CHAPTER 8

THE EXTERNAL SECTOR

The external payments situation has remained under pressure throughout the Seventh Plan period. The strains have been particularly severe since 1988-89. Several adverse medium term factors have contributed to this situation. They include the declining self-sufficiency in production/consumption of crude oil and petroleum products from the peak attained in 1984-85, a steady erosion of the surpluses in the invisibles account in financing the trade deficit, unfavourable climate for concessional assistance and the bunching of debt service on past borrowings. The secular phenomenon of large fiscal deficits has also exerted adverse pressure on the current account external balance. These strains were further compounded by short term factors such as the drought of 1987-88, which had adverse implications for both exports and imports, and the surge in the import bill during 1988-89 associated with economic recovery and replenishment of foodstocks.

I. Balance of Payments (BOP)

BOP Trends upto 1987-88

8.2 Full balance of payments data are available for the fiscal year as a whole upto 1987-88, the third 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 three years of the Seventh Plan. The trade deficit averaged 3.4 per cent of GDP during the Sixth Plan. It increased to 3.7 per cent of GDP in 1985-86 due mainly to a lacklustre export performance, declined in 1986-87 to 3.2 per cent of GDP both on account of better export performance and deceleration in import growth and further declined to 2.8 per cent of GDP in 1987-88 mainly due to good growth in exports. 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, 1.2 per cent of GDP in 1986-87 and further to 0.9 per cent of GDP in 1987-88, reflecting both a rise in interest payments on external loans and credits and the declining importance of private transfers.

8.3 As a consequence of these trends in trade and invisible 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 and 1987-88 to 2.0 per cent and 1.9 per cent respectively. During 1988-89, full balance of payments data for which are not available, the ratio of the current account deficit to GDP is estimated to have gone upto 2.7 per cent. Thus, in the first four years of the Seventh Plan (1985-86 to 1988-89) the current account deficit is estimated to have averaged at 2.2 per cent of GDP, as against 1.3 per cent during the Sixth Plan. These ratios underscore the current pressures on the balance of payments. A graphical presentation of trends in current account and trade deficits is given in accompanying chart.

TABLE 8.1

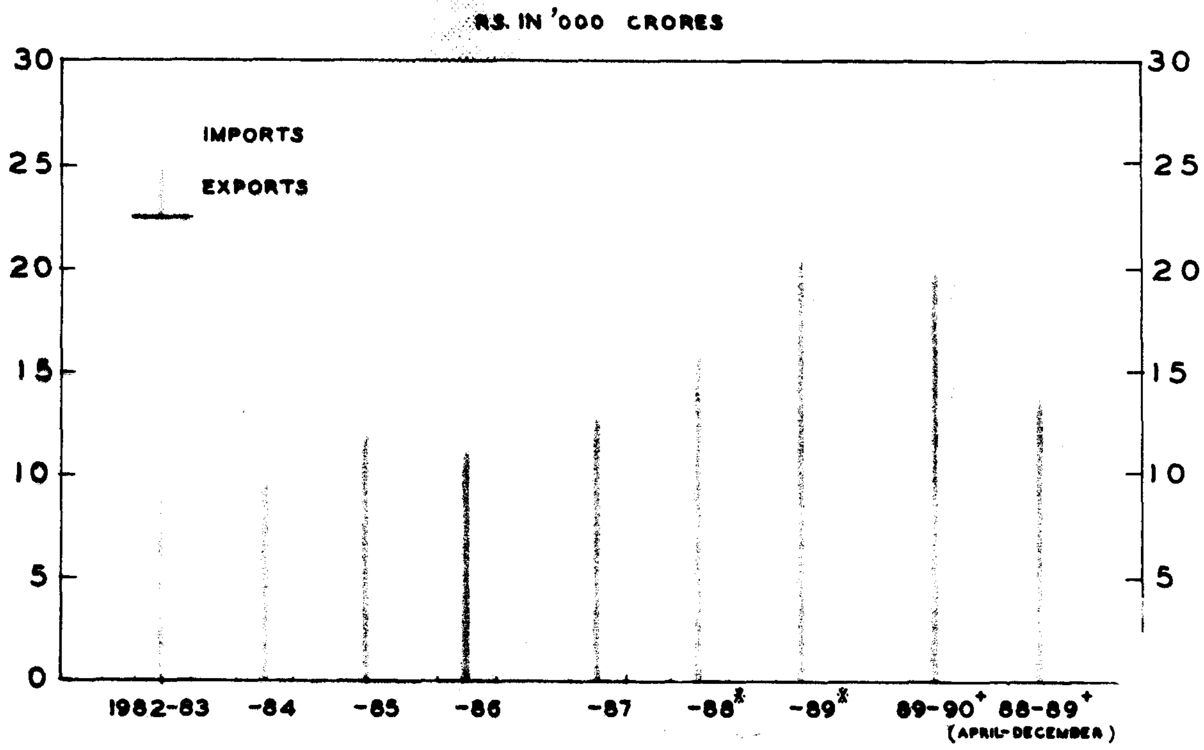
Balance of Payments : Key Indicators

(As per cent of GDP)

Items	1980-85	1985-86	1986-87	1987-88
1	2	3	4	5
Exports . .	5.0	4.4	4.5	5.0
Imports . .	8.4	8.1	7.7	7.8
Trade Balance .	−3.4	−3.7	−3.2	−2.8
Invisibles (Net) .	2.1	1.4	1.2	0.9
Current Account Balance .	−1.3	−2.3	−2.0	−1.9

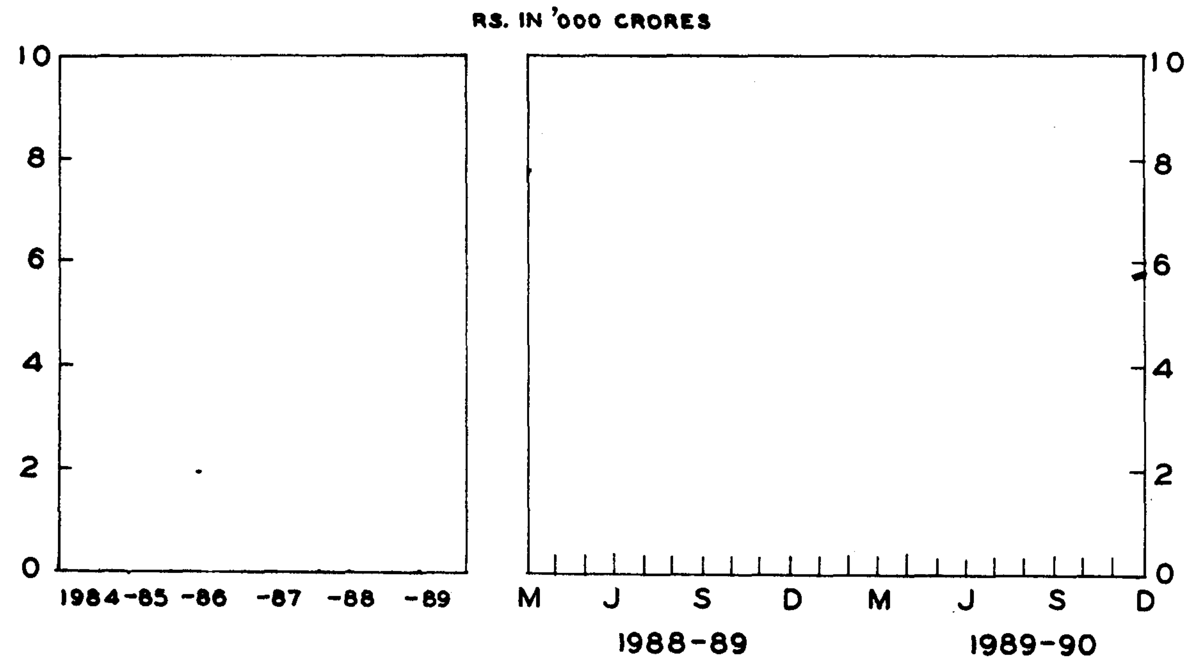
Note—The ratios have been computed on the basis of the country's balance of payments data as given in appendix table 6.2 and the CSO estimates of GDP at current market prices. Official grant receipts and US embassy expenditure in India out of PL-480 Rupee Fund are taken as current account receipts in conformity with the balance of payments statistics published by the RBI.

FOREIGN TRADE



FOREIGN EXCHANGE RESERVES

(INCLUDING GOLD & S.D.R.S.)



MINISTRY OF FINANCE, ECONOMIC DIVISION.

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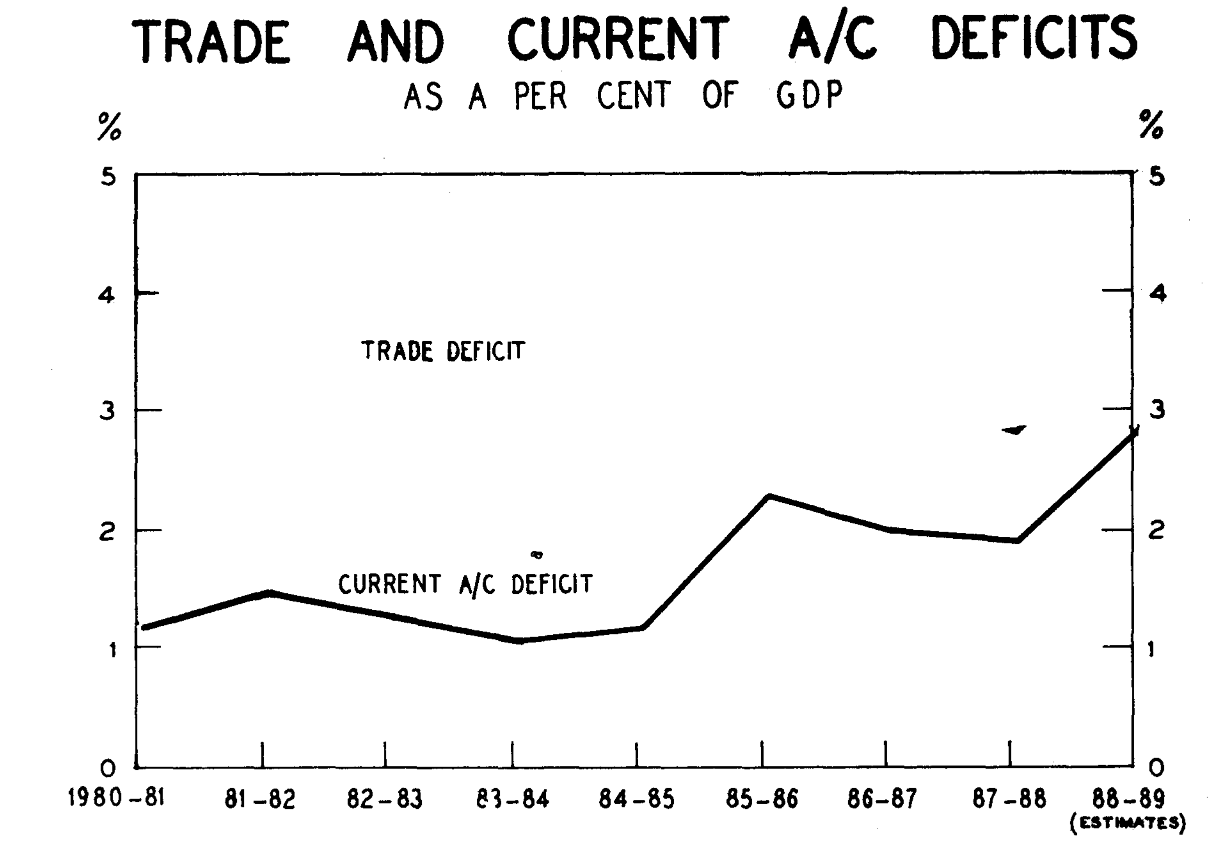
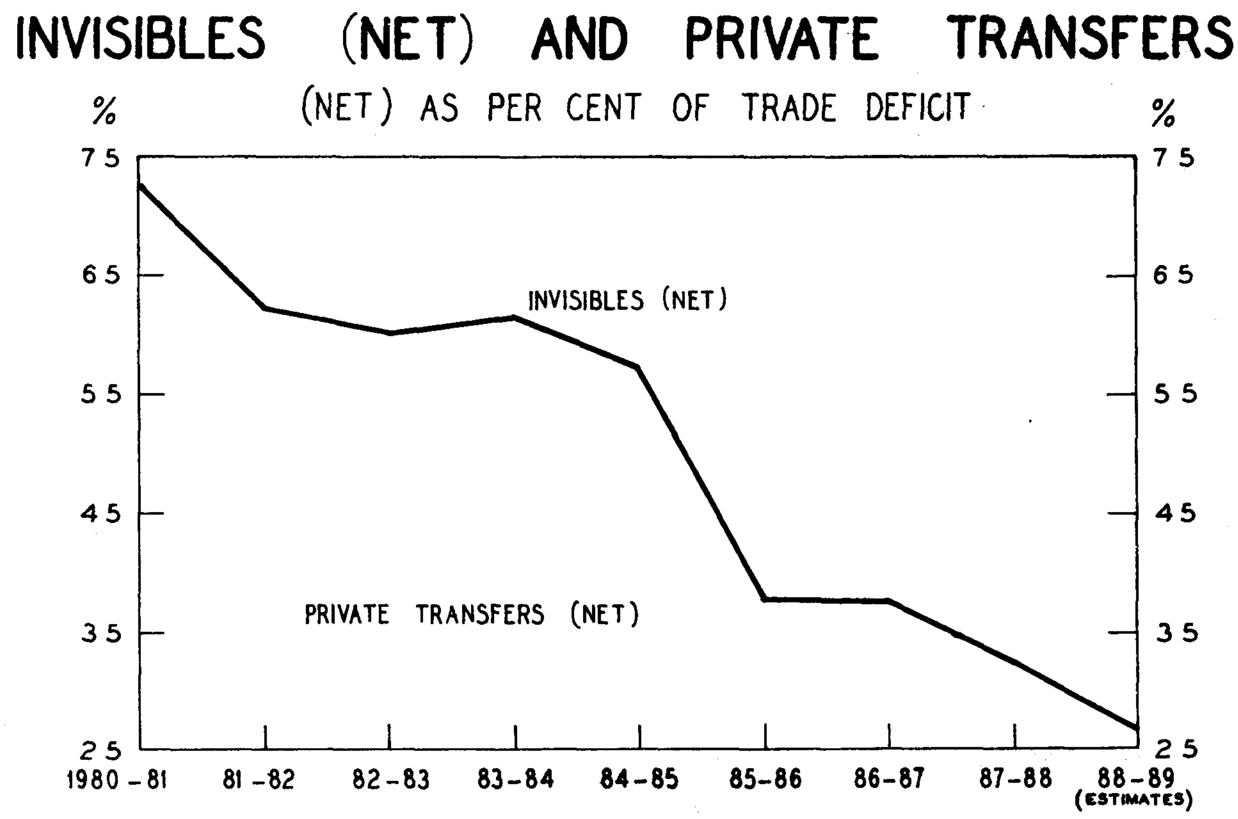




MINISTRY OF FINANCE, ECONOMIC DIVISION.

8.4 The balance of payments problem during the Seventh Plan is rooted in continuing high average trade deficits and a sharp decline in the role of invisibles in financing these deficits. The trade deficit averaged Rs. 6,091 crores per year during the Sixth Plan period (1980-85). During the first three years of the Seventh Plan, the average rose to Rs. 9,412 crores. Net invisibles, which on an average financed more than 60 per cent of trade deficit during the Sixth Plan, financed only 36 per cent of trade deficits during 1985-86 to 1987-88. The current pressures on balance of payments thus reflect the impact of rising imports (notwithstanding acceleration in exports) and the growth of external debt service obligations.

8.5 The pattern of financing trade and current account deficit during these years has also contributed to pressures on the balance of payments. With the decline in the role of surpluses in invisibles account and given the constraints on the disbursements of concessional aid, an increasing part of trade deficits has been financed by external commercial borrowings, non-resident deposits and drawdown in foreign exchange reserves. This has led to growing stocks of medium and long term external liabilities, higher debt service ratios and significant depletion of foreign exchange reserves. During the first four years of the Seventh Plan foreign exchange reserves have declined by SDR 2,289 million.

Services and Transfers

8.6 Invisible surpluses have traditionally financed a large part of India's trade deficits (see chart). However, the trend has been on the decline in the eighties on account of a fall in gross invisible receipts, as a per cent of GDP, from 4.3 per cent in 1980-81 to 2.8 per cent in 1987-88, coupled with an increase in invisible payments from 1.2 per cent of GDP to 1.9 per cent of GDP, respectively, during this period. The decline in gross invisible receipts relative to GDP is mainly accounted for by a levelling off of private transfer receipts. The rise in invisible payment has been chiefly contributed by cumulation of interest and service payments on foreign loans and credits. Between 1980-81 and 1987-88 gross travel receipts and gross private transfers increased at an annual compound growth rate of 6.9 per cent and 6.5 per cent respectively; during the same period interest and service payment on foreign loans and credits expanded at 31.8 per cent per annum.

8.7 Travel receipts presently account for about one fifth of gross invisible receipts. The share of these receipts in gross invisible receipts declined during the Sixth Plan from 19.8 per cent in 1980-81 to 10.9 per cent in 1984-85 mainly because of a stagnant/slow growth in tourist traffic. However, tourist traffic picked up in the first three years of the Seventh Plan and the share of travel receipts reached a level of 20 per cent of gross invisible receipts in 1987-88. Government has accorded considerable significance to development of tourism and initiated a number of promotional measures designed to attract tourists. These measures include diversification of tourism resources, a package of incentives for attracting private investment, liberalisation of policies relating to charter flights and air taxi services, development of special tourist circuits, strengthening of training and marketing efforts, etc. Tourism has been accorded industry status and for attracting private investment a number of fiscal and financial incentives have been announced. A Tourism Finance Corporation of India (TFCI) has also been set up to meet the loan requirements of tourism industry. A scheme called Assistance for Development of International Tourism (ADIT) has also been launched for providing marketing assistance to tourism related activities.

8.8 Gross private transfer receipts, as a per cent of GDP, have declined from 1.7 per cent in 1980-81 to 1.1 per cent in 1987-88. The share of these receipts in gross invisible receipts during both 1980-81 and 1987-88 was around 38 per cent, although the share had risen to around 42 per cent in 1982-83. Private transfer receipts, representing mainly remittances by non-resident Indians have levelled off in the last few years consequent to the oil boom in oil surplus countries having worked itself out. Other factors could perhaps be availability of more attractive schemes like the non-resident deposit accounts.

8.9 In regard to invisible payments, interest and service payments on foreign loans and credits have increased from Rs. 282 crores in 1980-81 to Rs. 1,949 crores in 1987-88. The share of interest payments in total invisible payments thus increased from 17.9 per cent in 1980-81 to 31.1 per cent in 1987-88, reflecting larger interest payments on servicing of external debt contracted by both public and private sectors and charges on IMF borrowings. It also partly reflects the hardening of average terms on external debt because of rising proportion of non-concessional loans in the country's external debt portfolio. Another item which has recorded substantial increase in payments is the 'miscellaneous' group which covers payments on items like technical know-how, management fees, office expenses, and other professional services and technicians' fees.

BOP Trends Since 1988-89

8.10 The pressure on the external payments situation mounted in 1988-89 mainly on account of a bulging import bill and large repayments to IMF under Extended Fund Facility which peaked during the year. According to DGCI&S provisional data, exports in 1988-89 showed a robust increase of 28.9 cent as against a somewhat smaller increase of 26.4 per cent recorded in 1987-88. However, imports too rose by 25.9 per cent in 1988-89 compared to a modest increase of 11.5 per cent in 1987--88. As a result the trade deficit, according to DGCI&S data, increased from Rs. 6,658 crores in 1987-88 to Rs. 7,899 crores in 1988-89. The number of tourist arrivals in India rose by 6.2 per cent during 1988-89, lower than the rise of 7.7 per cent during 1987-88. Hence, growth in travel receipts during 1988-89 might be smaller than in 1987-88. Payments under investment income, on the other hand, have continued to rise on account of growing stocks of external debt disbursed and outstanding. Private transfer receipts are likely to be somewhat higher than in the previous year. On balance, net invisible receipts during 1988-89 might show some improvement over the previous year in rupee terms. Net disbursements of external assistance as well as inflows into non-resident deposit accounts also increased during 1988-89.

8.11 The intensification of balance of payments strains during the year was reflected in reserve movements (Table 8.2). In SDR terms, total foreign exchange reserves stood at SDR 3,715 million at the end of March, 1989 showing a fall of SDR 771 million during 1988-89 as compared to a decline of SDR 627 million during 1987-88.

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	7040	—647	—1749**
1989-90 (Upto Jan. 1990)	5331	—1709	—1372**

* 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.

8.12 The balance of payments situation continued to be under substantial pressure during 1989-90. The provisional trade data (DGCI&S) for the first nine months of the current year display a strong growth in exports and a moderate increase in imports, leading to a decline in trade gap from Rs. 6,602 crores in April-December, 1988 to Rs. 5,518 crores in April-December, 1989. However, given the increasing divergence between DGCI&S and RBI import data (as explained later in this chapter), the fact that imports during the corresponding period in 1988-89 were high because of spillover of drought related imports, and as imports of civilian aircrafts during the the current year were not covered in DGCI&S data the underlying import growth could be higher than that reflected in the DGCI&S data. Net invisibles are unlikely to increase in 1989-90 because of uncertain trends in the net private transfers, a relatively slow growth of tourist traffic and a steady rise in interest payments on past borrowings. Partial information on some items of capital account also confirm that balance of payments continues to be under severe pressure during the current financial year, as reflected by the decline in foreign exchange reserves of SDR 1104 million during April—January 1989-90.

8.13 The Government continues to accord high priority to resolution of imbalances in external payments by accelerating export growth, augmenting tourism receipts, promoting efficient import substitution, increasing disbursements from committed external assistance and higher direct and portfolio investments, containing the scale of fiscal deficits and encouraging economy in the utilisation of scarce foreign exchange. Strong performance in exports during the last three years and the first nine months of 1989-90 reflects the response to earlier policy measures initiated by the Government.

Non-Resident Deposits

8.14 In order to attract deposits under different non-resident accounts, interest rates offered on Non-Resident External Rupee (NRER) deposits continued to have a premium of two per cent over the rates applicable to domestic deposits of comparable maturities. To encourage deposits under the Foreign Currency Non-Resident (FCNR) accounts, the scheme was extended to two more currencies, namely Deutsche Mark and Japanese Yen, and differential interest rate scheme was introduced for different currencies with effect from August 1, 1988. The rates of interest on FCNR accounts are continuosly adjusted keeping them in line with prevailing interest rates in the international capital markets. The latest interest rates on deposits in NRER and FCNR accounts which came into effect from February 21, 1990 are given in Table. 8.3.

TABLE 8.3

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

(Per cent per annum)

Maturity	Current rate of interest @				
	NRER	FCNR			
		Pound Sterling	US Dollar	DM	Yen
1	2	3	4	5	6
(a) One year and above but less than two years	10.50	11.75	9.00	9.75	8.00
(b) Two years and above but less than three years	11.00	12.00	9.50	9.75	8.00
(c) Three years and above but less than five years	12.00	12.00*	9.75*	9.75*	8.00*
(d) Five years only	13.00	..	..	..	..

@ As of February 21, 1990.

* Three years only.

8.15 The sustained inflow of funds into the non-resident accounts has provided considerable support to balance of payments during the past few years. The inflow under NRER account scheme during 1988-89 was Rs. 245 crores, as compared with Rs. 300 crores in the previous year. Net inflow under FCNR account scheme during 1988-89 was Rs. 2,075 crores as against Rs. 1,398 crores during 1987-88. Thus, at the end of March, 1989 total stock of non-resident deposits stood at Rs. 14,154 crores (Table 8.4). Inflows into FCNR accounts amounted to Rs. 2,388 crores during April-December 1989 as against Rs. 1,547 crores in the corresponding period of 1988. More than two-thirds of these inflows are accounted for by dollar denominated deposits. Accretion to NRER accounts (net of interest) has not shown any significant addition during 1989-90. The ratio of NRER account deposits in total non-resident deposits has therefore declined from around 51 per cent at the end of March, 1988 to around 36 per cent at the end of December, 1989.

TABLE 8.4

Outstanding Amounts in Various Types of External Accounts

As on 31st March	Non-resident external rupee accounts* (Rs. crores)	Foreign currency non-resident accounts @ US $	Sterling	DM @@	Yen @@	Total	TOTAL (NRER +FCNR)
		— (million) —				(Rs. crores)	
1	2	3	4	5	6	7	8
1981	938	140	20			152	1090
1982	1186	107	28			147	1333
1983	1635	152	68			251	1886
1984	2232	374	136			615	2847
1985	2864	499	218			955	3819
1986	3461	1419	236			2188	5650
1987	4336	2360	224			3511	7847
1988	5107	3410	222			4947	10054
1989	5899	4245	203	848	31571	8255	14154
31 Dec. 1989**	6161	5341	145	952	53419	11052	17213

@ Figures do not include accrued interest.

* Figures include accrued interest.

** Provisional data.

@@ Introduced w.e.f. August 1, 1988.

Exchange Rate of Rupee

8.16 The external value of the Rupee continued to be determined in relation to weighted basket of currencies of India's major trading partners and the Pound-Sterling remained the intervention currency. During 1988-89 the Rupee-Sterling rate was adjusted 200 times. The latest adjustment for exchange rate between Rupee and Pound Sterling was made on March 1, 1990 when the middle rate was fixed at Rs. 28.55 per Pound Sterling. Exchange rates of rupee vis-a-vis major international currencies are given in Appendix table 6.5.

Exchange Risk Administration Scheme (ERAS)

8.17 Changes in the exchange rate of rupee have been quite frequent following developments in exchange rates in major international currencies. In order to provide a degree of protection against frequent changes in exchange rates there are schemes to provide exchange risk cover through forward exchange market and through Export Credit Guarantee Corporation of India. With a view to providing a measure of protection to the sub-borrowers of the three financial institutions, viz. ICICI, IDBI and IFCI, against exchange risk inherent in their medium and long term borrowings in foreign exchange, these three financial institutions have launched a scheme known as the Exchange Risk Administration Scheme (ERAS) with effect from April 1, 1989. The benefit of cover under the scheme is available to new foreign currency sub-loans disbursed on or after April 1, 1989 by the financial institutions out of their external commercial borrowings. While eligible borrowers have an option to join the scheme in respect of each loan, the option once exercised will be irrevocable during the currency of the loan. Initially the scheme will be in operation for two years. However, all disbursements made within the two years period would be eligible for cover during the full duration of the loans.

8.18 Repayment obligations in respect of the principal amounts of sub-loans will be rupee-tied at rates prevailing on the dates of disbursement. The interest liability of the sub-borrowers, the spread of the financial institutions and exchange risk premium would be merged into a 'composite cost' with ceiling and floor rates. The actual rate within the band will be announced from time to time and be payable at quarterly intervals. The exchange risk premium in the composite cost will be credited to a fund called 'Exchange Risk Administration Fund' set up and administered by IDBI. The response to the scheme has been quite encouraging.

II. Imports

8.19 Import growth in rupee terms accelerated from 11.5 per cent in 1987-88 to 25.9 per cent in 1988-89, according to data compiled by DGCI & S. However, import growth during the first nine months (April-December) of 1989-90 slackened to 20.7 per cent. In dollar terms it was higher at 12.7 per cent in 1988-89 than in 1987-88 (9.8 per cent), but levelled off to 3.7 per cent during April-December 1989. The step up in the value of imports during 1988-89 is attributable to the marked buoyancy in the domestic economic activity, higher imports of foodgrains to replenish depleted food stocks, drought-related purchases of pulses and unusually high international prices of some key intermediate goods such as non-ferrous metals, man-made fibres, fertilisers, paper and paper board. The slackening of import growth during 1989-90 partly reflects steep fall in both the quantity and value of imports of edible oils, pulses, rubber and newsprints and, to some extent, deceleration in industrial growth.

8.20 Table 8.5 shows imports by major commodity groups during 1987-88, 1988-89 and the first half of 1988-89 and 1989-90. Also a graphic presentation of commodity composition of imports during the last three years is given in the pie chart.

TABLE 8.5

Imports by Major Commodity Groups

(Rs. Crores)

Sl. No.	Commodity	1987-88 (PR)	1988-89 (PR)	%change 1988-89 / 1987-88	April-Sept. (P) 1988-89	April-Sept. (P) 1989-90	%change Apr-Sept. 1989-90 / 1988-89
1	2	3	4	5	6	7	8
1.	Capital goods*	6284.9	6938.9	10.4	3234.1	3655.2	13.0
2.	Cereal & cereal preparations	32.7	630.8	1829.1	156.6	224.8	43.6
3.	Chemical materials and products	173.6	204.1	17.6	89.7	94.1	4.9
4.	Edible oils	920.0	727.0	—21.0	510.0	57.5	—88.7
5.	Fertilisers crude	138.4	185.1	33.7	69.7	136.4	95.7
6.	Fertilisers finished	171.5	493.0	187.5	167.0	625.1	274.3
7.	Iron & steel	1273.2	1937.3	52.2	784.3	1104.3	40.8
8.	Medicinal & pharmaceutical products	137.1	202.1	47.4	97.7	110.3	12.9
9.	Non-metallic mineral mfrs. excl. pearls	83.7	165.8	98.1	70.4	91.9	30.5
10.	Non-ferrous metals	576.1	785.8	36.4	396.4	663.2	67.3
11.	Organic and inorganic chemicals	1050.5	1939.8	84.7	908.0	846.6	—6.8
12.	Paper, paper board & mfrs. thereof	258.1	305.7	18.4	139.8	144.9	3.6
13.	Pearls, precious & semi-preoious stones	1994.2	3175.2	59.2	1536.4	1981.7	29.0
14.	Petroleum, petroleum products and related materials (Gross)	4082.8	4374.0	7.1	2105.2	2555.1	21.4
15.	Professional, scientific controlling instruments, photographic optical goods, etc.	490.6	695.7	41.8	307.7	406.7	32.2
16.	Synthetic and regenerated fibres	28.4	37.4	31.7	16.8	42.0	150.0
17.	Others	4703.2	5359.9	14.7	2574.5	2721.5	15.7
18.	**TOTAL**	**22399.0**	**28193.6**	**25.9**	**13164.3**	**15461.3**	**17.4**

Notes : *Includes manufactures of metal, machinery (including electric machinery), transport equipments and project goods.

(P) Provisional

(PR) Partially Revised.

8.21 Import of cereal and cereal preparations showed a substantial increase in value from a level of Rs. 32.7 crores in 1987-88 to Rs. 630.8 crores in 1988-89. Concomitant with the swelling of import bill of cereals was a massive increase in volume of cereal imports from about 0.7 lakh tonnes to 23.7 lakh tonnes over the same period. It is noteworthy that the massive purchase of cereals by India during 1988-89 was availed of at unit values which were lower by about 44.8 percent over the preceding year. There has been a continued upsurge in cereal imports in 1989-90. During April-September, 1989 cereal imports at Rs. 224.8 crores were higher by 43.6 percent compared with Rs. 156.6 crores in the corresponding period of 1988.

8.22 There was a steep fall in volume of import of edible oils from about 18 lakh tonnes during 1987-88 to around 9.9 lakh tonnes during 1988-89. With the hardening of international prices of edible oils, the unit value of imports appreciated by 44.4 percent during 1988-89. In the event, the import bill for edible oils declined by about 21 percent only in spite of drastic reduction of 45 percent in the quantity of edible oil imports during 1988-89. During April-September 1989 the import bill at Rs. 57.5 crores was lower by 88.7 percent than that during the same period of 1988. The success achieved in reducing edible oil imports to a large extent reflects success of import substitution effort in this area.

8.23 Imports of fertilisers have shown considerable variation during the past few years, depending on the level of domestic consumption. The severe drought of 1987 led to a sharp fall in the fertiliser demand, which resulted in a significant reduction in fertiliser import bill during 1987-88. Following the remarkable recovery in the agricultural sector in 1988-89 demand for fertilisers picked up and imports surged. Import of fertilisers and fertiliser raw materials rose from 3.98 million tonnes valued at Rs. 486.2 crores in 1987-88 to 5.32 million tonnes valued at Rs. 927.6 crores in 1988-89. The overall increase of 90.8 percent in the fertiliser import bill during 1988-89 was contributed by a sharp spurt of 42.7 percent in unit value and a volume growth of 33.7 percent. The surge in fertiliser imports continued during April-September 1989 when fertiliser (crude) and fertiliser (finished) showed phenomenal increase of 95.7 percent and 274.3 percent respectively in value over the corresponding period of 1988. This trend is expected to remain buoyant during the remaining period of 1989-90 owing to factors conducive to higher consumption of fertilisers associated with good weather conditions in the country and due to depletion of fertiliser stocks of the previous year.

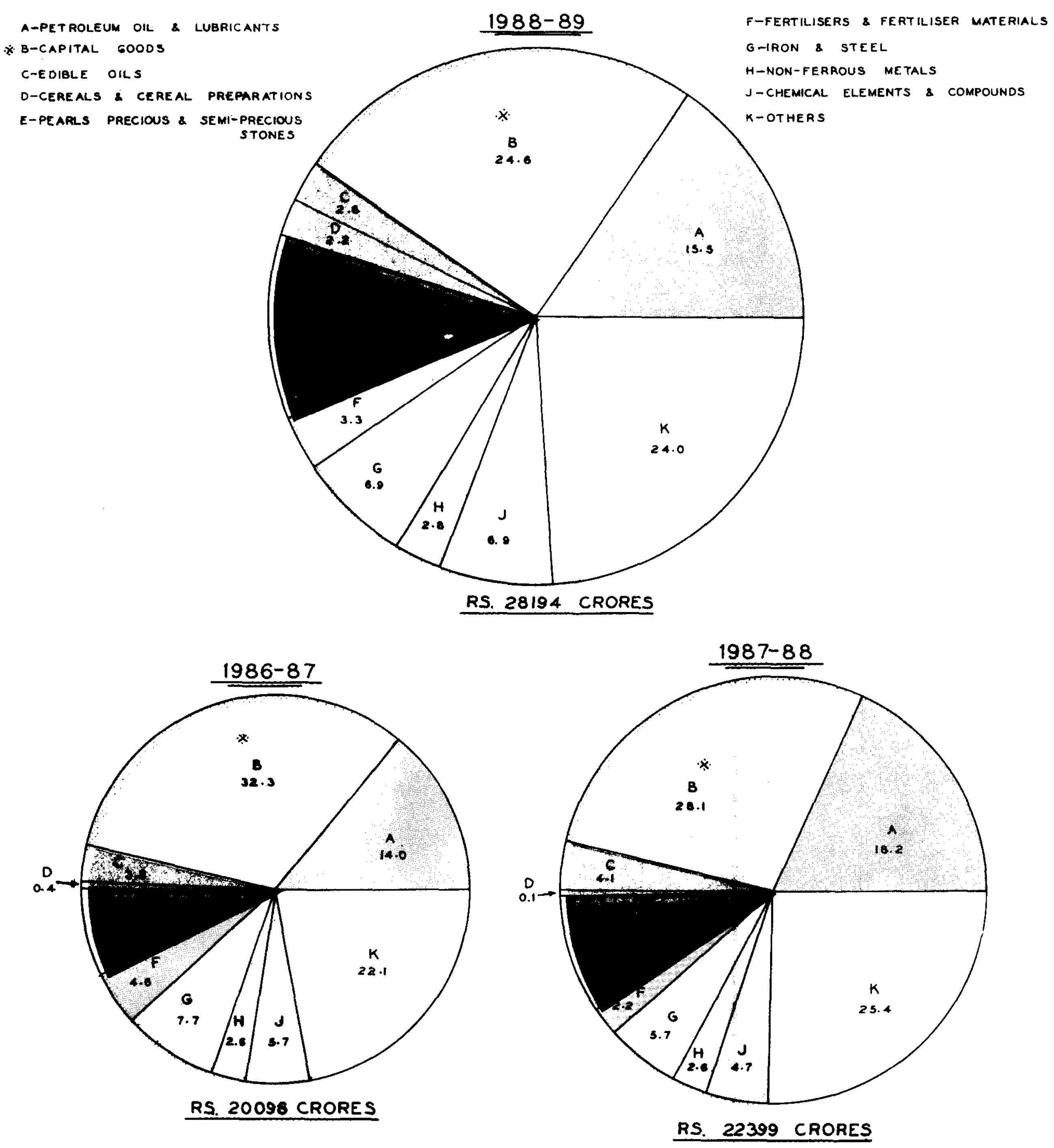
8.24 There was an increase in both value and volume of crude oil and petroleum products imported when they showed an increase of 7.1 percent each in 1988-89. During 1988-89 POL imports (gross) were 24.0 million tonnes valued at Rs. 4,374.0 crores compared with 22.4 million tonnes valued at Rs. 4,082.8 crores in 1987-88. Underlying this expansion in volume of POL imports during 1988-89 was the higher growth of 7.2 percent in the domestic consumption of petroleum products relative to a lower increase of 5.5 percent in the indigenous crude oil production. During the first six months of 1989-90 POL import bill at Rs. 2,555.1 crores was higher by 21.4 percent over the corresponding period of 1988-89. The higher value of POL imports also reflects the fact that the US dollar in which oil is billed had appreciated considerably against the rupee. The world market for crude oil and products has been relatively tranquil in recent years.

8.25 Imports of organic and inorganic chemicals showed a steep increase of 84.7 percent during 1988-89. This trend was completely reversed during first half of 1989-90 when imports dropped by 6.8 percent compared with that in the corresponding period of the previous year. Imports of medicinal and pharmaceutical products showed, in 1988-89, a substantial increase of 47.4 percent. In the first half of 1989-90 there was a further increase of 12.9 percent. The chemical material and products have shown deceleration in import growth. These imports which showed a growth of 17.6 percent in value in 1988-89 recorded considerable deceleration in growth to 4.9 percent during April-September, 1989.

8.26 Import of synthetic and regenerated fibres rose to 20,500 tonnes valued at Rs. 37.4 crores in 1988-89 from 17,100 tonnes valued at Rs. 28.4 crores during 1987-88. This reflected

COMPOSITION OF INDIA'S IMPORTS

(IN PER CENT)



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

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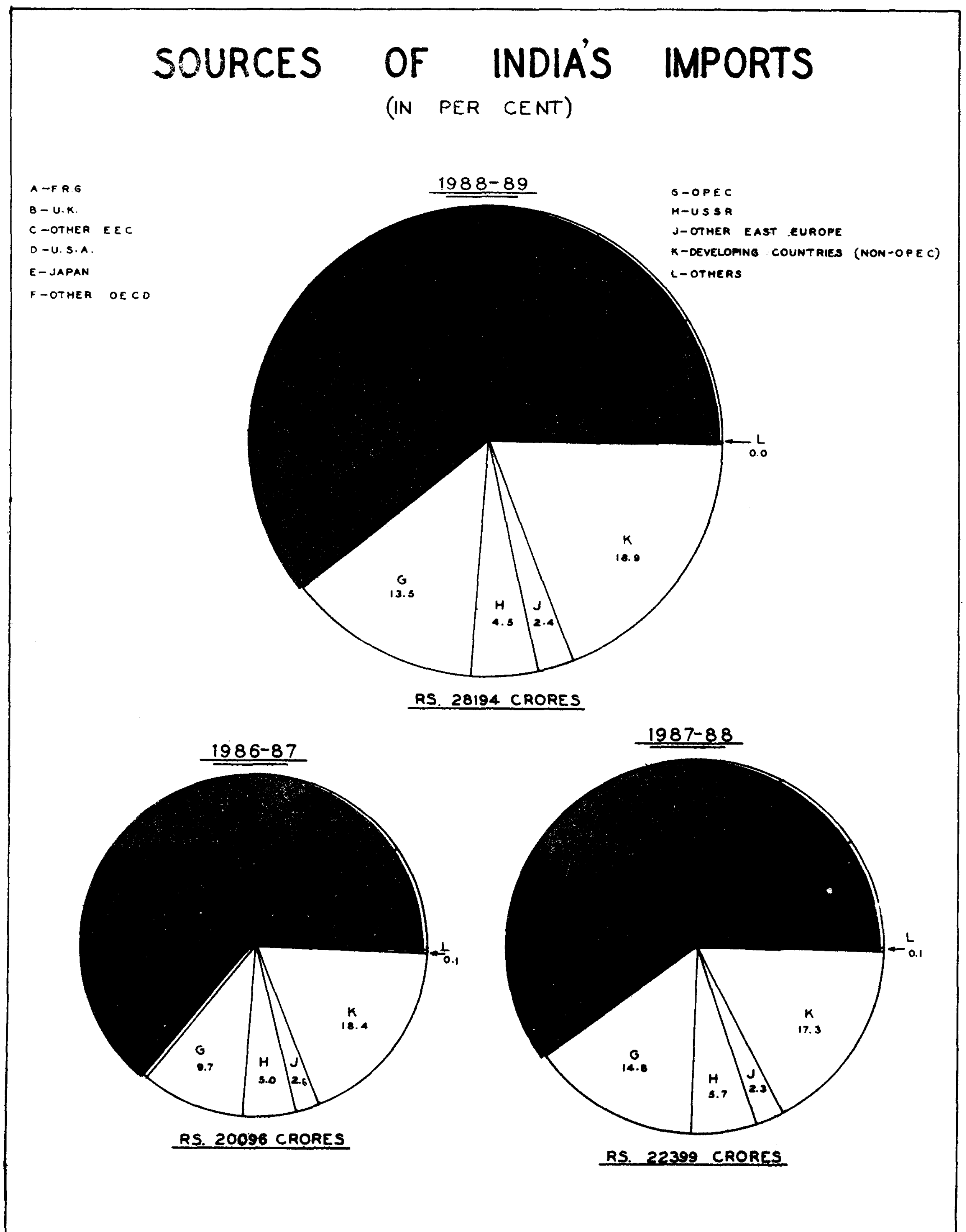


MINISTRY OF FINANCE, ECONOMIC DIVISION.

an increase of 31.7 percent in value during 1988-89 which was contributed by volume growth of about 20 percent and a unit value appreciation of 9.8 percent. The surge in imports of man-made fibres has continued when their imports showed a phenomenal increase of about 150 percent in value during the first half of 1989-90. Demand for imports of man-made fibres is often induced by high prices of similar domestic products.

8.27 Imports of paper and paper board at 256,700 tonnes valued at Rs. 305.7 crores during 1988-89 were lower by 9.5 per cent in volume but higher in value by 18.4 percent owing to sharp appreciation in unit value of around 31 percent over the preceding year. However, during April-September, 1989 these imports at Rs. 144.9 crores recorded a marginal increase of 3.6 percent over the same period of the preceding year.

8.28 Pearls and precious stones are imported by the gem and jewellery industry for processing and re-exporting. Reflecting the buoyancy on export front, their imports have surged. Imports of these items increased by 59.2 percent from Rs. 1,994.2 crores in 1987-88 to Rs. 3,175.2 crores in 1988-89. However, during the first six months of 1989-90 the increase in these imports was smaller by about 29 percent.

8.29 Iron and steel imports increased from around 2.3 million tonnes valued at Rs. 1,273.2 crores in 1987-88 to 3.4 million tonnes valued at Rs. 1,937.3 crores in 1988-89. This showed an increase in value of about 52.2 percent coupled with a volume growth of somewhat similar magnitude (47.8 percent) as import unit values showed a marginal increase during 1988-89. During April-September, 1989 iron and steel imports at Rs. 1,104.3 crores were higher by about 40.8 per cent over the corresponding period of 1988. There has been a hardening of prices of steel products in the world market during the current year. High level of iron and steel imports has been necessitated to meet the needs of growing and diversified economy and sustain exports of engineering goods. Import of non-ferrous metals increased from Rs. 576.1 crores in 1987-88 to Rs. 785.8 crores in 1988-89, showing an increase of 36.4 percent. During April-September, 1989 imports at Rs. 663.2 crores were higher by 67.3 percent over that in the same period of 1988. Available trends in the world market showed sizeable spurt of prices in the world market of copper, nickel, lead, zinc, and tin during 1988-89 in particular.

8.30 Imports of capital goods showed an increase of 10.4 percent in 1988-89, when they amounted to Rs. 6,938.9 crores. In the first half of 1989-90 imports at Rs. 3,655.2 crores were higher by 13 percent compared with imports of Rs. 3,234.1 crores in the corresponding period of the previous year. The import demand for capital goods is largely influenced by the performance of industrial sector, the pattern of public sector investment and the trade policy regime for import of capital goods. Exchange rate movements of Indian rupee vis-a-vis currencies of major sources of capital goods import appear to have exercised some restraining influence on these imports.

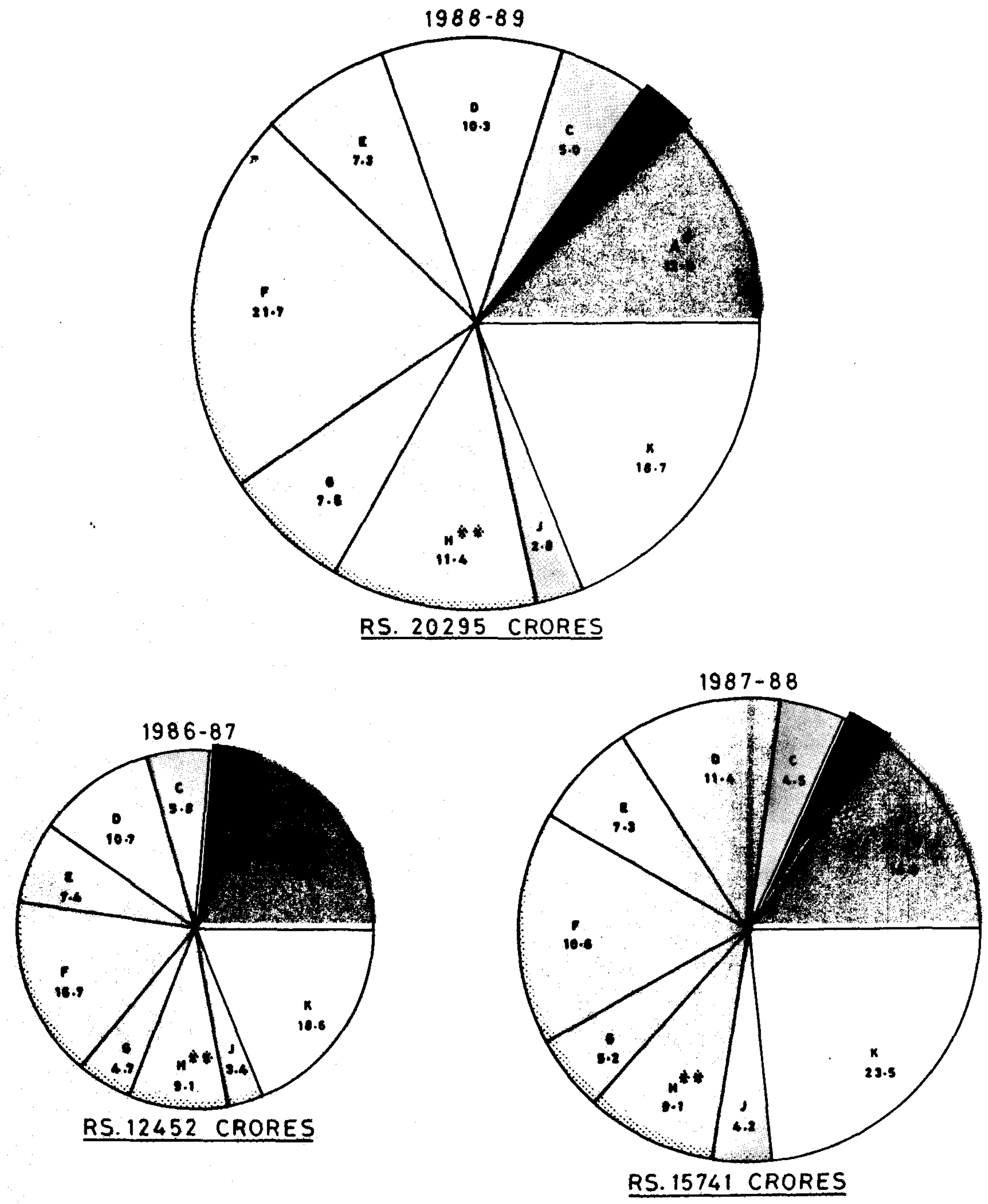
8.31 The import bill in rupee terms has gone up as a result of the steep escalation in unit value of certain import items coupled with the depreciation in the value of rupee. On the whole, import volume growth seems to have been constrained by these price factors. Furthermore, imports (in terms of value) have increased though at a lower rate, but from a higher base than in case of exports.

8.32 It should be noted that the balance of payments data relating to merchandise trade compiled and published by RBI are different from those compiled and published by the DGCI&S. The differences are greater in the case of imports and have been rising over the years. The differences arise on account of coverage, valuation and timing factors. Annual report of RBI for 1988-89 explains the sources of difference. Briefly, export data differ because of exclusion of a part of exports by parcel post in the DGCI&S data, different valuation procedures adopted and different data sources; import data differ because the RBI data are on a payments basis whilst the DGCI&S data are based on arrival of goods at the customs and the coverage of RBI data is more comprehensive.

COMPOSITION OF INDIA'S EXPORTS

(IN PER CENT)

A – AGRICULTURAL BASED PRODUCTS*
B – MARINE PRODUCTS
C – ORES & MINERALS
D – READYMADE GARMENTS
E – LEATHER & LEATHER MANUFACTURES
F – GEMS & JEWELLARY
G – CHEMICALS
H – ENGINEERING GOODS**
J – MINERAL FUEL & LUBRICANTS
K – OTHERS



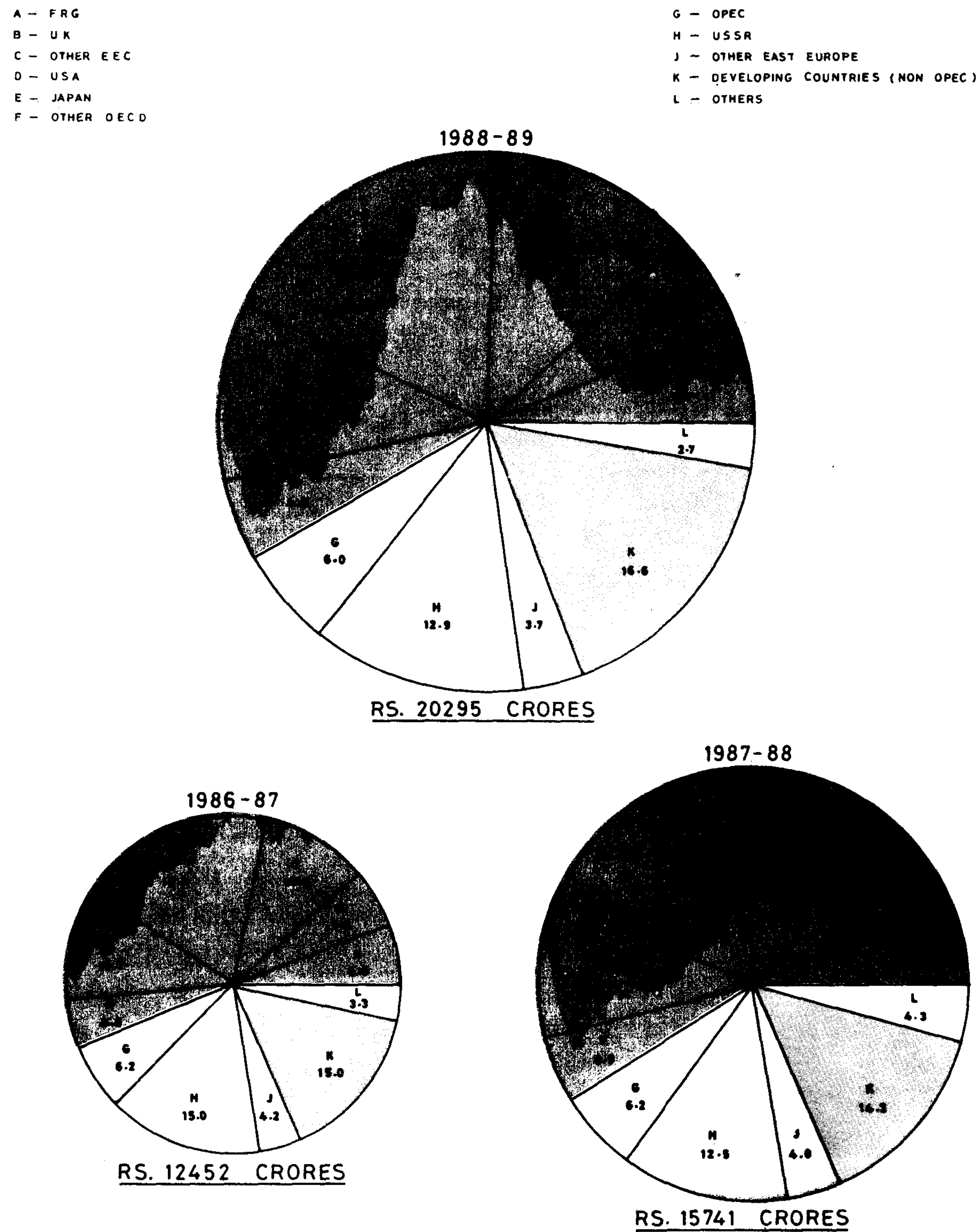
* INCLUDE COFFEE, TEA, OILCAKES, TOBACCO, CASHEW NUTS, SPICES, SUGAR, RAW COTTON, RICE AND FRUITS & VEGETABLES.

** INCLUDE MACHINERY & TRANSPORT EQUIPMENT AND METAL MANUFACTURES INCLUDING IRON & STEEL.

MINISTRY OF FINANCE, ECONOMIC DIVISION.

DESTINATION OF INDIA'S EXPORTS

(IN PER CENT)



MINISTRY OF FINANCE, ECONOMIC DIVISION.

TABLE 8.6

Exports by Major Commodity Groups

(Rs. Crores)

Sl. No.	Commodity	1987-88 (P)	1988-89 (P)	%change 1988-89 / 1987-88	April - Sept. (P) 1988-89	April - Sept. (P) 1989-90	%change Apr.—Sept. 1989-90 / 1988-89
1	2	3	4	5	6	7	8
1.	Cashew kernels	306.7	277.2	—9.6	154.0	209.3	35.9
2.	Coffee & coffee substitutes	263.2	279.7	6.3	140.9	202.1	43.4
3.	Fish & fish preparations	525.1	632.5	20.4	290.6	295.5	1.7
4.	Oil cakes	173.3	370.4	113.7	79.8	255.7	220.4
5.	Raw cotton	95.5	28.0	—70.7	13.5	68.9	410.4
6.	Rice	324.6	331.5	2.1	155.1	297.2	91.6
7.	Spices	309.3	250.8	—18.9	155.7	145.0	—6.9
8.	Sugar	0.8	7.0	775.0	0.6	24.0	3900.0
9.	Tea & mate	592.4	599.0	1.1	280.8	383.9	36.7
10.	Tobacco	134.6	128.5	—4.5	76.2	85.2	11.8
11.	Iron ores	542.8	672.5	23.9	282.7	381.1	34.8
12.	Engineering goods*	1433.0	2321.7	62.0	961.8	1323.2	37.6
13.	Chemicals and allied products**	823.4	1534.0	86.3	687.5	898.1	30.6
14.	Cotton yarn, fabrics, made-up etc.	1063.8	1131.3	6.3	503.5	636.0	26.3
15.	Jute mfrs.	242.8	249.9	2.9	110.2	124.8	13.2
16.	Leather and leather mfrs. incl. garments & travel goods	1148.5	1489.5	29.7	695.6	833.3	19.8
17.	Readymade garments	1792.1	2097.5	17.0	879.8	1309.8	48.9
18.	Handicrafts	3253.3	5194.2	59.7	2227.4	2993.0	34.4
	Of which : Gem and jewellery	2613.5	4399.0	68.3	1845.4	2530.1	37.1
19.	Others	2716.0	2700.0	—0.6	1291.2	1864.6	44.4
	Of which : Petroleum Products	648.7	505.0	—22.2	253.6	348.6	37.5
20.	**TOTAL**	**15741.2**	**20295.2**	**28.9**	**8986.9**	**12330.7**	**37.2**

Notes : * Engineering goods figures relate to machinery, transport equipments, metal manufacturing and iron & steel.
**Chemical and allied products figures relate to basic chemicals.
(P) Provisional.

value of about 19 per cent in spite of an increase in volume of 12.9 per cent owing to fall in unit value realisation by 28.3 per cent. The declining trend in export earnings from spices continued during the first half of 1989-90 with a further fall of 6.9 per cent in value. In recent years exports of cardamom (small) have suffered because of higher prices in the domestic market and severe price competition in West Asia from Guatemala. In case of pepper which is the major item in the spices group, high standards of cleanliness required in our major markets have constrained exports. Exports of tobacco suffered setback in both volume and value. From a level of 76,400 tonnes valued at Rs. 134.6 crores in 1987-88 tobacco exports fell to 56,100 tonnes valued at Rs. 128.5 crores. During April—September, 1989 export earnings increased by 11.7 per cent to Rs. 85.2 crores. The international tobacco market is characterised by declining demand for tobacco because of anti-smoking campaigns and Government restrictions on consumption. Furthermore, stagnant yields of tobacco in India, increased cost of cultivation and failure to produce quality tobaccos which are in demand abroad are making Indian tabocco less competitive in the world market.

8.40 Export earnings from tea in 1988-89 showed a marginal increase of 1.1 per cent in value despite a 2 per cent decline in volume owing to a small increase of 3.2 per cent in unit value of tea exports. During the first six months of 1989-90 earnings from tea exports showed a substantial jump of 36.7 per cent. Tea prices in the world market have firmed up in view of the tight global demand supply balance. Export of coffee at 82.6 million kgs valued at Rs. 279.7 crores during 1988-89 compared with 88.7 million kgs valued at Rs. 263.2 crores in 1987-88. The modest increase in coffee earnings of 6.3 per cent despite a drop in export volume of 6.9 per cent during 1988-89 was attributed to increase in unit value realisation of about 14.1 per cent. During April—September, 1989 export of coffee at Rs. 202.1 crores showed a substantial increase of 43.4 per cent over that in the same period of 1988. International coffee market has been in a state of turmoil since July 1989 when the International Coffee Agreement (ICA) meeting decided to suspend the operation of the export quota system for two years from the first week of July 1989 instead of waiting until September, 1989 when ICA was due to expire. The impact of the suspension of the quota scheme on coffee export revenues would vary from one country to another. However, countries with low production costs should be able to compensate for lower world prices by increasing export quantities.

8.41 Exports of marine products touched an all time high in 1988-89 increasing from 97,900 tonnes valued at Rs. 525.1 crores in 1987-88 to 158,500 tonnes valued at Rs. 632.5 crores in 1988-89. This represented an increase of 61.9 per cent in volume and a mere 20.4 per cent in value. There was an erosion in unit value realisation when it declined by 25.6 percent during 1988-89. During the first six months of 1989-90 export earnings from marine products showed only a marginal increase of 1.7 per cent. India's export of marine products is characterised by high degree of product and market concentration which may constrain its further expansion. During the current year shrimp market has been dull in Japan which is a major export destination for our marine products. Also with the expansion of acquaculture facilities for production of shrimp in Philippines, Thailand and Indonesia competition is expected to be intense. Despite rising world demand, India's share in exports of frozen foods has been declining. There exist good prospects of frozen meat products, eggs and chicken and dairy products to West Asia.

8.42 Exports of rice showed a marginal increase from 3,71,600 tonnes valued at Rs. 324.6 crores in 1987-88 to 3,75,600 tonnes valued at Rs. 331.5 crores in 1988-89, which meant 1.1 per cent increase in volume and 2.1 per cent in value. Export earnings recovered in April—September, 1989 when they showed a phenomenal increase of 91.6 per cent over the same period of 1988. World demand for rice is expectedto remain strong with prospects of higher unit value realisation. Exports of oil cakes showed an increase of 113.7 per cent in value and 81.6 per cent in volume during 1988-89. Export earnings from this item showed up by appreciation in unit value realisation of the order of 17.8 per cent. There was a further massive increase of 220.4 per cent in export earnings during April—September, 1989.

8.43 The demand for iron ore fluctuates with the requirement of the world iron and steel industry. Demand for steel in Japan which is India's major destination for iron ore remains high. Iron ore exports during 1988-89 at 32.9 million tonnes valued at Rs. 672.5 crores showed an increase of 16.2 per cent in volume and 23.9 per cent in value with a modest appreciation of 6.6 per cent in unit value over 1987-88. This trend has been maintained when earnings from iron ore exports increased by 34.8 per cent during the first half of 1989-90.

8.44 India's exports of jute manufactures increased to 3.1 lakh tonnes valued at Rs. 249.9 crores in 1988-89 from 2.4 lakh tonnes valued at Rs. 242.8 crores in 1987-88. The marginal increase in export earning of 2.9 per cent during 1988-89 was attributed to volume expansion of 29.2 per cent in the face of a steep decline in unit value realisation of 20.3 per cent. Export earnings from jute manufactures showed an improvement in April—September, 1989 when they increased by 13.2 per cent. The increased world demand for packaging materials is being increasingly met through usage of synthetic substitutes leading to contraction of world demand for jute related products. With a view to improving the competitive position of Indian jute manufactures a number of incentives have been introduced which include cash compensatory support for all exports of jute goods at an uniform rate of 12 per cent; additional incentive at the rate of 10 per cent over and above CCS admissible on diversified jute products; and import of raw jute against export of jute goods under advance licensing scheme.

8.45 In the case of cotton yarn and fabrics, export earnings recorded a modest increase of 6.3 per cent in 1988-89, but a significant increase of 26.3 per cent during April—September, 1989. Readymade garments showed an increase of 17 per cent in 1988-89 to Rs. 2,097.5 crores. This trend continued during the first half of 1989-90 with readymade garments showing a substantial increase of 48.9 per cent over the same period of 1988-89. India's share in world trade of readymade garments is marginal. While world trade is mostly in garments made of synthetic and blended fabrics, India's exports in this sector are mainly confined to cotton garments. International trade in textiles is constrained as it is conducted through bilateral quotas under the umbrella of Multi-Fibre Arrangement (MFA). Morever, protectionism in this area has progressively increased both in intensity and coverage. Starting with cotton, the restrictions have spread to all other fibres, natural, man-made and synthetic. The present MFA expires at the end of July 1991. Negotiations are now underway in the Uruguay Round for integrating textile and clothing sector into the GATT. With the expiry of the MFA, bilateral agreements under the MFA shall also cease to have effect. MFA to some extent provides security of access to exports from sources which may not be competitive. However, quantitative restrictions in the present form hamper the growth of garment industry since a large number of restraint levels may be too low to attract investment. India's relative comparative advantage due to the availability of skilled manpower and low wages may stand in good stead in a relatively free trade regime in textiles at global level. In the short run, the only way of achieving higher exports would be through higher unit value realisation, increase in export of non-quota items to quota countries and by pushing up exports to non-quota countries.

8.46 Exports of leather and leather manufactures increased by 29.7 per cent in 1988-89 but showed an increase of 19.8 per cent during April—September 1989. This is one sector where India enjoys comparative advantage in terms of a large bovine population and the labour intensive character of the industry. The market for shoe uppers has been promising. Rising inflation in Italy has diverted import demand for shoe uppers to India. Indian exporters should take advantage of the situation by maintaining quality standards and offering products at competitive prices. The demand for sports shoes has been rising all over the world. The Indian shoe industry needs to take up the challenge of meeting a part of this demand.

8.47 Export of engineering goods have shown robust performance in recent years in spite of intensification of competition in the world market and erosion of import capacity of many developing countries which were India's important markets. In 1988-89 engineering goods showed an increase of 62 per cent. There was a further increase of 37.6 per cent in their export value during April-September, 1989. Alongwith the growth in exports, significant shift has also taken place in the direction of export of engineering goods. In particular, share of developed market economies in our total engineering exports has grown and that of East European countries declined. Exports of chemicals and allied products rose by 86.3 percent during 1988-89 and by 30.6 percent during the first half of 1989-90. Our engineering exports have yet to realise their full potential. Some of the measures to improve the performance of this important sector include improvement in low productivity and quality of products, standardisation of components and maintaining delivery schedules.

8.48 Exports of gems and jewellery spurted by 68.3 percent to Rs. 4,399 crores in 1988-89. This upward trend slackened to 37.1 percent in the first half of 1989-90. This most dynamic non-traditional export sector faces problems of a stage of plateau having reached in international demand, increasing international competition, late recovery of export bills, etc. This happens to be the most import-intensive export sector, and its credit requirements are relatively high. India will have to continue to concentrate more on low quality roughs which require higher labour input and in which we have comparative advantage. Jewellery exports have yet to take-off; special efforts will have to be made to promote these exports.

Export Processing Zones

8.49 With a view to giving impetus to export drive, Government has set up Export Processing Zones (EPZs) which provide almost free trade environment for export production so as to make Indian export products competitive in the world market. India has six EPZs located at Kandla, Santacruz, Falta, Noida, Cochin and Madras. The seventh EPZ at Visakhapatnam was approved and notified on 15-3-1989. The one located at Santacruz is mainly devoted to production of electronic goods for export with a recently established facility for gem and jewellery complex. Other EPZs are multi-product in character. As of today there are 286 units in operation spread over these six EPZs providing employment to 20,200 persons. These units have attracted private investment of around Rs. 107 crores along with Government investment of Rs. 88 crores devoted to infrastructure and support facilities. Exports from these six EPZs in operation at Rs. 516.5 crores during 1988-89 were higher by 54.9 per cent compared with their Rs. 333.5 crores exports in 1987-88. However, the share of exports emanating from EPZs was about 2.5 per cent of India's total exports in 1988-89 compared with their higher share of about 3 per cent in 1985-86. The performance of the EPZs has been far from satisfactory.

Project Exports

8.50 Project export consists of two categories *viz* construction services and engineering design services (EDC). Construction services are those which make physical construction possible. These services are therefore ancillary to structural projects including social infrastructure, industrial or agricultural, public works, etc. Generally, construction services involve activities relating to financing, procurement of supplies, mobilisation of labour and equipment as well as management of projects. Although often requiring specialised skills, construction services also rely heavily on unskilled and semi-skilled labour. Engineering design/consultancy services (EDCs) produce different outputs such as pre-feasibility studies, preliminary and detailed engineering design, etc. Many of these services are multi-disciplinary in nature and technology intensive. They require general and specialised engineering skills to produce output.

8.51 World market for construction services is marked by overwhelming dominance of industrial countries which in itself is rooted in two inter-linked factors. One is that more than 70 percent of the construction and design services market continues to be in the developing countries and the other is that industrial countries are able to offer attractive financial packages to fund such projects. In recent years the international construction market has dwindled and witnessed intense competition, resulting in fluctuating and declining construction and turnkey exports from India. Civil construction exports which were of the order Rs. 368 crores in 1984 slumped to Rs. 178 crores in 1988 which is higher than the level of construction exports of Rs. 118 crores recorded in 1987. Exports of turnkey projects have stagnated at Rs. 144 crores. Data available for the first nine months of 1989 do not presage substantial recovery from the depressed levels at present. The fluctuating fortunes of project exports from India are to a considerable extent linked to the global slump in the construction service market mainly arising out of slow down in economic activity in oil exporting countries on account of weak crude oil prices and disturbed conditions in West Asia. However, supply side factors like delivery schedules, specifications, credit terms and price factors were also contributory factors in case of India.

8.52 With a view to promoting project exports, Government has provided a number of incentives which include market development assistance for reimbursement of 50 percent of cost of preparation and submission of bids; and project assistance to the extent of 10 percent of net foreign exchange earnings from the service portion of the contracts. With effect from May 1, 1989 powers have been delegated to authorised dealers and the Exim Bank to grant pre-bid clearance for export of management/technical/consultancy services upto the monetary limit of Rupees two crores and Rupees five crores respectively.

Direction of Exports

8.53 The destination-wise pattern of India's exports display diversification and is also depicted in the pie chart for the years 1986-87, 1987-88 and 1988-89. In 1988-89, the share of exports going to industrial market economies as represented by OECD group was 58.2 percent, while East Europe and developing countries accounted for a share of around 16.5 per cent each. The countries of the OPEC accounted for a market share of 6 percent.

8.54 The bulk of exports from India to the OECD group went to the EEC, the USA and Japan. Exports to the EEC showed an increase of 25 percent from Rs. 3,957 crores in 1987-88 to Rs. 4,946 crores in 1988-89. Exports to USA in 1988-89 rose by 28.5 percent to Rs. 3,736 crores from Rs. 2,908 crores in 1987-88. Exports to OPEC group and East European countries showed an increase of 23.2 percent and 29.4 percent respectively.

8.55 Exports to developing countries (excluding member countries of the OPEC) showed a very substantial increase of more than 50 percent when they rose to Rs. 3,361 crores in 1988-89 from Rs. 2,238 crores in 1987-88. In particular, countries of the Asia and Pacific region which accounted for more than four-fifths of our exports going to developing countries showed an increase of 51.3 percent during 1988-89.

8.56 The preceding review of Indian export performance indicates robust trends in volume growth during the past few years. Furthermore, these have kept pace with the expansion in world trade and Seventh Plan target for export growth. However, there are some trends on export front which deserve attention. One is that overall average import intensity has increased because of shifting composition of India's exports in favour of manufactures. The other noticeable feature has been the erosion in the share of agro-based products in our total exports because of adverse weather conditions which prevailed for successive years during the Seventh Plan. However, the declining share of agro-based products was more than made up by buoyant trend in our manufactured exports. The other issue pertains to some developments related to India's regional trade matrix. There has been a high growth in exports/imports to/from India to developing countries of Asia (excluding members of the OPEC). Some of these economies (Korea, Singapore, Malaysia, Hong Kong and Taiwan) have witnessed continued economic growth along with significant trade liberalisation and economic deregulation. Therefore, these economies provide excellent opportunity for export thrust. On the other hand, India's exports may have to contend with uncertainty in East European market arising out of proposed economic reforms underway. These markets till now were sheltered and imparted a measure of stability to Indian exports. Exports from India will now have to face increasing competition in view of switch over by these economies to trading based on world prices and convertible currencies.

IV. Trade Policy Developments and Export Incentives

8.57 In recent years, import-export policy has provided a stable policy framework so as to minimise year to year uncertainties and enable entrepreneurs to plan their activities in a longer term perspective. Besides, the import-export policy has also provided a framework for a flexible and liberal response to the growing needs of the economy for increasing production and exports. The current import-export policy has been in operation since April 1988. During the course of the year some improvements were made in the policy in order to improve the quality of incentives and their administration and to simplify and rationalise policy and procedures. In particular, some modifications were made in the current import-export policy to give further impetus to export promotion. The goods manufactured and exported from customs bond against import licences (other than those issued with export obligation) were made eligible for grant of special REP equal to 10 percent of the value addition (f.o.b. value of exports minus c.i.f. value of imports) subject to a minimum value addition of 33 percent achieved in each consignment of export. The holders of advance licences for export of engineering and chemical including petroleum products were made eligible to dispose of the replenished exempt materials to any person on the basis of permission from the licensing authority. Provisions for utilisation of the flexibility available on REP/Additional licences, for certain specified non-ferrous items, were liberalised. Furthermore, exporters of engineering and steel products availing of the facility of reimbursement under the International Price Reimbursement/Protection Scheme were made eligible for the replenishment at the same level and for the same items, as permissible in normal cases. A warehouse for stocking engineering goods was opened at Rotterdam. Registered exporters shipping goods to this warehouse were permitted to claim replenishment to the extent of 80 per cent of their entitlement before realisation of the foreign exchange. The facility of duty free imports of inputs for export production against phased manufacturing programme under Duty Exemption Scheme was extended to manufacturers with large domestic turnover but without export performance to their credit. Also intermediate licence holders were provided with an alternative to supply the intermediate products to the holder of Import-Export Pass Book, besides the advance licence holders, for ultimate export. Requirements for fulfilment of the value addition criteria for obtaining a duty-free licence were tightened. The value addition is to be computed by taking into account the c.i.f. value of all imported inputs, whether imported directly by the applicant with duty exemption benefits or otherwise under any other provision of the Import Policy, also all other imported inputs procured from others, without any processing.

8.58 74 items of capital goods required for the manufacture of rubber and canvas footwear and four items of silk machinery were placed under Open General Licence (OGL).

8.59 The facility of Pass Book Scheme was extended to merchant exporters in the garment sector. The merchant exporters in this sector with a minimum annual average f. o. b. value of exports of Rs. 50 lakhs in the preceding three licensing years were made eligible for the grant of blanket Import-Export Pass Books for duty-free import of the inputs required for fabrication of the various types of garments for export. Also use of foreign brand names was allowed in the readymade garments sector subject to the condition that only indigenous fabrics were used, at least 75 per cent of the production was exported and they entailed no outgo on account of royalties on domestic sales.

8.60 Export of polyester staple fibre was allowed on decontrolled basis. Shipment of silk goods was permitted under OGL against letter of credit or documents against payment basis. Export of clinker was also allowed on merit. Furthermore, exports of nylon filament yarn, high performance viscose staple fibre and non-basmati rice were allowed within limited ceilings. Exports of vegetable seeds other than onion seeds were allowed under OGL on production of quality control certificate and certificate certifying that the seeds to be exported are not foundation and breeder seeds from recognised State Certification Agency including National Seeds Corporation.

8 .61 A Board of Trade was constituted under the chairmanship of Commerce Minister to advise the Government on programme and strategies for export promotion.

8.62 A new three-year import-export policy is likely to be announced to be effective from April 1, 1990.

Import Policy

8.63 The overall approach towards import management has been selective and geared to curtailment of inessential/low priority imports, without at the same time introducing sharp changes in our existing policies and procedures governing imports. With a view to containing high imports of components for final stage assembly of a range of consumer durables, a number of components were shifted from OGL to licensable categories. Furthermore, in the budget for 1989-90 a number of excise and customs duty revisions were carried out to moderate growth of imports. Excise duties were increased for passenger automobiles and a variety of electronic items including televisions, music systems and radios. The customs duty on specified raw materials and piece parts imported for the manufacture of specified electronic items was raised from 35 to 40 per cent and from 50 to 60 per cent respectively. Concessional import duty on specified machinery which varied between 25 per cent to 35 per cent was unified and fixed at 40 per cent ad valorem. Furthermore, import duty on wood pulp, waste paper, low ash coal, raw petroelum, coke and certain chemicals was raised by 5 percentage points over the existing rates. On benzene, the basic customs duty was hiked from the existing nil rate to 25 per cent ad valorem. Tariff adjustments pertaining to several chemical items were made during the course of the current year. These include increase in basic customs duty from 70 percent to 80 percent ad valorem on specified plasticizers. Furthermore, the basic customs duty on aluminium ingots was raised to 5 per cent ad valorem plus Rs. 2,500 per tonne in October 1989.

8.64 In order to ensure proper absorption of foreign technology and progressive indigenisation of the product, most import-intensive industries e.g. automobiles, electronics, consumer durables, etc. are required to have a Phased Manufacturing Programme (PMP). The PMPs indicate the import entitlement for components at different stages while the remainder of its input requirements are stipulated to be met from indigenous sources. In recent years import of components by units in the manufacturing sector under PMP have been of a fairly high order. Measures are being taken to tighten up on monitoring of compliance with agreed PMPs.

8.65 Although the share of bulk imports in India's total imports has fallen over the last few years they still account for a fairly large slice of total imports. Therefore, substantial savings can be effected in many of these imports through higher domestic production and economy in use. The programme for the import of bulk items was subjected to continuous monitoring and scrutiny in the course of 1989-90 with a view to effecting economies wherever appropriate.

Fiscal Incentives

8.66 The main basis of the Cash Compensatory Support (CCS) scheme is to provide compensation for unrebated indirect taxes (on both final and intermediate stages of production) which enter into export production but are not refundable through Duty Drawback system. A new CCS scheme was introduced with a validity period of three years beginning 1st April, 1989, except in respect of cotton textile items, where the CCS rates will be valid only upto 31st December, 1991. The new CCS covers product groups which includes engineering goods, chemicals and allied products, leather goods, sports goods, agricultural products and processed foods, solvent extracted oil meals, textiles, flax products and handicrafts and carpets.

8.67 The CCS rates admissible are specified in terms of f.o.b. value of relevant export product. The present policy restricts CCS to a cut-off point of 25 per cent of the net foreign exchange earned (f.o.b. realisation after deducting the import content of the product). For this purpose import content includes import allowed under normal REP, and made against advance licences, imprest licences, special imprest licences, Import/ Export Pass Book licences and/or any other licences granted under the import policy for registered exporters.

8.68 Cash Compensatory Support which was till recently being disbursed through the office of the Chief Controller of Imports and Exports (CCI&E) is being disbursed from October 1989 through all public sector banks also, as an additional facility to exporters to get their CCS claims promptly. Under this scheme, exporters have an option to collect their claims either from banks or from the office of the CCI&E.

8.69 A new duty drawback schedule of All Industry Rates for various export products was introduced with effect from June 1, 1989. The existing rates were specially looked into for items of thrust industries having significant exports/ export potential and whose inputs had suffered significant duties. Some of the basic features of the revised drawback schedule are as follows : First, it takes cognisance of the increased incidence of duties suffered by industries using imported inputs on account of variation in exchange rates and spurt in prices in the world market apart from changes in import duty on such items wherever effected as a part of budget proposals. Also where MODVAT benefit was not available, impact of increased incidence suffered by indigenous inputs due to rise in prices/duties was carefully reassessed. As a consequence, the drawback rates were revised and improved, with effect from 1st June, 1989 for a wide range of products especially those where such rates were on a specific basis. They include a wide range of engineering items, certain chemical products, various plastic products and a number of miscellaneous items. Secondly, 16 new items were added to the list of products covered by All Industry Rates. These include floppy diskettes, vacuum flasks, pickles in glass bottles, injection moulding machines, various categories of copper wound transformers, motorcycles, etc. Thirdly, the existing All Industry Rates for a number of items were retained where they were found to be realistic keeping in view the need for continued growth in exports of such items. The more important of these products include readymade garments, carpets (priced upto Rs. 1,000 per sq. metre), drugs and pharmaceuticals, dyes and dye intermediates, cotton fabrics, unembroidered man-made fabrics, most products of leather industry, most machine tools and items of textile machinery, electric motors and most items of transport sector. Fourthly, the existing facility for reduced rates in certain industries where the exporters avail of advance licence/pass book scheme benefits was not only continued but also extended for a number of new products, to obviate the need for brand rate application in individual cases.

8.70 The Government has announced significant modifications in the international price reimbursement scheme (IPRS) to streamline the existing scheme and to ensure optimal use of the funds. These have come into force from March 1, 1990. Under the scheme, exporters are reimbursed the difference between domestic and international prices of iron and steel used in export production. So far, for qualifying for reimbursement under the scheme, no positive value addition in terms of net foreign exchange earnings in export realisations was necessary. Minimum levels of value addition have now been prescribed to qualify for reimbursement under the revised scheme. For items manufactured from alloy steel, non-alloy steel and high carbon wire rod, a minimum value addition of 33 per cent over the value of steel content at international prices has been prescribed. In respect of items consuming mild steel, pig iron, cast iron and steel melting scrap, the minimum value addition prescribed is 25 per cent. For exports made out of a combination of iron and steel of the above two categories, value addition of 33 per cent has been prescribed. These modifications will encourage higher value-added exports. Furthermore, the new scheme provides for timely announcement of international prices. Domestic and international prices of all varieties of iron and steel will be notified on a monthly basis, doing away with the existing practice of announcing alloy steel, non-alloy steel and high carbon wire rod prices on a quarterly basis.

Export Credit

8.71 Interest rates on pre-shipment and post-shipment export credit were lowered by 2.0 percentage points and 0.85 percentage point per annum respectively. The new reduced rates on export credit came into effect from March 1, 1989. The rate of interest on pre-shipment credit upto 180 days was lowered from 9.5 per cent to 7.5 per cent. The rate of interest on pre-shipment credit beyond 180 days and upto 270 days was lowered to 9.5 per cent from the previous rate of 11.5 per cent. Interest rate on post-shipment credit for all categories of advances was reduced to 8.65 per cent from 9.5 per cent. However, the rate of interest on export credit under deferred payment for period beyond 180 days remained unchanged at 8.65 per cent per annum.

8.72 Since the introduction of the broad based and flexible Blanket Exchange Permit Scheme in June 1987, the scheme has been under continuous review and has been further expanded from time to time. This facility was extended to new units operating in the export processing zones even if such units do not have to their credit the required minimum export performance during the initial period of two years of operation as in the case of 100 per cent Export Oriented Units.

V. External Capital Flows

External Assistance

8.73 During 1988-89, authorisation of external assistance on Government and non-Government account registered a sharp increase to Rs. 13,200 crores from Rs. 9,046 crores in 1987-88 and Rs. 6,160 crores in 1986-87. Authorisation of assistance in the first half of 1989-90 at Rs. 6,255 crores is also considerably higher than authorisation of Rs. 2,964 crores in the same period last year. However, despite the absolute increase in aid commitments, the share of external assistance in India's total external debt has been declining over the years. Furthermore, the grant element in external assistance has also been declining making the availability of these resources costlier over time.

TABLE 8.7

Inflow of External Assistance : Gross and Net

(Rs. crores)

Items	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90**
1. Authorisations	4880	5650	6160	9046	13200	6255*
2. Gross disbursements . .	2354	2938	3596	5032	5291	5869
3. Debt servicing (including interest payments)	1176	1367	2029	2623	2946	3460
4. Net inflow of assistance (2-3)	1178	1571	1567	2409	2345	2409

*For the period April-September 1989 only.

**Estimated.

NOTE : The data include Government and non-Government loans and grants (including food assistance grant but excluding other commodity grant assistance). These figures do not include supplier's credits, commercial borrowings and IMF credits other than Trust Fund loans.

8.74 In the India Consortium meeting in Paris which concluded on June 20, 1989, an aid commitment of $ 6.7 billion was made for 1989-90 as compared with the commitment of $ 6.3 billion in the prvious year. The world Bank group lending to India during the Bank's fiscal year 1989 was $ 3,036.6 million as against $ 2,972.2 million in the previous year. IBRD loans which are costlier than IDA credits formed the bulk of this lending (about 70 per cent). India's share in total World Bank lending to all countries in the fiscal year 1989 was 13.0 per cent in the case of IBRD loans and 18.2 per cent in the case of IDA credits. An increase in these shares along with an increase in the total loanable resources of the World Bank group could be of considerable assistance in managing India's external finances in the coming years.

8.75 Assistance from the Asian Development Bank (ADB), which commenced in 1987-88, has registered steep increase in the subsequent years. Among bilateral sources, authorisation from Japan, which now happens to be the largest bilateral donor, started showing an upward trend since

1986-87. Most of the external assistance is in the form of loans. Because of drought, authorisation of grants had increased to Rs. 1,062 crores (11.7 per cent of total assistance). It declined to Rs. 214 crores (1.6 per cent of total assistance) in 1988-89.

8.76 Though authorisation of assistance has registered a perceptible increase in recent years, gross disbursement has risen at a much slower pace as can be seen from Table 8.7. Gross disbursements in 1988-89 were Rs. 5,291 crores compared with Rs. 5,032 crores in the previous year. Gross disbursements as a percentage of authorisations amounted to 55.6 per cent in 1987-88 and as low as 40.1 per cent in 1988-89. Consequently, the backlog of outstanding unutilised aid on government and non-government account which was Rs. 22,383 crores on 1-4-87 went up to Rs. 40,444 crores on 1-4-89.

8.77 The slow pace of aid utilisation is, inter-alia, due to time lags between commitment and conclusion of specific loan/credit agreements, time-consuming procedures governing procurement of stores/equipment, delays in land acquisition for construction work and domestic budgetary constraints in providing counterpart funds. There is undoubtedly the need as also the scope for speeding up the aid utilisation process.

External Commercial Borrowings

8.78 Given the shrinking share of external assistance during the past few years and also the "tied" nature of such assistance, India has had to approach the external commercial market to finance part of its requirements. Starting initially with the conventional syndicated loans, managed by American, European and Japanese banks, India has recently started raising funds in the international bond market. Financial institutions and public sector undertakings have been the main participants in the bond market. Private sector companies have also been availing of external commercial loans to finance the foreign exchange costs of specific projects. Details of approvals of external commercial borrowings since 1980-81 are given in Table 8.8 Japan has emerged as an important creditor to India with the latter actively participating in the Japanese bond market by subscribing to public 'Samurai' bonds and private 'Shibosai' bonds.

TABLE 8.8

Approvals of External Commercial Borrowings

(Rs. crores)

Year	Public Sector	Financial institutions	Purchase of ships	Private Sector	Total
1980-81	810	..	90	138	1038
1981-82	391	151	270	392	1204
1982-83	1544	133	109	240	2026
1983-84	459	119	344	162	1086
1984-85	1086	159	283	379	1906
1985-86	951	380	74	295	1700
1986-87	784	250	65	297	1396
1987-88	1598	809	32	215	2654
1988-89	2413	1353	198	350	4314
1989-90 (Apr.-Sep. 89)	2189	705	185	238	3317

NOTE : The figures have been rounded to the nearest crores. The constituents may not therefore add up to the total.

Mutual Funds

8.79 In 1986, a new development in India's participation in the global capital market was the floating of the India Fund in the United Kingdom by the Unit Trust of India (UTI) in collaboration with Merrill Lynch International Capital Managers. The India Fund was established to enable non-resident Indians and other persons or firms resident outside India to invest in the securities market in India through subsciption to the shares of the Fund. The initial funds mobilised were to the tune of 75 million Pounds equivalent to Rs. 139.5 crores. In 1988, the UTI set up the India Growth Fund in the United States and raised $ 60 million. Both these funds have been doing well and are being quoted at premiums on the London and New York stock exchanges respectively.

8.80 The State Bank of India (SBI) has also entered the foreign share market with the issue of the Magnum Fund in September-October 1989 in New York. Against a target of $ 100 million, the Fund has attracted subscriptions to the extent of $ 157 million. Initially, the Fund was privately placed but now the sponsors hope to get it listed on the New York exchange. This is said to be the largest Country Fund in the world so far.

8.81 In October 1989 UTI, in association with Merrill Lynch, was successful in completing a rights offer of 40 million Pounds to shareholders of India Fund. The issue was made at a premium and a 100 pence share of India Fund was issued at 214 pence. The total receipts in 1989-90 under the UTI India Fund (Rights) and the SBI India Magnum Fund come to over Rs. 350 crores.

8.82 Borrowing from the external capital market at reasonable terms has been possible due to the growing confidence of the international financial community in India's ability to service its debt liabilities. Indian public sector undertakings have been obtaining good ratings from international credit rating organisations. This has helped the country to get access to capital resources at terms not always available to other developing economies.

Direct Foreign Investment

8.83 Government has in the past few years, rationalised various procedural and related matters in respect of foreign investment. These measures, inter alia, include simplification of remittance procedures, equity participation permissible upto 40 per cent (with higher limits for investment in selected areas), exemption from dilution formula, simplified visa and travel regulations, and rationalisation of taxation, exchange control, licensing and rules relating to appointment of foreign technicians, managers, etc. Specially liberal provisions have been made for investment in areas of technology upgradation and exports. A 'Fast Track Mechanism' has also been set up, from the middle of 1988, for expanding investment from Japan, the United Kingdom, the United States of America, the Federal Republic of Germany and France through speedy redressal of matters of policy, procedures and specific problems of foreign investors.

External Debt

8.84 In 1980-81, India's external debt disbursed and outstanding, inclusive of external commercial borrowings (including supplier's credit) but exclusive of non-resident deposits, stood at Rs. 18,400 crores. In 1988-89, this rose to a level of Rs. 68,831 crores. If non-resident deposits, which were of the order of Rs. 1,090 crores at the end of 1980-81 and Rs. 14,154 crores at the end of 1988-89 are also taken into account India's total external liabilities amounted to Rs. 82,985 crores at the end of 1988-89. As a result of a relatively high growth in commercial borrowings, the share of the latter in total debt disbursed and outstanding has crept up from 22.5 per cent in 1980-81 to 25.4 per cent in 1988-89. In absolute terms, during the same period, external commercial borrowings along with supplier's credit (disbursed and outstanding) have quadrupled from a level of Rs. 4,145 crores to Rs. 17,482 crores registering a compound growth of 19.7 per cent per annum.

8.85 The changing composition of the stock of external debt is also reflected in the declining share of external assistance both on Government as well as non-Government account. This formed roughly 76 per cent of total external debt disbursed and outstanding at the end of 1980-81. Its share has now come down to less than 70 per cent at the end of 1988-89. The increasing share of commercial borrowings coupled with the decline in the grant element in external assistance has raised the average cost of external debt over time.

8.86 Despite the significant growth in external debt, India's position vis-a-vis other developing countries continues to be satisfactory. According to estimates published by the World Bank, India's debt-GNP ratio* in 1988 was a little over 22 per cent compared with around 54 per cent in 19 highly indebted middle-income countries and over 111 per cent in 27 severely indebted low-income countries. India's external debt as a ratio of exports of goods and services is estimated by the same source to be about 263 per cent in 1988 in comparison with about 311

*Total external long-term and short- term debt including non-resident deposits and IMF credits as a proportion of GNP.

per cent in respect of severely indebted middle-income countries and about 488 per cent in the case of severely indebted low-income countries. The composition of India's total external debt is also relatively favourable. In 1988, short-term debt accounted for about 7 per cent of India's total external debt against about 11 per cent in the case of severely indebted middle-income countries and about 10 per cent in the case of severely indebted low-income countries; and concessional debt accounted for over 43 per cent of total external debt in the case of India against a little over 6 per cent in the case of severely indebted middle-income countries and over 33 per cent in the case of severely indebted low-income countries. This should not, however, lead to complacency since in terms of the ratio of total debt service to exports of goods and services and the ratio of interest on external debt to exports of goods and services, India's position is less favourable.

VI. International Economic Developments

World Economic Situation and Outlook

8.87 According to IMF estimates, world output registered a strong growth of 4.0 per cent in 1988, but indicators for 1989 point to a deceleration of growth to 3.1 per cent. Forecasts for 1990 show a further weakening of the growth impulses when the world output is expected to increase by only 2.9 per cent. Output growth in the industrial countries was 0.4 percentage points higher than the world average in 1988 as well as in 1989. The average growth rate in the developing countries was 4.2 per cent in 1988 and is estimated to slow down to 3.2 per cent in 1989. However, forecasts for 1990 show that developing countries will stage a recovery and register a growth of 4.0 per cent in that year.

8.88 Consumer prices in the industrial countries rose, on average, by 3.3 per cent in 1988, and further to 4.5 per cent in 1989. Major factors accounting for these increases include, inter alia, the increase in world prices for oil, food and metals. It is expected that the average rate of increase in consumer prices in these countries would moderate to slightly less than 4.0 per cent in 1990. With certain exceptions, developing countries have been far less successful than industrial countries in containing inflationary pressures. The average rate of inflation for these countries was 70.8 per cent in 1988; it rose further to 85.5 per cent in 1989. The acceleration in inflation has been particularly sharp in several countries of South America and Eastern Europe. However, it is anticipated that there will be some abatement of the rate of inflation in the developing countries in 1990.

8.89 Growth in world trade volume, according to IMF staff estimates, was exceptionally strong at 9.0 per cent in 1988, but is expected to have slowed down to nearly 7 per cent in 1989. For 1990 the growth in world trade is forecast at 5.7 per cent. Import growth in real terms has been specially strong among those developing countries that are predominantly exporters of manufactures. Export growth is expected to remain concentrated in a few countries only, with the four Asian Newly Industrialised Economies (NIEs) continuing to increase their share in the world market.

8.90 It is expected that the current account imbalances of the three largest industrial countries will remain large during 1989-90 reflecting partly the recent strength of the US dollar against the other major currencies. During the first eight months of 1989, the U.S. dollar appreciated against major world currencies; the appreciation of the dollar was most pronounced against the Japanese yen and the pound sterling.

8.91 There was a sharp rise in short-term interest rates, reflecting heightened concern against inflation. Long-term interest rates, however, have remained fairly stable in the aftermath of the global stock market decline in October 1987. Monetary policies in most industrial countries were tightened partly to resist downward pressure on exchange rates and partly to prevent overheating.

External Debt of Developing Countries

8.92 One major problem which has plagued the world economy in the eighties is that of debt overhang in several developing economies, and the problem is yet far from resolved. According to the 1989-90 issue of the World Debt

Tables published by the World Bank, total outstanding debt of developing countries which was merely \$ 572 billion in 1980 rose to a level of \$ 1,176 billion in 1987. In the following year, however, there was a decline of \$ 20 billion in total outstanding debt which then stood at \$ 1,156 billion. There are several reasons for this decline some of which include valuation changes associated with the strengthening of the US dollar and voluntary debt reduction operations. Total developing country debt at the end of 1989 is projected to be \$ 1,165 billion, about \$ 10 billion above the 1988 level. The increase in debt is explained by substantially higher net lending from official sources.

8.93 The total debt of developing countries is unequally distributed over various regions. The countries of Latin America and the Caribbean had an outstanding debt of \$ 427 billion in 1988 constituting 37.0 per cent of total developing countries' debt. The sub-Saharan African countries with an outstanding debt of \$ 140 billion in the same year accounted for 12.1 per cent of total debt of all developing countries. Countries of East Asia and the Pacific were indebted by \$ 206 billion and having a share of 17.8 per cent in the total developing countries' debt. The three categories taken together account for about two thirds of the debt of all developing countries' outstanding debt. The sources of indebtedness are also very different in these regions. Whereas the Latin American countries are indebted mainly to commercial creditors (commercial banks in particular), the countries of Sub-Saharan Africa are in debt primarily to official creditors. The Asian countries have contracted debt from both these sources.

8.94 Based on four key debt ratios, the World Bank has identified four categories of developing countries faced with the external debt problem. There are 19 severely indebted middle-income countries (SIMICs), 27 severely indebted low-income countries (SILICs), 15 moderately indebted middle-income countries (MIMICs) and nine moderately indebted low-income countries (MILICs). India does not figure in any of these groups. The key ratios used for categorising countries into the above groups include stock of total external debt as a proportion of GNP, stock of total external debt as a proportion of export of goods and services, total debt service as a proportion of export of goods and services and interest on total external debt as a proportion of export of goods and services.

8.95 Given the different sources of indebtedness, basically two different strategies have evolved in recent years for attacking the debt problem: one is the market-based approach which addresses the debt problem of commercial borrowers and the other is the debt strategy aimed at alleviating the debt problem of official borrowers.

8.96 The market-based approach involves mainly debt buybacks, securitization, debt-equity swaps and contingent claims. These various instruments provide a "menu" of options from which debtors and creditors could choose. A new thrust to the debt strategy was given by the US Secretary of the Treasury, N.F. Brady when he suggested in March 1989 that debtor nations should focus their attention on the type of policies which can better encourage new investment flows, strengthen domestic savings and promote the return of flight capital. This was to be achieved by the cooperation of the entire creditor community, viz., commercial banks, international financial institutions and creditor governments. According to the proposal, the commercial banks could work with debtor nations to provide a broader range of alternatives for financial support including greater efforts to achieve both debt and debt service reduction and also new lending. The approach involved negotiations for a general waiver of the sharing and negative pledge clauses for debtors. It was also suggested in the Brady Plan that both the IMF as well as the World Bank would be involved in giving support to finance specific debt reduction plans. Certain guidelines were announced, for this purpose, by both these institutions in May 1989.

8.97 In the case of official debtors, Paris Club creditors have implemented, since October 1988, a menu of concessional operations in the rescheduling of non-concessional official debt. Thirteen countries, all in Sub-Saharan Africa, have benefitted from this treatment to date. The following three options have been found comparable by bilateral official creditors to provide debt relief under the Paris Club reschedulings:—

(i) Partial writeoffs: Creditors choosing this option would forgive one third of the debt service due during the consolidation period and would reschedule the remainder at market rates over fourteen years with an eight year grace period on principal payments.

(ii) Longer repayment terms: Creditors would reschedule debt service due during the consolidation period at market interest rates but with a twenty five year maturity and a grace period of fourteen years.

(iii) Lower interest rates: Creditors would reschedule debt service due during the consolidation period at reduced interest rates either 3.5 percentage points below or one half of market rates, whichever gives the smallest reduction over fourteen years with eight years of grace.

8.98 The donor and creditor countries have also agreed to a variety of special initiatives to address the problems of severely-indebted-low-income-countries, specially those in Africa. The World Bank's Special Programme of Assistance (SPA) for debt distressed low-income African countries initiated in December 1987 endeavors to provide substantially increased, quick-disbursing, highly concessional assistance to adjusting countries. Twenty-two countries are currently eligible for SPA support.

8.99 The recent debt strategy has been conceived largely as a problem of the market borrowers. For instance, the Brady Plan covers the latter category of borrowers only and fails to provide a comprehensive and durable solution to the debt problem of developing countries. It is also important that the resources of multilateral financial institutions used to put the Brady Plan in place should not lead to an erosion in their ability to finance their normal lending programmes.

Resource Flows to developing Countries

8.100 Despite the many initiatives announced in the 1980's to alleviate the debt problem, trends in the flows of real resources to developing countries have been discouraging. According to the World Debt Tables (1989-90), net debt-related flows to all developing countries on account of all debt were \$20 billion in 1988, down from a net flow of \$ 23.9 billion in 1987. The decline in net flows becomes even more dramatic when compared with the levels in early eighties; for example, net flows in 1981 were of the tune of \$ 77 billion. Net flows to developing countries are estimated to be \$ 26 billion in 1989, up from their 1988 level. Nearly 90 per cent of these flows in 1989 are provided by official lenders. The increase in net official flows for 1989 is influenced by increased net disbursements from the World Bank and Japan. Because increased net official flows from official lenders will offset higher interest payments, it is estimated that net transfers from developing countries to their creditors will remain constant in 1989 at about \$ 52 billion. Such negative transfers have been in evidence since 1983 and have been rising over the years.

8.101 Aggregate net resource flows to all developing countries which include investment flows besides flows on account of debt have been declining more sharply mainly because of sharply contracting private flows. In terms of 1986 exchange rates and prices, net aggregate flows to all developing countries declined from \$ 134 billion in 1981 to \$ 39 billion in 1988. Aggregate net transfers in real terms have also declined rapidly from \$ 84.5 billion in 1981 to a negative flow of \$ 9.8 billion in 1988. The reduction in aggregate net transfers since 1982 is a matter of great concern for developing countries whose income levels are still relatively low. Because of negative net transfers, these countries had fewer resources available for consumption and investment than the amount they produced.

8.102 Multilateral institutions, such as the IMF and the World Bank, despite the many schemes/programmes to alleviate the debt problem, also account for a negative net flow of real resources to developing countries. Net disbursements (purchases minus repurchases) by IMF have turned negative since 1986. Such negative transfers from the IMF amounted to SDR 3.9 billion in 1988 and SDR 3.6 billion in 1989. The IDA resources have also been shrinking in real terms and sometimes even in nominal terms. For instance, IDA-VII replenishment (1985-87) was a mere $ 9,639 million compared to the previous IDA-VI replenishment (1981-84) of $ 12,000 million recording a decline even in nominal terms. The current IDA-VIII replenishment (1988-90) amounting to $ 12,400 million is lower in real terms to IDA-VI replenish ment. Net transfer of funds from the World Bank (IBRD and IDA) which touched a peak at $ 5.3 billion in 1984 turned negative in 1988 and 1989. The negative resource transfers amounted to $ 0.5 billion and $ 1.5 billion in the above two years respectively. These trends are a cause of great concern to countries interested in pursuing development activities and seeking a meaningful attack on poverty.

IDA-Ninth Replenishment

8.103 The World Bank's "soft loan window" provided by IDA has a pivotal role in the provision of concessional finance to low income countries. IDA resources are mainly derived from grants made by donor countries, and contributions or "replenishments" are normally intended to provide resources for three year blocks. The Ninth replenishment, negotiations for which concluded in December 1989, has provided for SDR 11.68 billion ($ 15 billion) for lending to the world's poorest nations for the three-year period July 1, 1990 to June 30, 1993. In addition, the repayment of funds loaned in IDA's early years will provide additional estimated resources of SDR 1.6 billion, bringing the total resources available to SDR 13.3 billion ($ 17 billion). This will be the largest replenishment ever of IDA's lending base. The Ninth replenishment is 11 per cent higher than the eighth replenishment which totalled SDR 10.5 billion (about $ 12.4 billion) for the three-year period ending June 30, 1990. During the IDA-VIII period, SDR 1.1 billion in repayments became available for commitment, bringing IDA-VIII resources to SDR 11.6 billion (14.5 billion).

8.104 Priority areas for IDA-IX are lending related to (i) poverty reduction, (ii) support of sound macroeconomic and sectoral policies, and (iii) support of environmental issues. It was decided that IDA-IX allocations to Sub-Saharan Africa would be maintained between 45 per cent and 50 per cent while that to India and China would not exceed 30 per cent. Investment projects will remain the mainstay of IDA's work, representing 75 per cent of all lending. Lending for quick-disbursing adjustment programmes will continue to account for between 25 per cent and 30 per cent of IDA's commitments.

8.105 IDA assistance to India has been of special significance in the context of the country's development efforts. In absolute terms this appears to be large, i.e., $17 billion to date. However, in relative terms, India's access to IDA resources has been severely curtailed. Through the 1960's and the 1970's India received the bulk of IDA assistance. In 1980, India's share in IDA was 40 per cent. Since then there has been a consistent decline and in 1988 IDA lending to India was a mere 16 per cent of total lending. This is partly because regional allocations have been increasing in favour of Sub-Saharan Africa and partly because of the entry of China as a borrower of IDA resources.

8.106 Not only has the overall size of IDA resources been shrinking in real terms over the years and the share of lending been contracting for India, but the terms and conditions of IDA credits have also been hardening over time. IDA credits were originally available to all developing countries for fifty years inclusive of a ten year grace period. They carried no interest charges but only a service charge of 0.75 per cent per annum on disbursed amounts. In 1982, a commitment charge was introduced at 0.5 per cent on undisbursed balances. This has now been converted into a variable fee with a ceiling of 0.5 per cent. Moreover, from July 1988 onwards, maturity period for IDA credits was reduced to 40 years for India and 35 years for most other developing countries.

Ninth General Review of Quotas

8.107 The IMF quota is of crucial importance to member countries, especially developing countries in need of external finance, as it determines not only their voting power but also their access to the Fund's resources and their share in SDR allocation. The Articles of Agreement enjoin the Board of Governors to conduct, at intervals of not more than five years, a general review of quotas and on that basis and if found necessary, increase the size of the Fund and also adjust the share of individual members. The last review was concluded in 1983 and therefore the current review, the ninth so far, should have been completed by March 1988. However, though discussions are in progress in the Executive Board of the IMF, there is still no agreement on either the size of the quota or the manner of its distribution. In its September 1989 meeting, the Interim Committee of the Board of Governors of the IMF re-iterated that the size and the distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintaining a balance between different groups of countries while at the same time maintaining the Fund's effectiveness in fulfilling its systemic responsibilities.

The Uruguay Round

8.108 In Punta Del Este (Uruguay) in September 1986, Trade Ministers of member countries of the General Agreement on Tariffs and Trade (GATT) launched a new round of multilateral trade negotiations (MTNs), which is now known as the Uruguay Round (UR). There have been seven earlier MTNs in the GATT, but the UR is the most complex so far. It goes beyond the traditional GATT issues, such as tariffs and other barriers to market access and extends to areas that in the past were largely neglected (e.g. agriculture) or maintained under derogations from GATT (e.g. textiles and clothing) and explores new areas, viz., services. In addition, negotiations covered systemic issues related to the functioning of the GATT, such as safeguards. The negotiations also seek to extend multilateral disciplines to new areas not covered so far by GATT, such as trade-related investment measures trade-related aspects of intellectual property rights and trade in services.

8.109 The inclusion of services in the UR was contentious. Most of the developing countries perceived that if services were brought within the GATT framework, the leverage of market access for trade in goods would be used to extract concessions in the area of services. Finally, as a compromise, it was agreed that negotiations on trade in services would be conducted on a separate track within the Uruguay Round but outside the framework of GATT. Accordingly, two separate bodies were established under the Trade Negotiations Committee (TNC) for the conduct of negotiations, viz. the Group of Negotiations on Goods (GNG) to deal with all matters relating to trade in goods and the Group of Negotiations on Services (GNS).

8.110 The Mid-term Review of the UR held at Ministerial level in Montreal in December 1989 to provide political impetus to the negotiations was formally concluded at Geneva in April 1989. As a result of the guidelines emerging from the Mid-term Review, the work of the Negotiating Groups was intensified in 1989 and a large number of proposals were submitted to the Negotiating Groups by the participants. In July 1989, the TNC agreed that the UR will be formally concluded at Ministerial meeting to be held at Brussels in December 1990. Meanwhile, the Negotiating Groups are engaged in the exercise of identifying the specific issues for negotiations and attempts are being made to narrow down the differences among participants. This will be followed by an exercise to draw up draft legal texts embodying the results of negotiations in each sector.

VII. Outlook

8.111 With regard to the external payments position, the Seventh Plan is closing on a weak note. The current account deficit as a ratio of GDP for the Seventh Plan as a whole is likely to be over 2 per cent in comparison with 1.3 per cent during the Sixth plan period. The Eighth Plan will thus start on a rather weak foundation of overall external payments situation.

8.112 Uncertainties cloud the medium and long term outlook of the global economic situation during the 1990's. There are no indications that global economic situation is going to be any better than during the 1980's. On the contrary, GNP growth and domestic demand in major industrial countries is likely to decelerate. Our Eighth Plan will coincide with the first half of the new decade and may have to contend with an international economic environment which is far from satisfactory.

8.113 Against the above background, the pressures on the external payments situation during the course of the Eighth Plan are likely to continue. The problem of finding adequate external resources, particularly concessional resources, could pose growing challenge. The current account deficit should, therefore, be kept within manageable limits by encouraging exports of goods and services, avoiding inessential imports and improving the fiscal balance.