With foreign aid having touched a new high in this country, during recent years, the problem of reverse flows (i.e., repayments) has assumed a special importance. Various studies, e.g., by C.H. John & D.S. Paaw, Mikesell, B.R. Shenoy, Clive Gray, S. Swamy, S. Venu and Tata Quarterly (among many others) have cast a doubt on India's capacity to repay foreign debts. An ex-Finance Minister tried to dispel these doubts by assuring foreign donors that India would do all she can to honour her economic commitments. The problem, however, requires a systematic and scientific analysis. It has been analysed at three stages, viz., (1) is the repayment drain lethal? (2) are the dates of aid termination as visualised by the Plan in the Commission all right? and (3) what variables can help us in the repayment problem?

The severity of the repayment problem has been found out, chiefly, by calculating the debt-servicing ratio and also by calculating a variant of this ratio, by comparing the weighted average rates of interest with the rate of growth, by debt servicing as a percentage of GNP and by finding out the consequences of hard terms/nature of aid. Our conclusion is that the repayment drains are quite severe, though not lethal, as the debt servicing ratio is quite high (above 25%). Such a high debt servicing ratio is a disturbing factor due to the weakness of favourable variables. The prospects from exports
have not been encouraging. The prospects (direct) from private capital inflows are negative. The chances of inflation-induced import have increased during the recent years. The compressibility of imports has not been worked out. The reserves have touched the rock bottom. The cost of compensatory finance is prohibitive and much relief cannot be expected from this side also. There has been an increasing tendency for debt relief and general purpose loans during recent years. The finance for repayments and even for the outflow of private foreign investment have mostly come from further aid. The modified version of debt servicing ratio which is a more realistic concept also establishes the same point as this percentage is between 33-39% for some years and is higher than the simple debt servicing ratio. The same conclusion is obtained when we compare the rate of growth of the economy with the weighted average rates of interest or find out the percentage of repayments to the GNP. India seems to be exporting more than 1 percent of her GNP, which is more than what the developed countries are sending out. The terms of assistance and aid tying again bring out clearly the oppressive nature of the repayment burden.

The methodology of analysis is to prepare a profile of our liabilities of the principal and of the interest of the existing debt with the help of amounts of loans, rates of interest and years of repayments minus grace years. To these have been added the liabilities due to additional borrowings (actual/propagated) in the Fourth and Fifth Plans after making relevant assumptions with respect to terms of aid - the weighted years of maturity,
the weighted average rate of interest, weighted grace years. The total liabilities are obtained by lumping together these (liabilities). The export projections have been worked out separately and then debt servicing ratios have been calculated and analysed.

As regards the second aspect, aid termination, various Planning Commission dates, suggested from time to time, viz., 1976 to 1978, 1980 or so, 1978-79 and 1985-86 have been critically examined. Our conclusions here are that none of these dates is relevant as none satisfies the concept of import-export equality, more so, in view of increasing crude imports. It, therefore, seems necessary to step up growth and tilt the growth pattern in favour of import substitution/export promotion, develop key and basic industries, agriculture and allied spheres, export industries and articles of mass consumption.

The reverse flows, ultimately depend upon surpluses, internal(savings over investments) and external(exports over imports) and on an excess of domestic production (Y) over domestic use (C+I). Ex-post, the external surpluses equal internal surpluses. This has been clarified by using some identity. Again using macro variables (Chapter I), it becomes clear that these surpluses are also equal to the excess of domestic production over domestic use. The steps to ease the repayment problem are, therefore, concerned with identifying various variables generating these surpluses. The Saving Investment trends in the economy have been analysed and their declining nature has been considered harmful for the economy. Suggestions like strict fiscal discipline,
netting unaccounted surpluses and black money, greater taxation of agriculture, some shift in the diversion of resources to the unproductive public sector, greater taxation of urban immovable property and taxation of import licenses have been considered necessary for the internal surpluses, i.e., increasing the proportion of savings over investment.

Another variable which can ease the repayment problem is import saving/substitution. It saves the much needed foreign exchange and makes the same available for repayments. There seems to be a lot of confusion regarding the nature and measurement of import saving/substitution and its relevance and scope for LDCs. The concept has been properly defined and it has been found out that there is, in this country, a lot of scope for the right type of import saving/substitution. It has also been found out that much of the criticism of import saving/substitution is misplaced. The theoretical defects of import saving/substitution have been examined and our conclusion is that these have been unduly magnified and it is not good, from the economic angle, to dismiss all types of import saving/substitution. The scope of a right type of import saving/substitution, in various directions, has been underlined.

The private foreign capital is another variable which can be of use in easing the repayment problem and also toging down a high debt servicing ratio. Its composition, distribution, effects on savings, investment, exports, imports and growth have been examined. Our conclusion here is that, under the present circumstances, this capital is not of much use in augmenting cash inflows. The only use which this capital has
is in indirect ways of promoting growth and closing the internal external gaps. The role of private foreign capital can be increased by less reliance on turn-key projects, emphasising cash inflows, Indianisation of staff, lessening dominance of foreign monopoly capital, checking multiple collaborations, preventing spilling into low priority channels, examining the bases and rates of royalties, checking the import of backward capital intensive techniques and greater taxation of this capital where the profit-ability is very high.

If the quality of aid is improved this will increase its productivity and lessen the severity of the repayment problem. Our finding, in this respect, is that there are a number of leakages 'rat-holes' due to the weakness of aid administration programmes. All these-indiscriminate aid receiving, delays between pledging and authorisation between authorisation and utilisation, complexity of actual programmes, non-coordination among Government agencies, the faults of donors in dictating hard terms of aid, tying a considerable portion of aid, attempts of donors in enlarging external gaps and making it discontinuous- have been pinpointed. The Frieden-Chenoy thesis of aid on commercial terms and multilateralisation of aid have been examined and their faults have been pointed out.

Inflation is another disturbing factor in the repayment problem and its effects on various variables-imports, exports, their structure, savings, investment, capital flights, capital creative formation-have been critically examined. The claims of/inflation have also been critically examined. The course of inflation in
this country has been traced. The inevitable conclusion here is that the present run-away prices will worsen the situation considerably unless timely steps are taken to control demand/increase supply. The repayment problems will also assume a more grave shape if inflation remains unchecked.

Export promoting measures constitute the major policy planks in the repayment problem for these may secure the external surpluses, \( X \) over \( M_3 \), and may directly set off the repayments and also tone down the rigours of a high debt servicing ratio. Our conclusion here is that the sense of complacency which prevails on the export front is a false one. The more rigorous indicators of a country's export performance, like the ratio of exports to GNP and ratio of exports to world trade, are still very low and declining. Indian performance is not comparable to the puny Hong Kong which is .03 per cent of its area. Various aspects like stimulating traditional exports, labour-intensive exports, industrial exports, quality goods exports, handling problems relating to packing, packaging, taking care of likely developments in the world economy, rupee trade, export finance and credit, export houses, marketing surveys, tariffs have been briefly examined and suitable guidelines have been suggested for increasing export earnings. Marking for exports the products of some industries for which there is a considerable foreign demand and where we have a considerable comparative advantage can be of considerable help. This is not the same thing as compelling some newly started concerns to export at throw away prices. Earlier various difficulties of IDGs on the
export front, viz., narrow base, elasticity pessimism, fluctuations in export values and earnings, sagging demand for primary products due to the advance of synthetic materials in DCs, tariffs, pattern of industrial products in DCs and quotas have been mentioned and the measures adopted by LDCs to set their own house in order have been critically examined, though very briefly.

The measures for securing an excess of Y over C+I (domestic production over domestic use) are equally relevant for the repayment problem. In this case, our conclusion is that revitalisation of our economy will narrow internal/external gaps and ease the repayment burdens. Economic advice for revitalisation is perhaps the most readily available thing. However, an attempt has been made to identify some additional areas which, if attended to, can bring about this revitalisation. The areas which need immediate policy corrections have been distinguished from those which are of long term relevance, viz., changing institutions, overhauling education, greater economic equality, more literacy and a war on poverty. The long term measures have not been discussed in details because they are of long term nature and because they would make the present work unduly long. Our findings are that policy measures, viz., raising bank rate, raising lending rates, increasing minimum liquidity ratio have been responsible for freezing credit and delinking credit with requirements of industries and have been putting obstacles in the way of starting and expanding ventures. The fiscal measures dealing with dividend freeze, prolonged price controls, licensing policies are some other roadblocks in the industrial development. The underutilization, defective industrial policy causing inordinate delay
in the issue of letters of intent, licences to start new ventures, foreign exchange allocation, getting clearance from the MHTP, power famine and industrial harmony have been critically examined. The agricultural front is lagging due to its problems. Some more important problems relating to finance, land reforms, supply of inputs, tenures, ceilings have been critically commented upon.

Other more disturbing factors causing set back in the production are the defective mineral policy, excessive flow of black money and inability of the public sector to mop up surpluses for growth. The policy corrections for greater production and for ending production crisis in these more important lines have been added. The economic agenda is bound to be a big one. The advantages of attention to the factors mentioned for ending stagnation/production crisis cannot, however, be over-emphasised.

The problem of reverse flows has been a severe one for this country but unnecessarily so for the terms of aid are not so oppressive. The weighted average rate of interest has climbed down to a figure which is a little less than 2.5 percent, the grace years to 8.5 years and the years of maturity minus grace years to about 30. The private sector considers a rate of interest of 24 per cent per annum (2 per cent per mensum) and the repayment period of 10 years without any grace period as not so oppressive. The repayment burdens for this country need not also be so oppressive, at least, with the present findings and conclusions.

( KISHORI LAL )