not encourage unduly import dependent patterns of industrial development or inhibit the growth of efficient indigenous industries. At the same time, we must be careful to guard against the pitfall of setting up high-cost industries with outdated technologies which become a costly drag on the overall performance of the industrial sector as well as the economy as a whole.