CHAPTER 8

# THE EXTERNAL SECTOR

While the domestic economy has posted a remarkable recovery in the current year after the severe drought of 1987-88, the strains on the balance of payments position have continued and, to some extent, intensified. As noted in previous Economic Surveys, the external payments situation has continued to remain difficult throughout the Seventh Plan period so far on account of several adverse medium-term factors, such as, deceleration in the rate of growth of domestic oil production, intensification of protectionist tendencies in international trade, the bunching of repayment obligations to the IMF and others and the unfavourable climate for concessional assistance. The situation was aggravated in the current year because of a surge in the import bill, reflecting a spillover of essential imports necessitated by last year's drought, the buoyant import demand associated with a strong economic recovery this year and the sharp rise in the international prices of metals, chemicals and edible oils in 1988.

8.2 The merchandise trade account continues to show a large deficit, with net invisible earnings playing a progressively smaller role in financing this deficit. Invisible earnings played an important role in earlier years as they offset a large part of trade deficits. On an average, net invisibles neutralised over sixty per cent of trade deficit during the Sixth Plan period as a whole. The ratio, which was as high as 72 per cent of the trade deficit in 1980-81, came down to 57 per cent of the trade deficit in 1984-85. During 1985-86 and 1986-87, the first two years of the Seventh Plan, net invisibles could offset only about 38 per cent of the trade deficits in these years. Net invisible earnings have lost their buoyancy in recent years largely on account of rising interest payments on foreign debt. Correspondingly, net inflows on the capital account of the balance of payments have played a growing role in financing the trade deficit. This, in turn, has led to a substantial build-up in external debt and debt service obligations in recent years.

8.3 The government has accorded high priority to improving the balance of payments position through acceleration of export growth, efficient import substitution and economic utilization of scarce foreign exchange. Strong performance in exports in the last two years and the current year reflects the response to earlier policy measures announced by the government to promote exports. The trade performance in 1987-88 was satisfactory. According to DGCI&S data, in rupee terms, exports increased by 26.4 per cent in 1987-88 over 1986-87 (comparing partially revised data for both periods). This buoyancy in exports has continued in the first nine months of the current year with the rupee value of exports displaying an increase of 24.4 per cent over the comparable period of 1987-88 (both the data on provisional basis). However, imports have grown at a higher rate of 27.4 percent in April-December, 1988. The main reasons for this sharp increase in imports have been higher imports of essential commodities, such as foodgrains and edible oils necessitated by last year's drought, the strong recovery of the economy this year, unusually high prices in international markets for metals and edible oils and exchange rate variations. Thus, the DGCI&S data reveal growth in non-oil imports by 33.4 per cent in the first nine months of the current year. Consequently, the provisional trade deficit in April-December, 1988 at Rs. 6601 crores was higher by Rs. 1688 crores over the deficit of Rs. 4913 crores during the corresponding period of 1987.

### Balance of Payments and Foreign Exchange Reserves

8.4 Full balance of payments data are available for the fiscal year as a whole upto 1986-87, the second year of the Seventh Plan. Table 8.1 summarises trends in the key ratios (to GDP) for the Sixth Five Year Plan as a whole and the first two years of the Seventh Plan. The trade deficit, which averaged 3.4 per cent of GDP during the Sixth Plan period, increased to 3.7

per cent of GDP in 1985-86 (mainly due to lacklustre export performance), but declined in 1986-87 to 3.2 per cent of GDP due to both better export performance and deceleration in growth rate of imports. Net earnings on invisibles account fell from an average of 2.1 per cent of GDP during the Sixth Plan to 1.4 per cent of GDP in 1985-86 and further to 1.2 per cent of GDP in 1986-87, reflecting the declining importance of private transfer payments and the growth of interest payments on external loans and credits. As a consequence of these trends in trade and invisibles accounts, the current account deficit rose sharply from an average of 1.3 per cent of GDP in the Sixth Plan to 2.3 per cent in 1985-86. The ratio declined somewhat in 1986-87 to two per cent of GDP. During 1987-88, full balance of payments data for which is not available, the ratio of current account deficit to GDP is likely to be larger than in 1986-87. Thus, in the first three years of the Seventh Plan, current account deficit is estimated to have averaged over two per cent of GDP, as against the targetted average of 1.6 per cent for the Plan period.

TABLE 8.1

*India's Balance of Payments : Key Indicators*
*(As per cent of GDP)*

| Item | Sixth Plan Average (1980-85) | 1985-86 | 1986-87 |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| Exports . . . | 5.0 | 4.4 | 4.5 |
| Imports . . . | 8.4 | 8.1 | 7.7 |
| Trade Balance . . | –3.4 | –3.7 | –3.2 |
| Invisibles . . . | 2.1 | 1.4 | 1.2 |
| Current Balance . | –1.3 | –2.3 | –2.0 |

*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 C.S.O. estimates of GDP at current market prices. The ratios of net invisibles and current account deficit to GDP indicated above may be slightly different from those published in the earlier Economic Surveys because of difference in treatment of official grant receipts and U.S. embassy expenditure in India out of PL—480 Rupee Fund. These items are now taken as current account receipts in conformity with the balance of payments statistics published by the Reserve Bank of India whereas in earlier Economic Surveys these items formed part of capital receipts.

8.5 In 1987-88, according to DGCI&S partially revised trade data, exports at Rs. 15741 crores showed a substantial increase of 26.4 per cent as against a smaller increase of 14.3 per cent recorded in 1986-87. Imports too rose at a higher rate of 10.9 per cent in 1987-88 compared to an increase of only 2.8 per cent in 1986-87. The trade deficit, according to DGCI&S data, declined from Rs. 7748 crores in 1986-87 to Rs. 6658 crores in 1987-88. However, during the first six months of 1987-88, for which balance of payments data are available, deficit in both trade and current account was higher than in the corresponding period of 1986-87. The increase in tourist arrivals in India during 1987-88 is estimated to be 7.7 per cent only against an increase of 23 per cent in 1986-87. The inflow of remittances under private transfers might have also been somewhat higher. On balances after allowing for higher interest payments, net invisible receipts during 1987-88 may have been somewhat higher than in the preceding year. Net disbursements of external assistance as well as inflows into non-resident deposit accounts increased during 1987-88. In spite of these positive developments there was presssure on balance of payments during the year as reflected by reserve movements (Table 8.2). In SDR terms, total foreign exchange reserves stood at SDR 4486 million at the end of March, 1988 showing a fall of SDR 627 million during 1987-88 as compared to a decline of SDR 615 million in 1986-87.

TABLE 8.2

*Movements in Foreign Exchange Reserves*

(Rs. Crores)

| Year | Foreign exchange reserves at the end of the year@ | Movements in foreign exchange reserves | Net drawals on IMF |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1979-80 | 5934 | 113 | (–)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 | (–)310** |
| 1986-87 | 8151 | 331 | (–)772** |
| 1987-88 | 7687 | (–)464 | (–)1388** |
| 1988-89 (upto January, 1989) | 5967 | (–)1720 | (–)1468** |

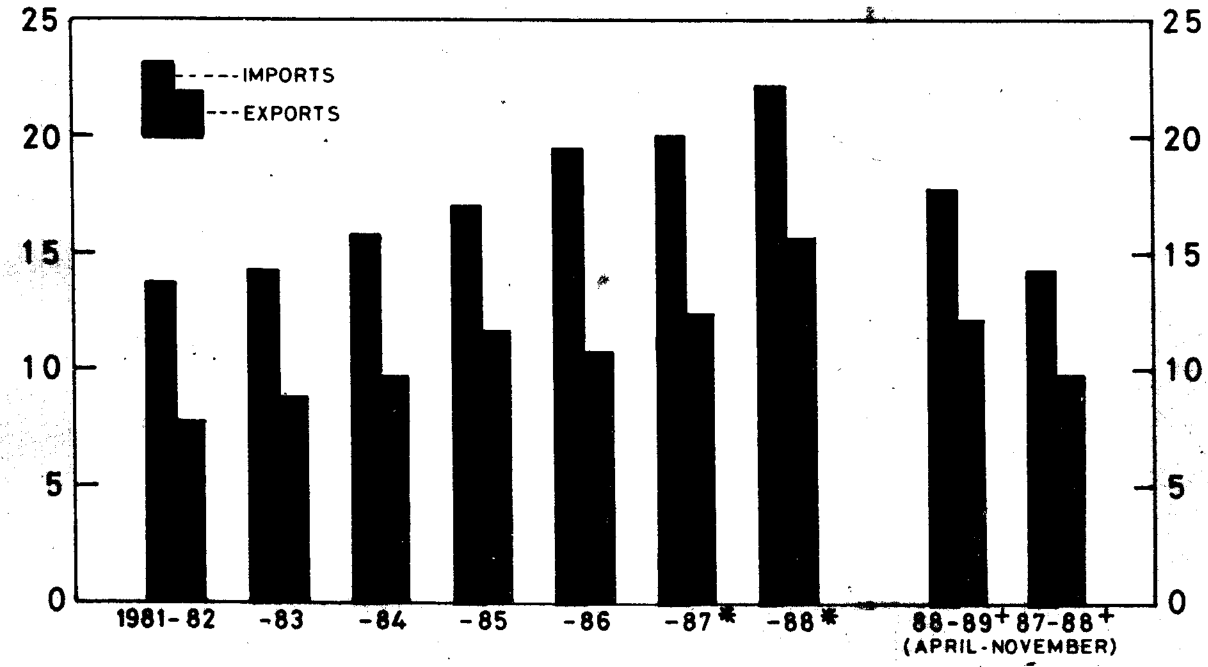
* Includes voluntary repurchase of Rs. 20 crores and sales of Rs. 35 crores by the IMF under the General Resources Account

** Includes Trust Fund loan drawals and repayments

@ Includes foreign currency assets of RBI, gold holdings of RBI and SDR holdings of Government

# FOREIGN TRADE

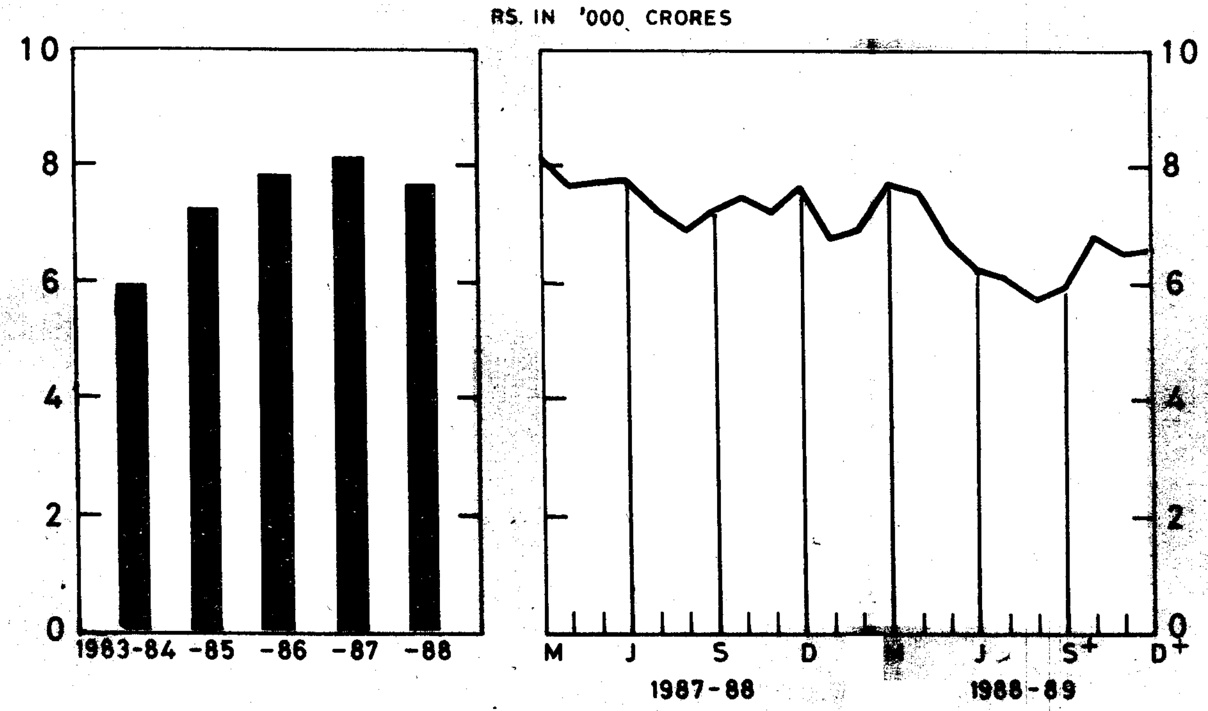
RS. IN '000 CRORES




# FOREIGN EXCHANGE RESERVES

(INCLUDING GOLD & S.D.Rs)

RS. IN '000 CRORES

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\+ PROVISIONAL
* PARTIALLY REVISED

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8.6 The external payments situation has experienced considerable stress during the current year, as reflected by a sharp decline in foreign exchange reserves, specially during the first five months between end-March and end-August 1988. During this period reserves fell by 25.7 per cent as against a decline of 14.6 per cent in the corresponding period of last year. The sharp decline in reserves may be attributed to a number of factors, including the bunching of some import payments, high international prices for some imports like metals and edible oils, increased imports of bulk commodities like diesel, edible oils and wheat necessitated by the unprecedented drought last year and higher repurchases from the IMF (which are peaking in 1988-89) as compared to last year. The DGCI&S provisional trade data for the first nine months of the current year display a healthy growth of exports and a strong surge in imports, leading to a widening of trade gap from Rs. 4913 crores in April—December, 1987 to Rs. 6601 crores during April—December, 1988. Net invisibles too are unlikely to increase in 1988-89 because of uncertain trends in the net private transfers (especially from the oil-exporting countries of West Asia), a relatively slow growth of tourist traffic and steady rise in the interest payments on past borrowings. Taken together, these factors point to continued pressure on the balance of payments. While the foreign exchange reserves position improved somewhat after the sharp drop in the first part of the year, the persistence of external payments pressure is indicated by the fact that the level of overall reserves at the end of January, 1989 was lower by Rs. 1720 crores compared with the level at the beginning of the year.

8.7 To tide over the difficult balance of payments situation in the current year and bring about a turn around in the balance of payments, the Government initiated a number of measures to generate additional exports, contain imports and augment foreign exchange flows through NRI deposits/bonds, additional direct/indirect investments and increased tourism receipts.

8.8 In order to attract deposits under different non-resident accounts, interest rates offered on Non-Resident External Rupee (NRER) deposits continue to have a premium of two per cent over the rates applicable to domestic deposits of comparable maturities. The Foreign Currency Non-Resident (FCNR) deposits scheme, which aims at providing an investment avenue for the savings of non-resident Indians and was so far applicable only to the U.S. Dollar and the Pound Sterling was extended, with effect from Ist August 1988, to Deutsche Mark and Japanese Yen. The practice of quoting same interest rates both for the Dollar and the Pound Sterling was discontinued and different interest rates structure was introduced for each currency. The latest interest rates prevailing as on January 30, 1989 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 (Effective from January 30, 1989) | | | | |
|---|---|---|---|---|---|
| | NRER | FCNR | | | |
| | | POUND Sterling | US Dollar | DM | YEN |
| (a) One year and above but less than two years | 10.50 | 11.75 | 10.50 | 6.75 | 5.50 |
| (b) Two years and above but less than three years | 11.00 | 12.00 | 10.50 | 7.25 | 5.75 |
| (c) Three years and above but less than five years | 12.00 | 12.00* | 10.50* | 7.50* | 6.00* |
| (d) Five years only | 13.00 | — | — | — | — |

*Three years only.

8.9 The inflows into the non-resident accounts have provided significant support to the balance of payments. Inflows into FCNR accounts amounted to Rs. 1547 crores during April—December, 1988 as against Rs. 946 crores during the same period of 1987-88. A major part of these inflows was accounted for by the dollar denominated deposits. Accretion to NRER accounts amounted to Rs. 457 crores during April—December, 1988. As NRER deposits are inclusive of interest, if an adjustment is made for the interest included in these deposits, the inflows would be reduced to that extent. Table 8.4 shows the outstanding amounts under these accounts.

TABLE 8.4

*Outstanding Amounts in Various Types of External Accounts*

| As on 31st March | Non-Resident External Rupee Accounts* | Foreign Currency Accounts@ | | Non-resident | |
|---|---|---|---|---|---|
| | | US $ | Sterling | DM@@ | Yen@@ |
| | (Rs. Crores) | ($ Million) | (£ Million) | (DM Million) | (Y Million) |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1981 | 937.74 | 140.29 | 19.78 | | |
| 1982 | 1259.04 | 107.32 | 27.64 | | |
| 1983 | 1679.20 | 151.50 | 68.23 | | |
| 1984 | 2254.26 | 373.81 | 136.19 | | |
| 1985 | 2864.00 | 499.05 | 218.16 | | |
| 1986 | 3461.42 | 1419.42 | 236.07 | | |
| 1987 | 4336.20 | 2359.86 | 223.62 | | |
| 1988 | 5107.00 | 3410.00 | 222.20 | | |
| 31, Dec. 1988** | 5564.00 | 4134.75 | 213.40 | 708.69 | 7665.22 |

@ Figures do not include accrued interest.
* Figures include accrued interest.
** Provisional data
@@ Introduced w.e.f. August 1, 1988.

8.10 In order to facilitate mobilisation of savings of non-resident Indians and other foreign-based funds for investment in India, a number of initiatives were taken during the year. A second "country fund", the India Growth Fund, was launched in USA in August, 1988 by UTI and Merrill Lynch, following the earlier India Fund launched in July, 1986 in the United Kingdom. Another unique investment scheme launched was the issue by the State Bank of India in November, 1988, of its seven year cumulative, US dollar denominated, non-repatriable NRI Bonds. These bonds are being floated to meet a long-felt need of non-resident Indians who would return to India, or wish to settle/start business ventures in India in future or wish to make provision for close relatives in India with complete exchange protection.

8.11 The external value of the rupee continued to be determined in relation to a weighted basket of currencies of India's major trading partners and the Pound Sterling remained the intervention currency. The exchange rate between rupee and the Pound Sterling has been adjusted from time to time in line with the changes in the exchange rates of currencies in the basket. The latest adjustment for exchange rate between Rupee and Pound Sterling was made on 13 February, 1989 when the middle rate was fixed at Rs. 26.70 per Pound Sterling.

## Imports

8.12 According to DGCI&S data, growth of imports had decelerated from 14.7 per cent in 1985-86 to 2.8 per cent in 1986-87, largely due to a fall in international prices of bulk commodities like crude oil, fertilizers, edible oils, etc. In 1987-88, imports registered a higher increase of 10.9 per cent. In US dollar terms, growth in imports in 1987--88 at 9.3 per cent was significantly higher as against a decline of 1.6 per cent in 1986-87. The increase in imports in 1987-88 was largely due to a rebound in international oil prices and higher imports of edible oils necessitated by drought and of capital goods. POL imports in 1987-77 showed a substantial increase of 46 per cent as compared to a decline of 43.9 per cent in 1986-87. In US Dollar terms POL imports rose by 43.9 per cent. The growth in non-oil imports in 1987-88, however, decreased sharply to 5.2 per cent from 18.6 per cent in 1986-87. Thus, in the first three years of the Seventh Plan imports have increased by an annual compound growth rate of 9.3 per cent as compared to an annual compound increase of 16.1 per cent in the corresponding period of the Sixth Plan

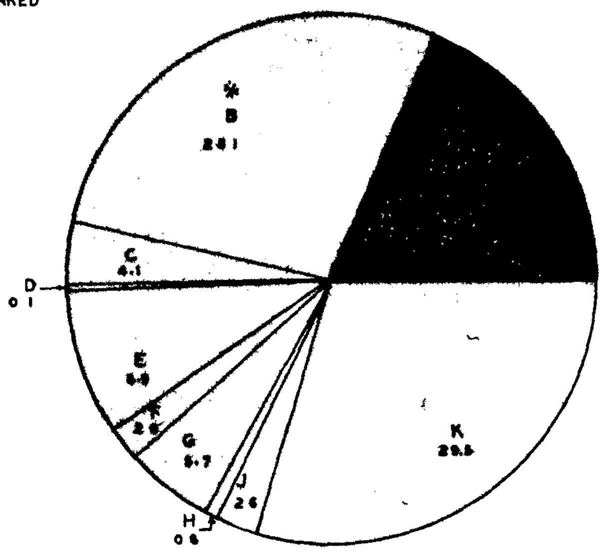
8.13. In the first nine months of the current financial year 1988-89, imports have increased sharply by 27.4 per cent as against an increase of only 13.5 per cent in the first nine months of 1987-88. In US dollar terms this growth in imports amounts to 16.1 per cent in April—December, 1988 compared to a smaller increase of 11.5 per cent in the corresponding period of 1987-88. The substantial rise in imports in rupee terms is largely attributable to larger bulk imports coupled with higher international prices for some of these imports (like metals and edible oils), import of foodgrains to replenish food stocks and exchange rate variations. Non-oil imports during this period increased substantially by 33.4 per cent as against a small increase of 5.0 per cent in the corresponding period of last year.

# COMPOSITION OF INDIA'S IMPORTS

(IN PER CENT)

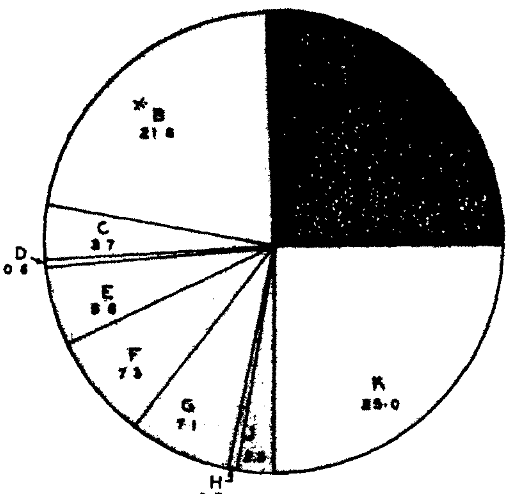
A PETROLEUM OIL AND LUBRICANTS
* B CAPITAL GOODS
C EDIBLE OILS
D CEREALS AND CEREAL PREPARATIONS
E PEARL, PRECIOUS AND SEMI-PRECIOUS STONES, UN-WORKED OR WORKED
F FERTILIZER & FERTILIZER MATERIALS
G IRON AND STEEL
H CHEMICAL MATERIALS AND PRODUCTS
J NON-FERROUS METALS
K OTHERS

1987-88



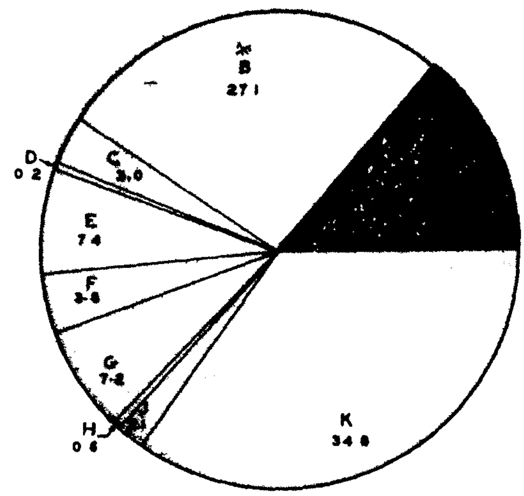

RS 22399 CRORES

1985-86




RS 19658 CRORES

1986-87




RS 20201 CRORES

* INCLUDES MANUFACTURES OF METALS; MACHINERY (INCLUDING ELECTRICAL MACHINERY), TRANSPORT EQUIPMENT AND PROJECT GOODS

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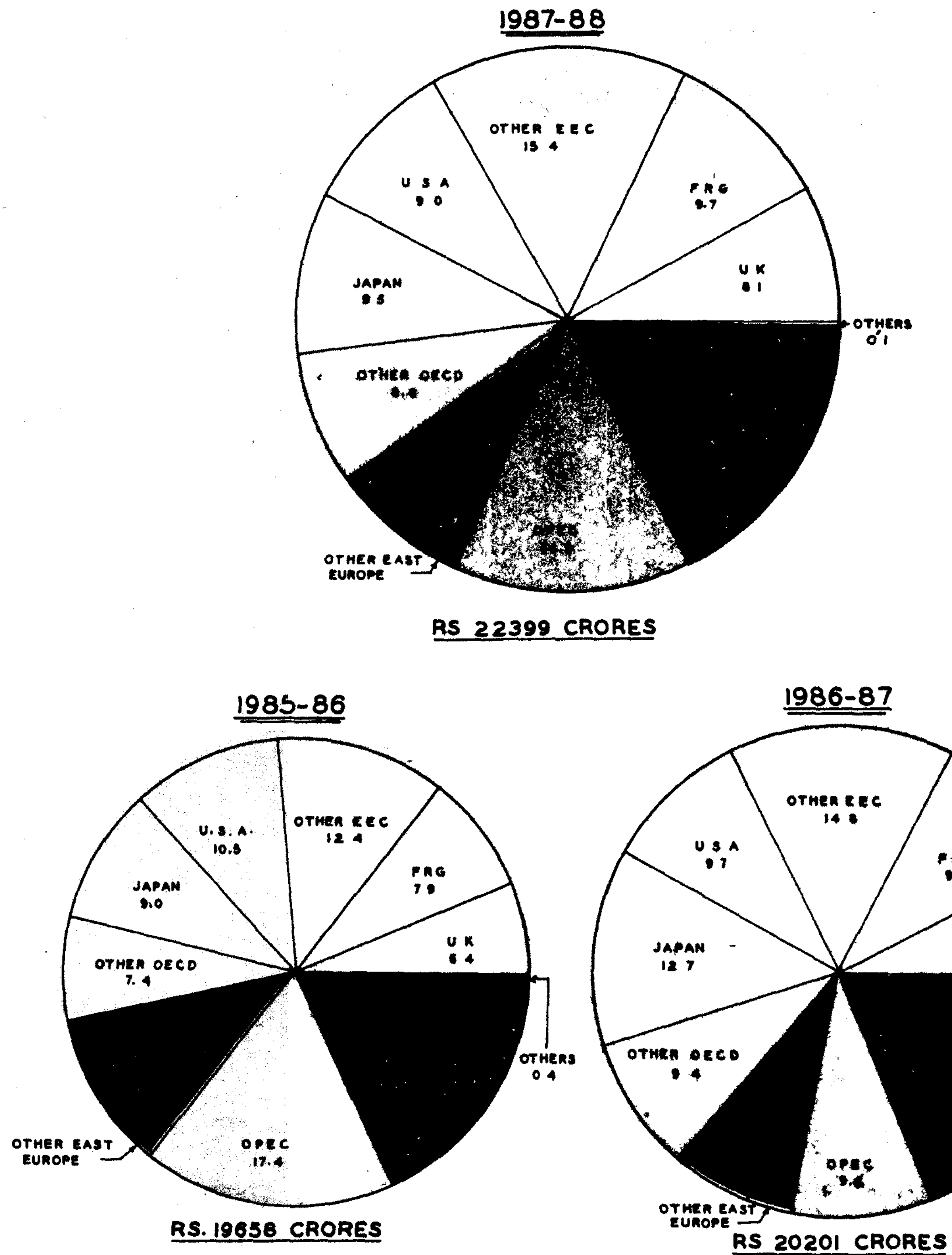
# SOURCES OF INDIA'S IMPORTS
(IN PER CENT)

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8.14. During the first six months of the current financial year, for which details are available by major commodity groups, imports of non-ferrous metals have risen by 91.5 per cent, edible oils by 52.9 per cent, chemical materials and products by 27.5 per cent, organic and inorganic chemicals by 97.8 per cent, pearls and precious/semi-precious stones by 62.3 per cent, paper, paper board and manufactures thereof by 48.8 per cent, finished fertilizers by 202.5 per cent, iron and steel by 40.5 per cent and petroleum crude and products by 12.4 per cent. Among other items imports of which recorded high growth were cereal and cereal preparations (1344.2 per cent), medicinal and pharmaceutical products (69.9 per cent), non-metallic minerals (189.2 per cent), synthetic and regenerated fibres (50.4 per cent), professional, scientific, controlling instruments, photographic and optical goods, watches and clocks (45.5 per cent) and capital goods (12.4 per cent).

8.15. Table 8.5 shows the commodity composition of imports by major groups during 1986-87, 1987-88 and the first half of 1987-88 and 1988-89. The data compiled by the DGCI&S from custom's returns are likely to be revised as and when additional information is received.

TABLE 8.5

*Imports by Major Commodity Groups*

(Value in Rs. Crores)

| Sl. No. | Commodity | 1986-87 (PR) | 1987-88 (PR) | Percentage change 1987-88 / 1986-87 | April-September (P) 1987 | April-September (P) 1988 |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. | Capital goods* | 5467.3 | 6284.9 | 15.0 | 2878.2 | 3234.1 |
| 2. | Cereals & cereal preparations | 47.0 | 32.7 | —30.5 | 10.8 | 156.6 |
| 3. | Chemical materials & products | 119.6 | 173.6 | 45.1 | 70.4 | 89.7 |
| 4. | Edible oils | 612.0 | 920.0 | 50.3 | 333.6 | 510.0 |
| 5. | Fertiliser crude | 131.1 | 138.4 | 5.6 | 65.0 | 70.8 |
| 6. | Fertiliser finished | 495.1 | 171.5 | —65.4 | 55.2 | 167.0 |
| 7. | Iron & steel | 1449.7 | 1273.2 | —12.2 | 558.3 | 784.3 |
| 8. | Medicinal & pharmaceutical products | 158.0 | 137.1 | —13.2 | 57.5 | 97.7 |
| 9. | Non-metallic mineral manuf. excluding pearls | 85.1 | 83.7 | —1.6 | 24.4 | 70.4 |
| 10. | Non-ferrous metals | 414.9 | 576.1 | 38.9 | 207.0 | 396.4 |
| 11. | Organic & inorganic chemicals | 1035.7 | 1050.5 | 1.4 | 459.0 | 908.0 |
| 12. | Paper, paper board & manufactures thereof | 194.8 | 258.1 | 32.5 | 93.9 | 139.8 |
| 13. | Pearls, precious & semi-precious stones | 1495.5 | 1994.2 | 33.3 | 946.7 | 1536.4 |
| 14. | Petroleum, petroleum products & related material (gross) | 2796.7 | 4082.8 | 46.0 | 1872.7 | 2105.2 |
| 15. | Professional, scientific, controlling instruments, photographic optical goods, watches and clocks | 455.6 | 490.6 | 7.7 | 211.4 | 307.7 |
| 16. | Synthetic & regenerated fibres | 44.1 | 28.4 | —35.6 | 11.2 | 16.8 |
| 17. | Others | 5198.4 | 4703.2 | —9.5 | 2543.7 | 2573.4 |
| | **Total Imports** | **20200.7** | **22399.0** | **10.9** | **10398.9** | **13164.3** |

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

'P' Means Provisional.

PR' Means Partially Revised

8.16. A graphic presentation of the commodity composition of imports during the last three years is given in the pie-chart. The share of the value of petroleum, oil and lubricants (POL) imports fell from 25.4 per cent in 1985-86 to 13.8 per cent in 1986-87 due to a crash in international oil prices. The share, however, increased to 18.2 per cent in 1987-88. While this rebound in share was partly due to higher unit price, it could also be attributed to increase in import volume by 21.1 per cent in 1987-88. In the first nine months of the current year POL imports have risen in value at a slower rate of 1.4 per cent as compared with an increase of 75.6 percent in the corresponding period of the last year. The lower rate of growth of POL imports in the current year has been mainly due to depressed international oil prices.

8.17 Non-POL bulk imports (comprising edible oils, fertilisers and fertiliser materials, iron and steel, sugar, paper, paper board and manufactures thereof and non-ferrous metals) increased by only one per cent in 1987-88 in value. In 1986-87 these imports had declined by 23 per cent. The decline in imports of fertiliser and fertiliser materials (by 37.1 per cent), iron and steel (by 12.2 per cent) and sugar (by 15.2 per cent) in 1987-88 was offset by increased imports of edible oils (50.3 per cent), non-ferrous metals (38.9 per cent) and paper, paper board and manufactures thereof (32.5 per cent). The pressure of non-POL items on total import bill has been substantial during the current year as in the first half of 1988-89 imports of non-ferrous metals have risen by 91.5 per cent, edible oils by 52.9 per cent, finished fertilisers by 202.5 per cent, iron and steel by 40.5 per cent and paper, paper board and manufactures thereof by 48.8 per cent.

8.18 The share of edible oils in total imports increased from three per cent in 1986-87 to 4.1 per cent in 1987-88 on account of an increase in value of imports by 50.3 per cent. This increase was both due to a larger volume of imports by 27.2 per cent and a higher unit value of imports by 18.2 per cent. Imports of edible oils in the first half of the current year were also higher in value by 52.9 per cent over the corresponding period of last year. Higher unit prices mainly contributed to this escalation in the imports of edible oils.

8.19 Imports of fertiliser and fertiliser materials showed a substantial decline for the second year in succession in 1987-88. These imports registered a fall by 37.1 per cent in 1987-88 (due mainly to a fall in the value of finished fertiliser imports by 65.4 per cent) on top of the decline of 46.1 per cent in 1986-87. This deceleration in 1987-88 was the result of a lower volume of imports by 24.2 per cent, following a huge inventory build-up and lower than expected increase in demand on account of widespread drought, and a 17.1 per cent fall in unit prices of these imports. The share of these items in total imports, therefore, declined from 3.8 per cent in 1986-87 to 2 per cent in 1987-88. The declining trend in fertiliser imports has been reversed in the current year with a sharp increase in the value of imports of finished fertilizers in the first half of the year by 202.5 per cent. A surge in demand following a strong recovery of agriculture from last year's drought has been the main reason behind increased fertiliser imports.

8.20 Iron and steel imports constituted about 7 percent of the total imports during the first two years of the Seventh Plan. This share declined to 5.7 per cent in 1987-88 with a fall in the value of these imports by 12.2 per cent. Reduced unit prices and lower volume contributed equally to the decline in iron and steel imports in 1987-88. However, during the first half of 1988-89 these imports have registered a sharp growth of 40.5 per cent over the corresponding period of last year.

8.21 The share of non-ferrous metals in total imports increased from 2.1 per cent in 1986-87 to 2.6 per cent in 1987-88 due to an increase in the value of these imports by 38.9 per cent. In the first half of the current year there has been a steep rise in imports of non-ferrous metals by 91.5 per cent over the corresponding period of last year, largely due to the unusually high prices prevailing in the international markets. Imports of sugar in 1987-88 were lower by 15.2 per cent due to increased domestic availability. The imports of paper, paper board and manufactures thereof increased by 32.5 per cent in 1987-88 as against a decline of 13.8 per cent in 1986-87. This increase in imports was contributed by both larger quantum of imports by 18.2 percent and higher unit value of imports by 12 per cent.

8.22 The imports of capital goods (inclusive of project goods) increased at a lower rate of 15 per cent in 1987-88 as against an increase of 27.6 per cent in 1986-87. There was an increase of one percentage point in their share in total imports to 28.1 per cent in 1987-88. The growth of these imports in 1987-88 was mainly due to increase in the import of project goods. During the first half of the current year capital goods imports have increased by 12.4 per cent over the corresponding period of last year.

8.23 The share of pearls and precious/semi-precious stones in total imports increased from 7.4 per cent in 1986-87 to 8.9 per cent in 1987-88 as their imports registered an increase of 33.3 per cent during the year. The increase in imports of these items is directly reflected in higher exports of cut and polished diamonds. The share of cereals and cereal preparations in total imports declined further to 0.1 percent in 1987-88 due to a decline in the value of these imports by 30.5 per cent. There was a fall in the volume of cereal imports during the year by 47.6 per cent as the Government decided to distribute more foodgrains from its own stocks rather than immediately increase imports in the wake of the drought. There was a marginal increase in the share of imports of chemical materials and products to 0.8 per cent of total imports due to increase in its value of imports by 45.1 per cent in 1987-88. Among the residual imports, major items registering high growth rates included textile yarn, fabrics and made up articles (50.6 percent), raw wool (41.7 per cent), artificial resins and plastic material, etc. (25.8 per cent), metalliferrous ores and metal scrap (14.8 per cent), dyeing, tanning and colouring material (10 per cent) and professional, scientific, controlling instruments, photographic and optical goods, watches and clocks (7.7 per cent).

*Sources of Imports*

8.24 The composition of imports by source during the last three years is presented in the chart. The share of OECD countries in total imports declined from 64.2 percent in 1986-87 to 59.8 per cent in 1987- 88 as imports fell by 12.1 per cent from Asia and Oceania. The share of OPEC in total imports, on the other hand, increased from 9.6 per cent in 1986-87 to 14.8 per cent in 1987-88 as imports from Iraq, Kuwait and Saudi Arabia increased due to the rebound in international oil prices. The share in total imports of Eastern Europe also increased from 7.7 per cent in 1986-87 to 8 per cent in 1987-88 as imports from this region increased by 15.7 per cent in 1987-88. However, the share of developing countries (non-OPEC) in total imports declined from 18.5 per cent in 1986-87 to 17.3 per cent in 1987-88, following a decline in imports from Africa by 22.7 per cent.



8.25 Japan, which was the single largest source of India's imports in 1986-87, recorded a drop in her share in total imports to 9.5 per cent in 1987-88 following a decline in imports by 17.2 per cent in 1987-88. Imports from USA during the year increased only by 3.3 per cent leading to further fall in its share of total imports from 9.7 per cent in 1986-87 o 9 per cent in 1987-88. The share in total imports of USSR, however, moved up from 5 per cent in 1986-87 to 5.7 per cent in 1987-88, due to an import growth of 26 per cent in 1987-88. The increase in imports in 1987-88 was the highest (70.3 per cent) from OPEC countries reflecting the recovery in oil prices. The share of the U.K. in total imports moved up from 6.4 percent in 1985-86 to 8.1 per cent in 1987-88. The Federal Republic of Germany, imports from which increased by 12.4 per cent in 1987-88, emerged as the single largest source of India's imports with its share in total imports at 9.7 per cent in 1987-88.

### Exports

8.26 Exports have been buoyant and have recorded accelerated growth in the last two years. In 1987-88, according to partially revised data of DGCI&S, exports in rupee terms increased by 26.4 per cent on top of an increase of 14.3 per cent achieved in 1986-87. In US dollar terms the increase in exports in 1987-88 amounted to 24.6 per cent as compared to an increase of 9.4 per cent in 1986-87. The increase in exports during

1987-88 was mainly concentrated in the manufacturing sector, more than two-thirds of the total increase in exports being accounted for by thrust sectors, such as, readymade garments, cotton fabrics, yarn, made ups, etc., chemicals and allied products, engineering goods, gems and jewellery and leather and leather manufactures. There were increases in the exports of some other sectors as well, such as, handicrafts, petroleum products, handmade carpets, sports goods, tea and spices. Exports of a number of items, specially agro-based items, suffered a decline due partly to the drought conditions prevailng in 1987-88.

8.27 Information on volume growth of exports, which is compiled by DGCI&S, Calcutta, is available only upto 1985-86, i.e. the first year of the Seventh Plan. Quantum index for exports shows that volume of exports in 1985-86 declined by 7.9 per cent largely due to a virtual cessation of crude petroleum exports in 1985-86, which had attained a peak level of 6.5 million tonnes in 1984-85. Excluding crude oil, the volume growth of exports in 1985-86 is estimated to be about 4.6 per cent. According to very rough and preliminary estimates volume growth of exports was of the order of 8 to 10 per cent in 1986-87 and 10 to 12 per cent in 1987-88 . This contrasts with average annual volume growth of exports of 2.6 per cent achieved during the Sixth Plan period.

8.28 During the first nine months of the current financial year exports, on a provisional basis, have shown a healthy growth of 24.4 per cent compared with a marginally higher increase of 24.7 per cent in the same period last year. In terms of US dollars, exports increased by 13.3 per cent during April-December, 1988 as against an increase of 22.4 per cent during the corresponding period of 1987-88. The commodities continuing to show good performance during the first half of 1988-89 (commodity group-wise details of which are available) are gems & jewellery, chemicals and related products, leather and leather manufactures, engineering goods, textiles, handicrafts, tea, rice, sports goods and spices. The trend of declining exports of coffee, tobacco, cashew kernel, oil meals and raw cotton also continued during the first half of the current year. However, the rising trend in exports of wheat and petroleum products in 1987-88 was reversed in the first six months of the current year.

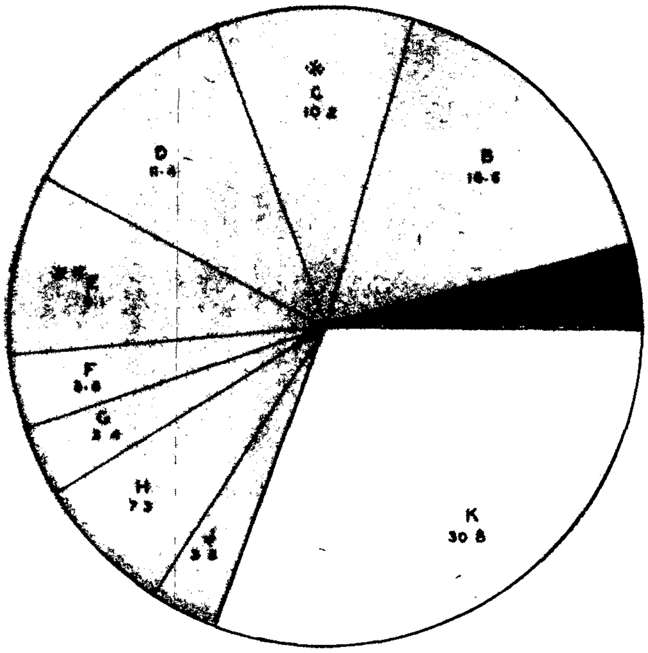
8.29 The composition of exports by major commodity groups in recent years is shown in table 8.6 and in the pie chart. In the plantation sector the increase in exports of tea in 1987-88 was offset by a fall of almost equal size in the exports of coffee. Tea exports in 1987-88 increased by 2.7 per cent as compared to a decline of 7.9 per cent in 1986-87. The increase in 1987-88 was contributed mainly by a volume increase of 2.5 per cent in contrast to declines both in volume and unit prices in 1986-87. Exports of coffee, after increasing steadily in the first two years of the Seventh Plan, declined in 1987-88 by 11.3 per cent. There was an increase of 20.8 per cent in the volume of exports of coffee during 1987-88, but in value there was a decline on account of a crash in international coffee prices with unit value realisation dropping by 26. 6 per cent. In order to achieve a quantum jump in tea exports, Government has given various concessions like allowing full rebate of excise duty on exportable teas, abolition of excise duty on green tea and introduction of a subsidy scheme on incremental exports for South Indian tea to selected countries. Promotional measures have also been taken to raise exports of bulk and value added teas in non-traditional markets. Many tea processing and packaging machines have been placed under Open General Licence (OGL) with nominal duties. The REP rates have been increased. Leading producers and exporters of tea have been asked to make their production and export plans as a part of their corporate plan. The trend in the first half of 1988-89 reveals an increase in tea exports by 5.1 per cent over the corresponding period of last year. However, exports of coffee during the same period have declined by 15.5 per cent due to a reduced volume of exports by 26.2 per cent. The share of India in global quota for coffee has been enhanced from 1.46 per cent in 1987-88 to 1.65 per cent in 1988-89 . For boosting coffee exports Government have abolished export duty on coffee and introduced a revised procedure for fixing minimum release prices.

# COMPOSITION OF INDIA'S EXPORTS

(IN PER CENT)

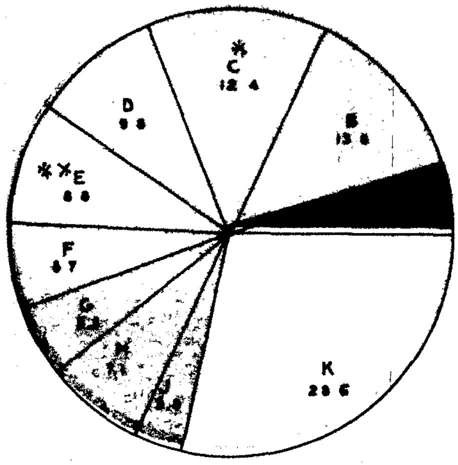
A — PETROLEUM PRODUCTS
B — GEMS AND JEWELLERY
* C — EIGHT IMPORTANT AGRO-BASED COMMODITIES
D — READYMADE GARMENTS
** E — ENGINEERING GOODS
F — TEA AND MATE
G — IRON ORE
H — LEATHER AND LEATHER MRFS. (INCLUDING FOOTWEAR)
J — FISH AND FISH PREPARATION
K — OTHERS

## 1987-88



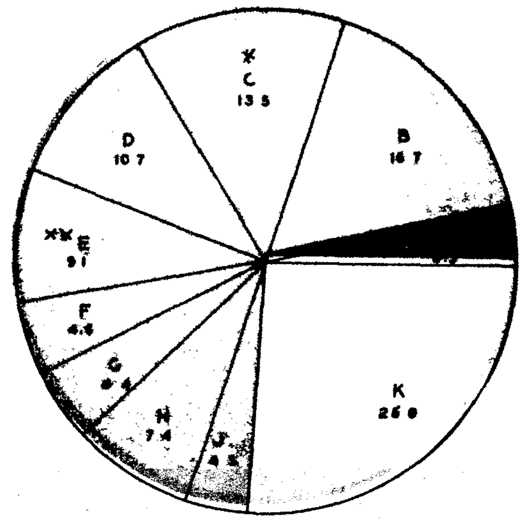

RS 15741 CRORES

## 1985-86




RS. 10895 CRORES

## 1986-87




RS. 12452 CRORES

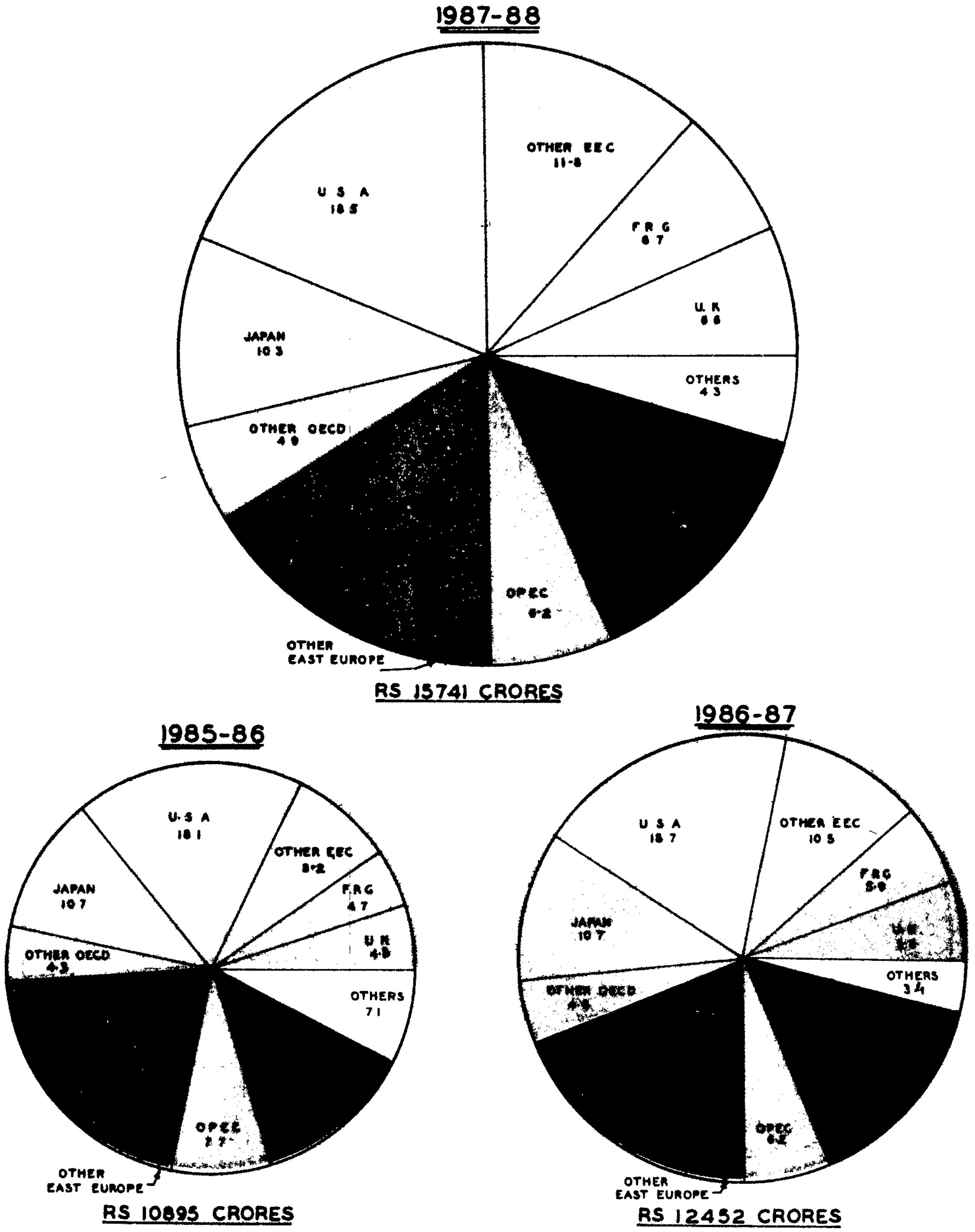
* INCLUDE COFFEE AND COFFEE SUBSTITUTES, CASHEW KERNELS, RAW COTTON, OIL CAKES, RICE, SUGAR, TOBACCO AND SPICES.
** INCLUDE MACHINERY AND TRANSPORT EQUIPMENT AND METAL MANUFACTURES INCLUDING IRON AND STEEL.

MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP(PLU)MRND-449/1Ec.Affair/88-89

# DESTINATION OF INDIA'S EXPORTS

(IN PER CENT)




MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP(PLU)MRND-449/1/Ec.Affairs/88-89

TABLE 8.6

*Exports by Major Commodity Groups*

(Value in Rs. Crores)

| Sl. No. | Commodity | 1986-87 (PR) | 1987-88 (PR) | %age change 1987-88 / 1986-87 | April–September (P) 1987 | April–September (P) 1988 |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. | Cashew kernels | 327.6 | 306.7 | –6.4 | 212.2 | 154.0 |
| 2. | Coffee & coffee substitutes | 296.7 | 263.2 | –11.3 | 166.7 | 140.9 |
| 3. | Fish and fish preparations | 539.0 | 525.1 | –2.6 | 258.0 | 290.6 |
| 4. | Oil cakes | 189.8 | 173.3 | –8.7 | 80.1 | 79.8 |
| 5. | Raw cotton | 204.7 | 95.5 | –53.3 | 83.8 | 13.5 |
| 6. | Rice | 197.3 | 324.6 | 64.5 | 145.6 | 155.1 |
| 7. | Spices | 279.0 | 309.3 | 10.8 | 146.6 | 155.7 |
| 8. | Sugar | 1.4 | 0.8 | –47.2 | 0.2 | 0.6 |
| 9. | Tea & mate | 576.8 | 592.4 | 2.7 | 267.1 | 280.9 |
| 10. | Tobacco | 185.3 | 134.6 | –27.4 | 103.6 | 76.3 |
| 11. | Iron ore | 546.6 | 542.8 | –0.7 | 251.0 | 282.7 |
| 12. | Engineering goods* | 1132.7 | 1433.0 | 26.5 | 606.9 | 961.8 |
| 13. | Chemicals & allied products | 583.2 | 823.4 | 41.2 | 329.7 | 687.5 |
| 14. | Cotton fabrics | 637.3 | 1063.8 | 66.9 | 466.3 | 503.5 |
| 15. | Jute manufactures | 244.0 | 242.8 | –0.5 | 101.3 | 110.3 |
| 16. | Leather & leather manufactures incl. footwear | 922.4 | 1148.5 | 24.5 | 491.3 | 695.6 |
| 17. | Readymade garments | 1330.5 | 1792.1 | 34.7 | 779.4 | 879.8 |
| 18. | Handicrafts | 2547.6 | 3253.3 | 27.7 | 1522.5 | 2227.6 |
| | Of which : | | | | | |
| | Gems and jewellery | 2074.3 | 2613.5 | 26.0 | 1251.2 | 1845.4 |
| 19. | Others | 1710.5 | 2716.2 | 58.8 | 1399.0 | 1291.0 |
| | Of which : | | | | | |
| | Petroleum Products | 411.2 | 648.7 | 57.8 | 373.1 | 253.6 |
| | **Total Exports** | **12452.4** | **15741.2** | **26.4** | **7411.3** | **8986.9** |

*Includes machinery and transport equipment and metal manufactures including Iron and steel

–P' Means Provisional

–PR' Means Partially Revised

8.30 The share of exports of eight important agro-based commodities taken together (coffee, oil cakes, tobacco, cashew kernel, spices, sugar, raw cotton and rice) in total exports declined from 13.5 per cent in 1986-87 to 10.2 per cent in 1987-88 largely due to decline in the volume of exports of these commodities (except in the case of coffee and rice). Reduced exportable surpluses in the wake of drought in 1987-88 largely explain the depressed export performance of these commodities. Exports of cashew kernel declined by 6.4 per cent in 1987-88 as against an increase of 45.5 per cent in 1986-87, mainly due to a fall in the volume of exports by 16 per cent. The decline by 8.7 percent in the value of exports of oil cakes in 1987-88 was largely as a result of reduction in its volume of exports by 34.5 per cent. A fall in the volume of exports of raw cotton by 63.9 per cent contributed to a decline in its value exports by 53.3 per cent in 1987-88. Exports of spices in 1987-88 increased in value by 10.8 percent but in volume these exports were lower by 14.3 per cent. A decrease in volume by 25.8 per cent and a drop in unit value realisation by 28.9 per cent resulted in a decline of 47.2 per cent in the value of sugar exports during 1987-88. Tobacco exports also suffered a decline of 27.4 per cent in 1987-88 on account of a decline in its volume of exports by 14.4 per cent and a fall in unit price realisation by 15.1 per cent. There was, however, a substantial increase of 64.5 per cent in the exports of rice in 1987-88 as the quantity exported increased by 49.7 per cent over the quantity exported in 1986-87. The declining trend in exports of cashew kernels, raw cotton, oil meals and tobacco and the rising trend in the exports of rice and spices witnessed in 1987-88 has continued int hefirst half of the current year. The declining trend in the exports of sugar has been reversed during the first six months of 1988-89.

8.31 Exports of marine products in 1987-88 registered a decline of 2.6 per cent. In 1986-87, these exports had recorded a high growth rate of 31.8 per cent. Unit value realisation in 1987-88 was higher by 10.1 per cent but volume declined by 11.5 per cent. The share of marine exports in total exports, therefore, decreased from 4.3 per cent in 1986-87 to 3.3 per cent in 1987-88. Lack of adequate and steady production seems to be the major constraint in increasing exports of marine products. Tapping of fresh sources for shrimp catches (which is the main item in the exports of marine products), augmenting production of value-added items by modernising the seafood processing industry, diversification of exports market (especially to Western Europe) and fuller exploitation of fishing areas in the Economic Zone would help in expanding exports of these products. These exports during April-September, 1988 increased in value by 12.6 per cent.

8.32 Iron ore exports have remained depressed in the last two years at around Rs.545 crores after attaining a peak of Rs. 579 crores in 1985-86. There was a marginal decline in the volume of exports in 1987-88 which was somewhat neutralised by an increase in the unit value realised during the year. Sluggish demand abroad continues to affect mineral exports. Lower lifting by some of our major importers has been one of the reasons for stagnation in our iron ore exports. The relatively high freight and port charges also continue to affect the profitability of these exports. The declining trend in iron ore exports was however reversed in the first half of 1988-89 with an increase of 12.6 per cent in these exports over the corresponding period of last year.

8.33 Exports of engineering goods (including exports of iron and steel) recorded an increase of 26.5 per cent in 1987-88 registering a new peak of Rs. 1433 crores. The share of these exports in total exports during the last two years has been 9.1 per cent. The rising trend has continued in the current financial year with engineering goods exports in the first half of 1988-89 rising by 58.5 per cent over the corresponding period last year. The surge in these exports in 1987-88 could be partly due to the depressed domestic market conditions in a drought year and partly because of the numerous initiatives taken by the Government to promote engineering exports. However, the high and rising prices of non-ferrous metals in the international market continue to be a significant constraint on the export performance of this sector.

8.34 Chemical and allied product exports are fast emerging as an important non-traditional export sector. In 1987-88 these exports recorded a high growth of 41.2 per cent as against a lower growth rate of 17.2 per cent in the preceeding year. Export prospects of this hetrogenous sector are encouraging, specially for drugs and pharmaceuticals, dyes and basic chemicals on account of various incentives extended by the Government. This is evident from the high growth rate of 108.5 per cent recorded in these exports during April-September, 1988.

8.35 Leather and leather manufactures is another important thrust sector. This traditional sector performed remarkably well in 1987-88 with exports rising by 24.5 per cent compared to a smaller increase of 19.8 per cent in 1986-87. However, the share of these exports in total exports declined marginally from 7.4 per cent in 1986-87 to 7.3 per cent in 1987-88. The rising trend has been maintained in the current year with exports during April-September, 1988 increasing by 41.6 per cent over the corresponding period of last year. Various measures to facilitate easy access to essential inputs have been taken by the Government in order to promote exports of value-added leather products. These measures include continued duty-free imports under OGL of hides and skins and leather and concessional duties on import of machinery, raw materials and consumables required by the leather sector.

8.36 Exports of readymade garments accounted for 11.4 per cent of the total exports in 1987-88. The performance of this sector has been remarkable in recent years with exports rising from Rs. 725 crores in 1983-84 to Rs.1792 crores in 1987-88. In 1987-88 exports of readymade garments recorded an increase of 34.7 per cent on top of an increase of 24.7 per cent in 1986-87. Exports to the European Common Market and other quota countries have shown significant expansion in recent years. The first half of the current year reveals a growth in garment exports of 12.9 per cent over the corresponding period last year. In view of quota restrictions further expansion of exports would require moving into high value items within quota restraints, increasing non-quota items to quota markets wherever possible and making a more determined effort in non-quota markets. Some steps have already been taken in this direction by giving higher CCS for market development to individual items to non-quota markets. A blanket import-export pass book scheme has also been launched to provide garment exporters with basic imported inputs at international prices.

8.37 In gross terms, the gems and jewellery sector is the single largest foreign exchange earner and accounted for 16.6 per cent of total exports in 1987-88. These exports have increased by nearly 75 per cent in the last two years rising from a level of Rs.1503 crores in 1985-86 to Rs.2614 crores in 1987-88. This rising trend has spilled into the current year also with exports in the first half increasing by 47.5 per cent over the corresponding period of last year. Exports of cut and polished diamonds constitute the bulk of these exports. This impressive performance reflects in part good response of the industry to the measures aimed at improving access and terms of import of machinery and equipment. Exports of jewellery are being encouraged in view of their relatively high value-added nature. The new trade policy has introduced REP facility in this sector and allows more liberal wastage norms. Government have also approved setting up of jewellery units in Free Trade Zones. The provisions of the Gold Control Act and its administrative machinery have been liberalised for promoting exports of gold jewellery.

8.38 Exports of projects and services, broadly comprising construction and civil engineering projects, industrial turnkey projects and consultancy services, have also been identified as one of the thrust industries having a good export potential. In order to promote exports of projects and consultancy, 50 per cent subsidy is provided to exporters for submission of tenders. Provision also exists for subsidy on establishing consultancy offices abroad for a period of five year, and project assistance of 10 per cent for consultancy exports has been introduced.

8.39 There was a boom in construction project opportunities in the oil producing countries of West Asia after the oil price increase in early Seventies. However, fall in oil revenues of OPEC members, intense competition in Gulf and African countries, the prolonged conflict between Iran and Iraq and foreign exchange problems faced by many African countries have led to a decline in construction projects in the last few years. Nevertheless, the value of projects secured in 1986 at Rs. 525 crores was almost double the value of contracts secured in 1985 at Rs. 265 crores. Construction activity may further pick up during the current year with the cessation of the Iran-Iraq war.

8.40 The market for turnkey projects is more diversified but the total value of contracts secured by Indian companies is very small. 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. Similarly, the share of India in consultancy services in the international market is very small though our companies have made a beginning in developed countries also.

8.41 Overall export performance in the last two years and the first nine months of the current financial year has thus been very strong. The export-import ratio improved from 55.4 per cent in 1985-86 to 70.3 per cent in 1987-88. However, this ratio has deteriorated during the first nine months of the current year to 67.8 per cent due to a sharp increase in imports during this period. Sustaining the present dynamism on export front in years ahead will have to be the key feature of the balance of payments management. A more careful management of imports would also be required. While a liberal import policy is desirable in the interests of a competitive environment, liberal imports should be adequately supported by dynamism on the export front. Such an export push is essential not only to finance critical imports and keep the trade deficit within manageable limits but is also vital to maintain the medium term viability of the balance of payments.

*Direction of exports*

8.42 The composition of exports by destination from 1985-86 to 1987-88 is given in the pie chart. The destination wise pattern of exports over these years shows an increase in the share of OECD in total exports, from 50.8 per cent in 1985-86 to 58.8 per cent in 1987-88 and a corresponding decline in shares of Eastern Europe and 'others'. Thus a little over half of the exports have gone to OECD countries in the last two years, a shade less than a fifth to Eastern Europe, about a seventh to developing countries (non-OPEC) and a sixteenth to OPEC.

8.43 The share of exports to OECD countries increased from 50.8 per cent in 1985-86 to 58.8 per cent in 1987-88 mainly due to increased share of EEC from 17.7 per cent to 25.1 per cent during this period. During 1987-88 exports to OECD increased by 32.2 per cent whilst exports to EEC rose by 44.7 per cent. The share of exports to USA in total exports declined marginally from 18.7 per cent in 1986-87 to 18.5 per cent in 1987-88 as growth in exports to the USA during the year increased by 24.7 per cent. As exports to USSR in 1987-88 increased by only 5.6 per cent, its share in total exports declined to 12.5 per cent. Consequently, the share of exports to Eastern Europe in total exports also declined from 19.2 per cent in 1986-87 to 16.5 per cent in 1987-88. The share of developing countries (Non-OPEC) in total exports also declined from 15 per-cent in 1986-87 to 14.2 per cent in 1987-88. There was no change in the share of OPEC in total exports which remained at 6.2 per cent during the last two years. Whereas the share in total exports of the Federal Republic of Germany and the U.K. increased to 6.7 per cent and 6.6 per cent respectively in 1987-88 that of Japan declined marginally from 10.7 per cent in 1986-87 to 10.3 per cent in 1987-88.

**Export Promotion Measures and Developments in Trade Policy**

8.44 The Government have introduced a number of measures to facilitate capacity expansion for export production, upgrade technology, make export sector more competitive through improved access to capital goods and raw materials at or near international prices, and provide additional fiscal and monetary incentives for exports. Apart from supporting the export effort in general, thrust areas have been identified in terms of products, sectors and industries with good export potential. Special action plans have been prepared for these identified sectors in order to strengthen their medium and long term export prospects.

*Import-Export Policy for* 1988-91

8.45 Prior to 1985-86, the annual import-export policy was announced at the beginning of the financial year. In 1985-86, however, a stable policy framework was provided by having a three-year import-export policy, covering the period April 1985 through March 1988. On its expiry, the new policy for three years, 1988-91, was announced in March, 1988. The new policy lays even greater emphasis on promotion of exports. A significant feature of the new policy is the provision for 'flexibility' in regard to the Replenishment (REP) Licences, which continue to be freely transferable. REP licences are now automatically endorsed for a certain degree of flexibility permitting import of limited permissible and canalised items. The range of export products qualifying for import replenishment has also been widened.

8.46 The Registered Exporters can avail of the Duty Exemption Scheme under which they can obtain the necessary inputs for export production at international prices without payment of customs duty so as to make the exports competitive in the international market. The scheme covers three categories of licences : (1) Advance Licences, (2) Intermediate Advance Licences and (3) Special Imprest Licences. A licence issued under this scheme to a Registered Exporter is subject to Actual User conditions. Exempt material imported by a Registered Exporter, when given to supporting manufacturers for production as prescribed in the scheme, is also subject to Actual User conditions. The scope of the Intermediate Advance Licencing Scheme which was hitherto limited to only a few specified products has now been extended to cover all items where two-stage operation is conceivable.

8.47 Other important changes introduced in the three-year policy include the following :

(i) 99 items of machinery have been added to the list of Open General Licences. These capital goods relate to the electronics, the silk and the tea sectors.

(ii) Export-oriented firms which sell 25% of their production abroad subject to a minimum of Rs. 1 crore, or units with export achievement of a minimum of Rs. 10 crores will be allowed imported capital goods on merit, notwithstanding their indigenous availability, provided that there is a direct nexus between the capital goods sought to be imported and the exported products.

(iii) The Import-Export Pass Book Scheme has now been extended to manufacturers having a three year average turnover of Rs. 15 crores or more.

(iv) The scheme of Export Houses and Trading Houses has been modified to provide more facilities and incentives.

(v) It has been decided to grant Diamond Imprest Licences for diamonds without Actual User conditions in order to assist numerous independent small units engaged in the cutting and polishing activity.

(vi) Export licences which were earlier valid for 45 days will now have a validity period of six months or upto 31st March of the licensing year, whichever is earlier.

(vii) The number of items exports of which are permitted under specified conditions has been reduced from 107 to 67. Export of 69 items has been totally decontrolled.

8.48 Subsequent changes in Three-Year Trade Policy (1988-91) : With a view to promote industries with promising export possibilities, import of 27 items of machinery required for the manufacture of bicycles and components thereof, 10 items of textile machinery, one machinery item each required for the silk industry and for the woollen industry were included under Open General Licence. The Technical Development Fund created to promote technological upgradation and modernisation provides for import of machinery and technical know-how. The aggregate foreign exchange that can be financed for any unit under the scheme has been enhanced from US Dollar equivalent of Rs. 1.25 crores per year to Rs. 2 crores per year. The following further important changes were introduced, subsequent to the announcement of the three-year policy, in the interest of export promotion :

(i) REP and Additional licences issued to Export Houses and Trading Houses on their exports have been made valid for import of samples.

(ii) Additional licences issued to Export Houses and Trading Houses for the periods prior to 1988-89 have been made freely transferable without Actual User condition, like the Additional licences for 1988-89 onwards.

(iii) The procedure for the grant of Intermediate Advance licences and for the execution of the corresponding Bond and Bank Guarantee/Legal Undertaking has been simplified.

(iv) Exports of automobiles have been made eligible for the grant of flexibilities at higher levels when made both under the normal REP scheme and the Duty Free Schemes.

(v) Scope of the Import-Export Pass Book has been widened to cover the Merchant exporters in the garment sector.

8.49 Various other export promotion measures initiated during the past couple of years are discussed below under three major heads : measures relating to fiscal and monetary policies, measures relating to industrial licensing policy and institutional measures.

*I. Measures relating to Fiscal and Monetary Policies :*

(a) Cash Compensatory Support (CCS) Scheme : Compensation under this Scheme is given to the exporters for unrebated indirect taxes on inputs of exported products and certain other specified disadvantages. Under the scheme approximately 260 items have been granted CCS in eight product groups; viz. engineering goods, chemicals and allied products, plastic goods, agricultural products and processed food items, leather goods, sports goods, textile and handicrafts. In addition to the physical exports, benefit of CCS is provided to 'deemed' exports. The practice of making proportionate reduction in the CCS rates in individual cases where advance/imprest licences are issued for a value higher than normal REP has been discontinued from July 1987, though the ceiling of 25 per cent of value-added has been continued. Additional items have been identified for grant of CCS from time to time, as and when felt necessary.

(b) Drawback : The Govenment have accepted in principle that there should be full remission of excise duties and domestic taxes on exported goods. The remission is to be worked out on a case by case basis. The drawback rates for various export items were reviewed in June, 1988. Special attention was paid to thrust industries which have considerable exports or export potential and whose inputs bear duties to a significant extent. Also, a number of new items have been identified for drawback rates for the first time. Some of the basic features of the revised Drawback Schedule that came into force from June 1, 1988 are indicated below :

(i) Significant improvements in rates have been effected for a number of export products. Items where enhanced rates now have been fixed (with increase of more than 10 per cent over the earlier rates) include a number of products of the food processing industry, a large number of engineering products, a number of items of interest to the electronic industry, certain categories of paints and pigments, items of interest to the woollen sector and a number of miscellaneous products like cricket bats, sports gloves, perfumed aggarbattis, aluminium utencils, etc.

(ii) All Industry Rates of Drawback have been fixed for the first time to give thrust to the export of specified electronic items.

(iii) To obviate the need for fixing brand rates where an exporter avails himself of Advance Licence/Import-Export Pass book Scheme benefits, provision has been made in the schedule itself, as a measure of simplification, for drawback to be granted at appropriate rates in a number of cases.

(c) The scheme of duty drawback also provides to the exporters an option to seek special drawback rates for individual products, termed brand rates, if there are no all-industry rates for the products or where the all-industry rates do not compensate them adequately for the duties actually imposed on the inputs used in the export product. Under the brand rate facility, drawback is paid after pre-verification of exporters' data on imports and duties. The Government introduced a simplified brand rate fixation facility in October, 1988. Under the facility there will be no pre-verification of the claim, provided the data are certified by an independcnt chartered engineer, cost accountant or charactered accountant. This facility, available initially for eablished manufacturer-exporters of engineering goods, electronic items and chemicals, cuts down delays in pre-verifying data by the customs and excise department.

(d) MODVAT : Introduced in 1986-87 Budget, the MODVAT covered 38 chapters of the excise tariff. It was extended to all the remaining chapters, except a few, such as, textiles, tobacco and the petroleum products, in 1987-88. The MODVAT scheme reduces the distortions in the production structure by mitigating the cascading effect of taxes on inputs, makes the incidence of indirect taxation more transparent, and helps in reducing costs and prices which would make export more competitive in international markets.

(e) Interest concession on term loans to Export-Oriented Units (EOUs) : All India financial institutions (IDBI, IFCI, ICICI and IRBI) accord special consideration to export-oriented projects. These institutions have been operating a scheme for extending to 100 per cent

EOUs a rebate of 1.5 per cent on the applicable rate of interest on rupee loan assistance upto Rs. 4 crores for the first five operating years from the date of commercial production, depending on their actual performance in meeting the export obligations/projected levels of exports in each year. With a view to giving further boost to exports, a new scheme of providing incentives to industrial concerns for increasing export of their own manufactured goods in the form of rebates of interest on rupee loans has been introduced by these institutions since December 1, 1986. Hotel industry is also eligible for incentives under this scheme, effective from March 24, 1987. For the purpose of extending the incentive under the new scheme, EOUs have been classified into two categories, viz. (i) units with export sales reaching or exceeding 25 per cent of total sales, and (ii) 100 per cent EOUs. Thus, units exporting only part of their production have also been made eligible for receiving the benefit of interest rebate. Also, the limit of Rs. 4 crores on the amount of assistance eligible for rebate has been dispensed with. This export incentive scheme will be in operation upto the end of March 1990.

(f) Interest concession on pre-shipment and post-shipment credit : The structure of interest rates was rationalised in March 1986. Further reductions in rates were effected in August 1986. The two revisions together resulted in a significant lowering of interest rates for a large part of export credit, the reductions ranging from 2.5 to 4.5 percentage points. It was announced at the time of budget presentation in February 1988 that all products shall be eligible for pre-shipment and post-shipment credit at the concessional rate of 9.5 per cent for a period of 180 days.

(g) The Export-Import Bank of India (Exim Bank) has been supporting suppliers' credit and providing buyers' credit to facilitate exports. The suppliers' credit occurs when Indian exporters offer credit directly to the overseas importers. The buyers' credit occurs when the Exim Bank directly lends to an overseas buyer. Substantial reductions have been made in the lending rates of the Exim Bank during the past few years. In 1983 the lending rate was reduced from 9.25 per cent to 9 per cent. It was further reduced to 8.5 per cent in 1986. Under the latest revision made in March 1988, the new interest rate for suppliers' credit will be 7.50 per cent per year. The revised rate for buyers' credit will be 7.50 per cent per annum with an annual service charge of 0.5 per cent per annum and a commitment fee of 0.5 per cent per annum.

(h) Supply of diesel at international rates: Government have decided that units exporting 25 per cent or more of their production and which have installed power generating sets for captive use should be supplied diesel oil at prices comparable to international prices. The difference between the market price of diesel and its international price, on a proportionate basis, is re-imbursed to the exporting units at the end of the financial year, after reckoning the export performance. Glass and ceramic industry is similarly being provided furnace oil at below-market rates as a measure of export promotion.

(i) Blanket Exchange Permit Scheme: The new broad-based Blanket Exchange Permit Scheme which was introduced in June 1987 was further liberalised. The new scheme is more broad-based and flexible both in regard to eligibility of exporters and the purposes for which foreign exchange can be drawn by holders against their blanket permits. Under the scheme exporters are allowed, barring a few products, to utilise 5-10 per cent of their foreign exchange earnings for undertaking export promotion activities. Consequent on the policy on Computer Software Exports, Software Development and Training announced by the Government of India in December 1986, exporters of computer software have been made eligible for issue of blanket exchange permits for amounts upto 30 per cent of the net foreign exchange earned on account of exports of computer software during the previous year for meeting foreign exchange expenditure on purposes like business travel abroad, procurement of drawings/designs and payment of agency commission.

(j) Pre-bid clearance for deferred payment terms: In a drive towards further liberalisation of exchange control procedures, RBI has permitted the EXIM Bank to grant pre-bid clearance upto Rs. 20 crores (instead of the earlier limit of Rs. 5 crores) for bids/offers for export of engineering goods on deferred payment basis.

(k) International Price Reimbursement Scheme (IPRS): Under this scheme exporters of engineering goods are reimbursed the difference between domestic and international price of steel used in the manufacture of export items. Subsidy on rubber supplied to exporters of rubber products has been increased from Rs. 4500 per tonne to Rs. 6000 per tonne. Supplies of indigenous aluminium are being made available for production of value-added aluminium products for export. Commercial banks have been permitted to grant advances to exporters against such receivables from the Government at concessional rates of interest. A scheme of supply of levy cement for export production of cement based products, such as, mosaic and terrazze tiles, cement asbestos pipes, etc. has also been introduced.

(l) Liberal norms of agency commission: The Government have announced liberalised norms with regard to agency commission payment by exporters—upto 7.5 per cent in the case of non-select products and 12.5 per cent for select products. Even higher agency commission may be allowed on approval by the concerned export authority or the Government.

(m) Productivity Fund: A Productivity Fund was established from an allocation of US $ 10 million out of a line of credit of US $ 250 million provided by the World Bank for the Industrial Export (Engineering Products) Project. This fund, managed by ICICI, is meant for assisting export thrust industries, such as, engineering and electronics for improving product design, production methods, productivity, quality control, maintenance systems and for upgradation of technology. Exporters who are eligible for assistance under the Productivity Fund would now be considered for issue of blanket permits under the scheme for foreign exchange expenditure towards various purposes approved under the Fund, subject to the terms and conditions laid down in the letters issued to these exporters by the ICICI.

(n) The 1988-89 Budget included the following major incentives for exports:

—Export profits were exempted hundred per cent from income tax under section 80 HHC. The benefit has also been extended to the supporting manufacturers exporting through Trading or Export Houses.

—The benefit of Five-Year tax holiday, available for units in FTZs, has been extended to 100 per cent EOUs.

—All products were made eligible for pre-shipment and post-shipment credit at concessional rates of 9.5 per cent for a period of 180 days.

*II. Measures relating to Industrial Licensing Policy*

(a) Various steps have been taken since 1985-86 to delicence various industries, permit 'broadbanding' in many industries and to raise the threshold limit of assets for definition of large houses covered under the MRTP Act. All these initiatives and other general industrial policy measures can be expected to impact favourably on export performance via improvements in general industrial competitiveness and efficiency.

(b) The statement on Industrial Policy of 1980 stated that the Government would 'sympathetically' consider requests for setting up 100 per cent EOUs, expansion of existing units exclusively for purposes of export, and allowing higher production for exploiting fully the emerging exporting opportunities. In 1981 it was decided to exempt industrial undertakings from obtaining licences for production in excess of the licensed capacity if such additional production was intended entirely for export. MRTP/FERA companies are normally allowed to set up fresh capacity only in Appendix-I industries. However, they may be permitted to take up manufacture of items which fall outside Appendix-I, if they undertake export obligation of 60 per cent. Similarly, the policy for drugs and pharmaceutical industry, announced in December 1986, provided that for export production all companies would have total flexibility to produce any product with their existing facilities. A further liberalisation in the licensing policy was announced in November, 1987 when the Government announced complete exemption from the requirement of obtaining an industrial licence for fulfilling a one-time firm export order.

(c) Readymade Garments: Readymade garments are to be allowed to use foreign brand names subject to the condition that only indigenous fabrics are used and at least 75 per cent of the production is exported. However, no royalties are allowed to be sent out of the country on the domestic sales.

*III. Institutional Measures:*

(a) New institutions set up to provide export backup assistance include the Agricultural and Processed Food Products Export Development Authority and the Spices Board. A Leather Design and Training Institute has been incorporated, a separate council for promoting export of handicarfts formed, and the Electronics Export Promotion Council registered.

(b) The four new Export Processing Zones at Madras, Falta, Noida and Cochin have become operational with some units going into production and exports. Government are also considering a proposal for a possible export processing zone at Vishakapatnam.

(c) Parameters of policy for 100 per cent EOUs for deep sea fishing have been finalised and 148 proposals for such units have been cleared.

(d) Government of India have supported the innovative concept of establishing technology parks in India for export of computer software through satellite data link. So far Government have approved establishment of such parks at Bangalore, Nilgiri, Hyderabad and Pune. These parks are given the status of mini export processing zone, under which an entrepreneur can establish a base for undertaking software development on 100 per cent export basis. As per the present foreign investment policy in force, technology park units can be 100 per cent owned by a foreign company. No customs duty is charged on the imports into technology parks since the same are enjoying the status of Export Processing Zone.

(e) 100 per cent EOUs: A number of initiatives have recently been taken to improve the performance of 100 per cent EOUs:—

—It has been decided that case by case and on merits 100 per cent EOUs, including the units located in the Export Processing Zones, would be permitted to sell upto 25 per cent of their production in the domestic market, of other than sensitive products, subject to payment of appropriate customs duties.

—It has been decided to extend to the 100 per cent EOUs the benefit of tax holiday as is admissible to the units located in the Export Processing Zones. The tax holiday will be admissible for a block of five years during the first 8 years of the operation of the unit.

—It has been decided to permit the 100 per cent EOUs to sub-contract part of their production for job work to units in the domestic tariff area, on a case by case basis so that linkage with indegenous industry and installed capacity can be established.

—100 per cent EOUs may be exempted from the operation of the Export Control Order on a case by case basis. The relaxation, however, will not cover textile items covered by bilateral agreements.

—In order to reduce the cost of bondings, concessional charge will be made where there is a cluster of EOUs, elsewhere the charge would be reduced to 100 per cent of salaries and emoluments of the staff provided.

—Benefits of 100 per cent EOUs schemes have been extended to mining projects and integrated projects involving mining. These benefits would cover import of capital goods and machinery for mining on the same terms and conditions as are applicable to 100 per cent EOUs.

**External Capital Flows**

8.50 Strong economic growth, expansionary fiscal policy, and loosening of licencing restrictions on imports and industrial capacity have contributed to the expansion of import demand and the growth of current account deficit which needs to be financed by capital flows from abroad. It is important for a developing country like India to procure maximum assistance on concessional terms so that the development process is not affected adversely in the long run on account of excessive burden of debt service. 1987-88 being a drought year, there was an additional need for external assistance on concessional terms to tide over drought related problems.

8.51 Authorisation of external assistance on Government account rose sharply from Rs. 5804 crores in 1986-87 to Rs. 8916 crores in 1987-88. This increase was partly due to various drought related external assistance initiatives. Grants accounted for 11.9 per cent of these authorisations, compared to about 7.4 per cent in 1986-87. There was also improvement in gross disbursement and net transfers during the year. The details are given in Table 8.7. In the current year so far (April-September 1988) authorisation of foreign assistance on Government account has amounted to Rs. 2964 crores with grants accounting for only 2.4 per cent of it.

TABLE 8.7

*Inflow of External Assistance : Gross and Net*

(Rs. crores)

| Item | 1979-80 | 1980-81 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89** |
|---|---|---|---|---|---|---|---|
| 1. Authorisations . . . . | 1259 | 3602 | 4692 | 5399 | 5804 | 8916 | 2964* |
| 2. Gross disbursements . . . | 1353 | 2162 | 2354 | 2938 | 3596 | 5032 | 5369 |
| 3. Debt servicing (including interest payments) . . . . | 801 | 804 | 1176 | 1367 | 2029 | 2623 | 2770 |
| 4. Net inflow of assistance (2 –3) . | 552 | 1358 | 1178 | 1571 | 1567 | 2409 | 2599 |

* For the period April—September, 1988 only

** Estimated

Note : The data include Government and non-Government loans and grants (including food assistance grant but excluding other commodity grant assistance) except for the figures of authorisations which relate to Government account only. These figures do not include supplier's credits, commercial borrowings and IMF credits other than Trust Fund loans.

8.52 Expressing satisfaction with the sound policies pursued by the Government of India and keeping in mind the challenges facing the economy in the area of poverty alleviation and maintaining sound macro-economic balances, the Aid-India Consortium members indicated a level of assistance of about $ 6.3 billion for 1988-89 in a meeting which concluded in June 1988 in Paris. This was higher than the commitment of $ 5.4 billion last year. Of this, $ 3.9 billion is likely to be on concessional terms compared with $ 3.3 billion in the previous year.

8.53 World Bank group commitments to India during the Bank's fiscal year 1988 (July 1987 to June 1988) amounted to $ 2972 million against $ 2806 million in the preceding year. IBRD commitments to India in fiscal year 1988 were $ 2255 million as against $ 2128 million in FY 1987. IDA commitments in these years amounted to $ 717 million and $ 678 million respectively.

8.54 The World Bank Group provided special assistance for coping with the drought by signing agreements in November, 1987 for a credit of SDR 156.3 million (or $ 200 million) and a loan of $ 150 million for the Drought Assistance Project. This was designed to provide assistance for ameliorating the adverse effects of the drought by meeting immediate needs and sustaining the momentum of the development process in the drought situation. The entire assistance was utilised by June 1988. Special assistance and initiatives were also provided by several bilateral donors.

8.55 India's share in total lending to all countries in fiscal year 1988 constituted 15.07 per cent in the case of IBRD loans and 16 per cent in the case of IDA loans. The latter was much lower than the shares in previous years, i.e. 19.9 per cent in Fiscal Year 1986 and 19.4 per cent in Fiscal Year 1987. The continued reduction in the percentage share of soft loan facilities through IDA is a cause of concern to India as it adds to the debt servicing obligations.

8.56 Since 1986 India has started borrowing from the Ordinary Capital Resources (OCR) of the Asian Development Bank (ADB). Borrowings from the ADB amounted to $ 250 million in 1986, $ 377.6 million in 1987 and $ 493 million in 1988 upto December 1988.

8.57 In a credit agreement signed between India and the U.S.S.R. in November 1988, the latter agreed to provide a loan of 400 million Roubles (approximately Rs. 725 crores) for the setting up of Vindhyanchal Thermal Station Stage-II. Of this amount, 330 million Roubles (approximately Rs. 598 crores) will bear an interest of 2.5 per cent per annum and will be utilised by the Government of India for payment of design and survey work, for financing cost of equipment, machinery and spare parts, etc. The repayment period will be 20 years, inclusive of a three year grace period. The remaining 70 million Roubles (approximately Rs. 127 crores) will be utilised for meeting part of the local expenses connected with the setting up of the project. This portion of the credit will bear a rate of interest of 1.5 per cent per annum over and above the rate against 91 days Treasury Bills of the Government of India and will be repaid in five equal annual instalments commencing after six months from the commissioning of the first unit of the Vindhyanchal Thermal Power Project Stage II, but not later than October 1, 1995.

8.58 Given the increasing shortage of low cost external finances, India has had to rely increasingly on commercial borrowings from abroad (which also include credits from official export agencies, buyers' credits and suppliers' credits) for meeting its needs for extenal capital. Table 8.8 gives the amounts approved for commercial borrowings since 1980-81. These borrowings were modest before 1980-81.

TABLE 8.8

*Approvals of External Commercial Borrowings*

(Rs. crores)

| 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 |
|---|---|---|---|---|---|---|---|
| 1038 | 1204 | 2026 | 1085 | 1906 | 1700 | 1396 | 2654 |

8.59 The Department of Economic Affairs scrutinises offers for commercial credits and issues approvals to be followed up later with statutory approvals by the RBI under the FERA. Those who have been allowed to do commercial borrowings abroad include large public sector undertakings who have recurring foreign exchange requirements, private sector enterprises who have a potential for export promotion or import substitution and developmental financial institutions like the IDBI, the IFCI and the ICICI, for meeting foreign exchange requirements of private sector companies.

8.60 One of the important developments in the international financial markets in the recent past has been a shift from syndicated loans to securitised markets. The Indian public sector borrowers have successfully tapped the international securities markets like the Japanese private placement market (Shibosai), the Japanese public bond market (Samurai), the D.M. Public Bond market, the Swiss Franc public market and the Eurodollar fixed rate bond market.

8.61 There has been a significant increase in debt service on external assistance during the last few years. As may be seen from Table 8.7, debt service on external assistance (which does not include servicing of commercial borrowings and IMF credits other than Trust Fund) increased at an annual rate of 30.6 per cent during the first three years of the Seventh Plan. These payments had increased at an annual rate of 8 per cent during the course of the Sixth Plan period. Debt service on account of external commercial borrowings and EFF drawings from the IMF have also been rising during the past few years. Debt service on all the external sources mentioned above has, therefore, risen, as percentage of current receipts from 8.5 per cent in 1979-80 to 12.1 per cent in 1984-85 and further to 24 per cent in 1987-88.

**International Economic Developments**

*World Economic Situation and Prospects*

8.62 Output growth in industrial countries was robust in 1987 and at a much higher rate than in 1986, despite the stock market crisis. There are indications of another good performance in these countries during 1988. But for developing countries 1987 was an year of disappointment, with a marked deceleration in the rate of their output growth. The prospects for 1988 are better for these countries than in the preceding year, but only marginally. For the world economy as a whole the rate of output growth in 1987 remained the same (3.2 percent) as in 1986. Some improvement is expected in 1988.

8.63 There was a further reduction in inflationary pressures in industrial countries in 1987 but the situation worsened considerably in the developing countries. While no further decline in inflation rate has been in evidence during 1988 in industrial countries, it continues to remain a serious problem in the developing world.

8.64 There was a remarkable growth of 5.8 per cent in the volume of world trade in 1987 and there are prospects of further expansion in 1988. What is worrisome is that while the volume growth of exports of industrial countries improved significantly in 1987 over 1986, that of the developing countries decelerated. The same trend is likely to have persisted during 1988. Industrial countries have continued to enjoy favourable terms of trade movements. Developing countries benefited from an improvement in their terms of trade in 1987 for the first time since 1984, but they are likely to face adverse trend again in 1988.

8.65 The IMF staff forecast for 1989 is that of a slowdown in the global economic activity. Output growth in industrial countries and for the world as a whole is likely to be lower in 1989 than in the current year, industrial countries are likely to have a higher rate of inflation, the rate of growth in imports and exports of industrial as well as developing countries is likely to be lower, both the industrial and developing countries are likely to face higher levels of current account deficits and the external debt of developing countries is expected to rise further.

*Financial Flows*

8.66 Net flow of financial resources from all sources to developing countries in 1987 amounted to $ 89 billion against $ 82 billion in 1986. Although there was a rise in nominal terms, in real terms there was a fall. There was improvement in the net disbursement of ODA from OECD countries in nominal terms in 1987 but in real terms there was a decline of about 5 per cent over the preceding year.

8.67 There was a net repurchase of SDR 3 billion by members from the IMF in 1986-87. These repurchases increased further to SDR 3.8 billion in 1987-88 in spite of the fact that there was a substantial increase in total purchases from the Fund during the year. As of April 30, 1988, 25 members of the IMF had three-year arrangements under the Structural Adjustment Facility (SAF) for a total amount of SDR 1.4 billion, of which SDR 0.6 billion had been disbursed. In the fiscal year ended June 1988, new commitments of loans by the IBRD amounted to $ 14.8 billion and IDA credits to $ 4.5 billion. It needs to be noted that disbursements by the Bank during the same year was associated with a net negative transfer of

$ 3.5 billion because of repayments (including interest and other charges) amounting to over 15 billion.

8.68 Rising debt service and reductions in fresh lending has resulted in net transfer of resources from developing to developed countries since 1984. According to World Bank estimates, these negative transfers amounted to $ 10.2 billion in 1984 and have risen over the years reaching $ 38.1 billion in 1987. Preliminary estimates for 1988 indicate a negative transfer of as much as $ 43 billion.

*External Debt*

8.69 The external debt situation of developing countries continues to be grim. External debt of these countries has risen from $ 1.15 trillion in 1986 to $ 1.28 trillion in 1987. It is estimated to reach $ 1.32 trillion in 1988. During 1987 there was a decline in external debt as a percentage of exports of goods and services (debt ratio) and debt service payments as a percentage of exports of goods and services (debt service ratio) in respect of developing countries. But during the same period there was an increase in external debt as a percentage of GDP of developing countries.

8.70 The Trade and Development Report of the UNCTAD for 1988 has suggested that there was need to reduce the claims of commercial banks by 30 per cent in the case of the highly-indebted middle income countries to solve their external debt problem. But the industrial countries and their groups expressed strong opposition to the suggestion at the 35th Session (First Part) of the Trade and Development Board. At their Toronto Summit held in June 1988 the heads of States/Governments of seven major industrial countries declared their desire to provide debt relief to the World's poorest, heavily indebted countries. The relief provided will be in the form of either concessional interest rates, usually with shorter maturities, or longer repayment periods at commercial rates or partial write-offs of debt service obligations during the consolidation period or a combination of any of these elements.

*The World Bank*

8.71 In April 1988, the Board of Governors of the IBRD adopted a resolution authorising the General Capital Increase (GCI) of $ 74.8 billion in the Bank's authorised capital. This would increase the Bank's total authorised capital to $ 171.4 billion. As of June 30, 1988, 142 member countries representing 79.1 per cent of shareholder power had voted and approved the GCI. The paid-up portion of the new subscription is 3 per cent, with 97 per cent callable. Under a supplementary resolution new shares, equivalent to 1 per cent of total authorised capital amounting to $ 1.7 billion, have been set aside for new membership applications. It is hoped that as a result of the GCI it will be possible for the Bank to significantly increase its lending operations.

8.72 During the fiscal year 1988 the World Bank Group made some important changes in financial policies. The Executive Board of the IDA approved a variable commitment-fee structure within a range of zero per cent to 0.5 per cent and a policy to decide the future rate on an annual basis based on IDA's financial position. For the fiscal year 1989, commitment fee on IDA credits has been reduced from 0.5 per cent to zero per cent. This change is applicable to new credits as well as to those made prior to fiscal year 1989. The Executive Board of the IBRD approved modifications in IBRD repayment terms which include shifting repayment of new loans for low-income countries to annuity, extension of grace period through fiscal year 1991 on new loans to middle-income countries from 3 to 5 years and review of the repayment terms for middle income countries within three years.

*The IMF*

8.73 Under the Articles of Association of the IMF general review of quotas has to be taken up by the Board of Governors at intervals of not more than five years. The five year period since the completion of the previous review, which was the eighth, ended on March 31, 1988. Discussion on the ninth general review of quotas by the Executive Board of the IMF is in progress. The Board has so far considered various aspects of the adjustment of quotas, including the formulae used to calculate quotas, the variables used in those formulae, the method of calculating quotas, and updated quota calculations. The Board has also considered the need for and the size of the total quotas, the techniques and criteria that might be considered in distributing a total increase among members and matters relating to the payment of the increased subscriptions. Developing countries have asked for a substantial increase in the size of quota so as to enable the Fund to meet the rising liquidity needs of its members in the early 1990s from out of its own resources. India has argued for the need for an approach that would reflect the different perceptions and requirements of the developed and the developing countries about the role of quotas, including the need to maintain a sizeable share of quotas for developing countries as a group, and the need to take greater account of need-based variables in allocating quotas across individual countries. The Executive Board is likely to submit its recommendations to the Board of Governors on the size of overall increase in the quotas, increases in quotas of individual members and the mode of payment of increases in subscriptions by April 30, 1989.

8.74 The IMF has been examining details of an external contingency mechanism to provide additional financing to support economic programmes of its members that might be thrown off track by adverse exogenous developments. It has been decided to combine assistance for export shortfalls and external contingencies into a single facility. Known as the Compensatory and Contingency Financing Facility (CCFF), the new facility replaces, with effect from August 30, 1988, the Compensatory Financing Facility for Export Fluctuations established in 1963 and the Facility for Financing Fluctuations in the Cost of Cereal imports established in 1981. The new facility seeks to provide timely compensation for temporary export shortfalls or excesses in cereal import costs attributable to factors beyond the control of the member and contingent financing to help a member to maintain the momentum of Fund-supported adjustment programmes in the face of adverse external shocks on account of factors beyond its control. The new facility has an overall access limit of 105 per cent of quota on the use of any two of the three elements of the CCFF and a combined limit of 122 per cent of quota on the use of all the three elements. Within that overall access, a limit of 40 per cent of quota each would apply both to the compensatory element and to the contingency element and 17 per cent of quota for the cereal import costs element. In addition, an optional tranche of 25 per cent of quota would be available to supplement any one of the elements at the choice of the member.

8.75 As reported in the last year's Economic Survey, the IMF set up the Structural Adjustment Facility (SAF) in March 1986 to provide concessional assistance to low-income countries facing protracted balance of payments problems and undertaking comprehensive efforts to strengthen their balance of payments position from out of resources obtained from repayments of Trust Fund loans (amounting to about SDR 2.7 billion) disbursed during 1977-81. In December 1987 the IMF established new Enhanced Structural Adjustment Facility (ESAF) for the same purpose but financed by contributions from other sources. The new facility became operational in April 1988. The main features of SAF/ESAF include concessional nature of assistance, medium-term framework and the requirement of a policy framework paper to be prepared by the national authorities jointly with the staff of the IMF and the World Bank.

*The Common Fund for Commodities*

8.76 In June 1980, the United Nations Negotiating Conference on a Common Fund adopted the Agreement to establish the Common Fund for Commodities, a new international financial institution of major importance to international commodity trade and to developing countries. The Fund is intended to serve as a key instrument in attaining the agreed objectives of the Integrated Programme for Commodities and to facilitate the conclusions and functioning of International Commodity Agreements or Arrangement (ICAs), particularly concerning commodities of special interest to developing countries. The functions of the Fund include the financing of international buffer stocks and internationally coordinated national stocks within the framework of ICAs and financing of measures other than stocking, i.e., developmental measures such as research and development, productivity improvements, marketing, etc. For the Fund to come into force, 90 countries accounting for two thirds of the directly contributed capital ($ 470 million) had to ratify the Agreement. While the required number of countries was reached at the beginning of 1986, it was possible to satisfy the second main condition only in July 1988. The Agreement is now expected to enter into force shortly.

*Generalised System of Trade Preferences (GSTP)*

8.77 Conclusion of an agreement on Generalised System of Trade Preferences amongst the developing countries of the Group of 77 marks an important achievement in the realm of South-South Cooperation. The Agreement was adopted at the Ministerial meeting of the participating developing countries held in Belgrade on 11-13 April, 1988. Annexed to this Agreement is the list of tariff concessions exchanged amongst 48 participating countries of the Group of 77 in the first round of negotiations. India has exchanged tariff concessions with 14 countries. The tariff concessions exchanged in the first round have been only modest in terms of trade and product coverage. But the significant achievement lies in the conclusion of the Agreement which provides a framework for exchange of trade concessions among developing countries and for promoting trade and economic cooperation among themselves. The Agreement is expected to come into force shortly as it is in the process of ratification by participating countries.

*Uruguay Round of Multilateral Trade Negotiations*

8.78 The General Agreement on Tariffs and Trade (GATT) provides a framework of rules for international trade. It also functions as a forum for negotiated reduction in trade barriers. So far seven rounds of multilateral negotiations have been held under its aegis to reduce trade barriers and the eighth, the Uruguay Round, launched after a Ministerial Conference held at Punta-del-Este in September 1986, is in progress. The negotiations began in January 1987 with the setting up of two separate groups, one to deal with goods and the other with services. In addition, a Surveillance Body has been set up for monitoring compliance with the Standstill and Rollback commitments entered into by the Ministers at the launching of the negotiations. There is a Trade Negotiations Committee to oversee the entire negotiations.

8.79 The emphasis of the developed countries in the Negotiations has been mainly on the evolution of international rules in the new areas of Services and Intellectual Property Rights. The developing countries, on the other hand, have stressed that the central task of the Round is to preserve and strengthen the multilateral trading system. Their other priority is liberalisation of trade in sectors of their export interest. The specific areas of their interest are tropical products, textiles and safeguards. The developing as well as the developed countries are also attaching considerable importance to liberalisation in the area of trade in agriculture and to the strengthening of the rules on dispute settlement.

8.80 A Ministerial level meeting of the Trade Negotiations Committee was held at Montreal on 5-9 December, 1988 to conduct a mid-term review of the Uruguay Round. The main purpose of the meeting was to provide political impetus to the Negotiations. The deliberations of the meeting proved to be useful and agreement could be reached, inter-alia, on such institutional questions as establishment of Trade Policy Review Mechanism and tightening of the dispute settlement procedures. A number of participating countries announced concessions on tropical products. Framework decisions were agreed upon on Services and Tariffs. However, it was decided that these agreements would not be made operational until the next meeting of the Trade Negotiations Committee in April 1989 at Geneva when the whole package including unresolved subjects, namely, agriculture, textiles and clothing, safeguards and trade related aspects of intellectual property rights would be considered.

**Outlook**

8.81 As indicated earlier, the assessment for the global economy for 1988 is quite promising as regards real output growth and the growth of world trade. Our GDP growth during the current year is likely to be substantial and the growth in our exports reasonable. But the pace of economic activity is likely to decelerate in industrial countries in 1989 and the expansion of the volume of world trade is likely to slowdown. These developments will have adverse implications for the expansion of our exports during 1989-90.

8.82 The trend of declining transfer of real resources, particularly concessional resources, to developing countries continues with bleak prospects of a reversal. With its good credit rating it should not be difficult for India to raise adequate external resources from the international capital markets. But in view of the rising burden of external debt and debt service there is need to exercise caution with regard to the terms, conditions and quantum of fresh external debt incurred. It is equally important to ensure that these scarce borrowed resources are put to optimum productive use.

8.83 Overall, the external sector will continue to demand careful management. Special efforts will have to be made to accelerate the growth of exports of both goods and services. Tariff and trade policies will have to be carefully calibrated to reduce the import intensity of output growth especially in the industrial sector. At the same time, measures must be taken to ensure that import substitution follows norms of economic efficiency and does not burden the economy with unduly high costs. Increasingly, the management of the balance of payments will require improvement in domestic fiscal imbalances.