India's new Five-Year Plan: pursuit of industrial growth

by Paul Zykofsky, New Delhi correspondent

The government of Prime Minister Indira Gandhi unveiled a new Five-Year Plan for 1980-85 last month which envisages a broad revitalization of the industrial economy. Severe economic constraints persist, including continuing high inflation and the burden of petroleum imports which take up more than 80 percent of India's current export earnings. The new plan nevertheless reflects confidence in India's economic potential.

The Gandhi government plan was worked up in record time to replace the previous regime's plan covering 1978-83. The Gandhi plan targets large investments in basic infrastructure, especially energy and transport. The aim is to break through chronic bottlenecks that have slowed growth for agriculture and industry by choking off the supply of electricity and other essential inputs.

These government commitments are a clear shift in orientation away from the previous regime, whose planning policy emphasized "rural development" over industry, redistributionism over growth, and labor-intensive "employment creation" over real increases in productivity. The Gandhi government plan reflects the commitment of the prime minister to a science and technology-based policy in which agriculture will benefit from overall improvements in the productivity of the economy.

The optimistic view for the Indian economy is based in part on the excellent performance of the agricultural sector, which this year, following severe drought and a significant drop in grain production in 1979-80, will produce a record yield of grains. The government is clearly counting on this, along with increased domestic petroleum production, to cut inflation and encourage overall investment in the economy. The plan projects a healthy average overall annual growth rate of 5.2 percent (see Figure 1).

Mrs. Gandhi knows full well that the political stability of the country depends on turning around the economic decay of the past few years, a decay inherited from the previous regime. The new Five-Year Plan reflects that understanding. But in the view of some critics who support Gandhi's aims, it still falls far short of the kind of bold, imaginative planning needed to break through the tendency toward stagnation and lack of real long-term development strategy characteristic of Indian planning over the past 15 years or so.

A key to the success of plans for large-scale growth will be the availability of external capital input. One sign of fresh thinking in the Gandhi government is the relatively unprecedented willingness to go to the private capital markets for large credit, rather than the previous exclusive dependence on official government and multinational institutional loans. This year, India already secured excellent credit terms on the Eurodollar market, reflecting its status as a prime borrower. The new plan projects further borrowing of this nature (see box).

The energy crisis

The highest priority of Indian planning is currently the energy crisis the country faces. On one level, this is reflected in the vast expenditures of foreign exchange for the purchase of petroleum imports, money that could otherwise be invested in infrastructure.

The crisis is even more evident in the power blackouts that have regularly afflicted major industrial and urban centers over the past two years, especially during the dry summer months, when hydroelectric power

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generation dips. Some cities, like Calcutta, have been afflicted all year round. According to recent estimates, the deficit in availability of power as a percentage of requirements rose from 10.3 percent in 1978-79 to 18 percent in 1980-81.

This shortfall in energy production is directly responsible for low-capacity utilization and low production levels in industries like aluminum, steel, and fertilizers. In 1979-80, India experienced a *negative* growth rate of 1.4 percent in industrial production. This also means that precious foreign exchange has been expended to import industrial goods.

It is not surprising to find that the new plan allocates a huge 27 percent of total public sector spending to the energy sector—the single largest allocation in the plan (see Figure 2). The energy sources include nuclear (completing several units during the plan period), hydro, and coal-based thermal power stations.

This will go for adding about 20,000 MW of new generating capacity—primarily through several superthermal power stations—and also to strengthen the regional electrical grid system for improved utilization of generating capacity. Though exact figures are not as yet available, investment will also be made in improvement maintenance at thermal plants, running at as low as 33 percent capacity utilization during 1980.

The success of the power sector will also depend on improvement in coal production and transportation, two of the major constraints over recent years. In the past few months, coal production has improved somewhat. But inadequate supply of railway cars caused unusually high pithead stocks. To correct this situation, the new plan provides for relatively large expenditures in these two areas, with transportation receiving almost 13 percent of public sector outlay and coal production expected to rise from 104 to 165 million tons.

In view of the heavy burden imposed by oil imports—which, as noted above, in 1980-81 will account for almost 85 percent of total export revenues—the new plan also proposes rapid increase in domestic oil production from 12 million tons (approximately 90 million barrels) to 21.6 million tons. Most of this increase will be achieved through stepping up exploitation of existing formations, and particularly the Bombay High offshore area on the west coast. India also hopes to accelerate oil development by inviting foreign companies to explore potential oil-bearing areas on the east coast with operations for production-sharing. Over 30 small and large foreign oil companies have put in bids for this plan.

Irrigation and fertilizers

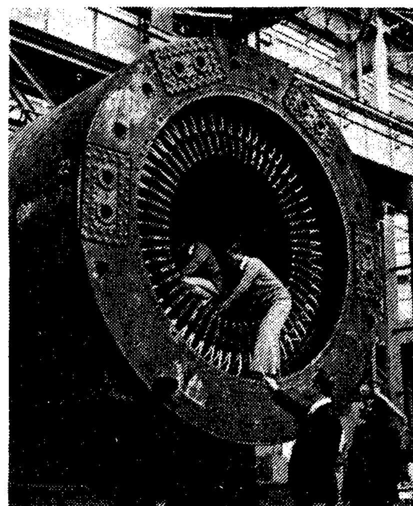
The Five-Year Plan combines these positive measures on the industrial front with strong emphasis on developing India's enormous agricultural potential. In the past years India has defied the doomsday predictions about the inevitability of famine. It has not only been able to meet its domestic food requirements, but has also begun to export foodgrains.

In the 1980-81 fiscal year, foodgrain production is expected to match the record level of 132 million tons achieved in 1978-79. The new plan envisages a 4 percent annual rate of growth in agriculture. Despite the fact that for the past 30 years annual growth has averaged around 2.7 percent, the new target should be feasible. The growing resilience of Indian agriculture, due to increased utilization of capital inputs such as irrigation and fertilizers, has made it less susceptible to weather conditions. This was clearly demonstrated last year when, despite one of the worst droughts in decades, foodgrain production reached 109 million tons, while

Figure 1
Sixth Plan targets
(selected items)

	1979-80	1984-85	Average annual growth*
Foodgrains (million tons)	109.0	154.0	7.2%
Steel (million tons)	7.4	11.5	8.6
Petroleum (million tons)	11.8	21.6	13.1
Coal (million tons)	103.4	165.0	9.7
Cement (million tons)	17.7	34.0	14.0
Sugar (million tons)	3.9	7.6	13.3
Fertilizers (million tons)	2.2	4.2	13.1
Electricity (billion kwh)	112.0	191.0	11.4
Cloth (billion meters)	10.4	13.0	4.5

*For the five years of the plan.



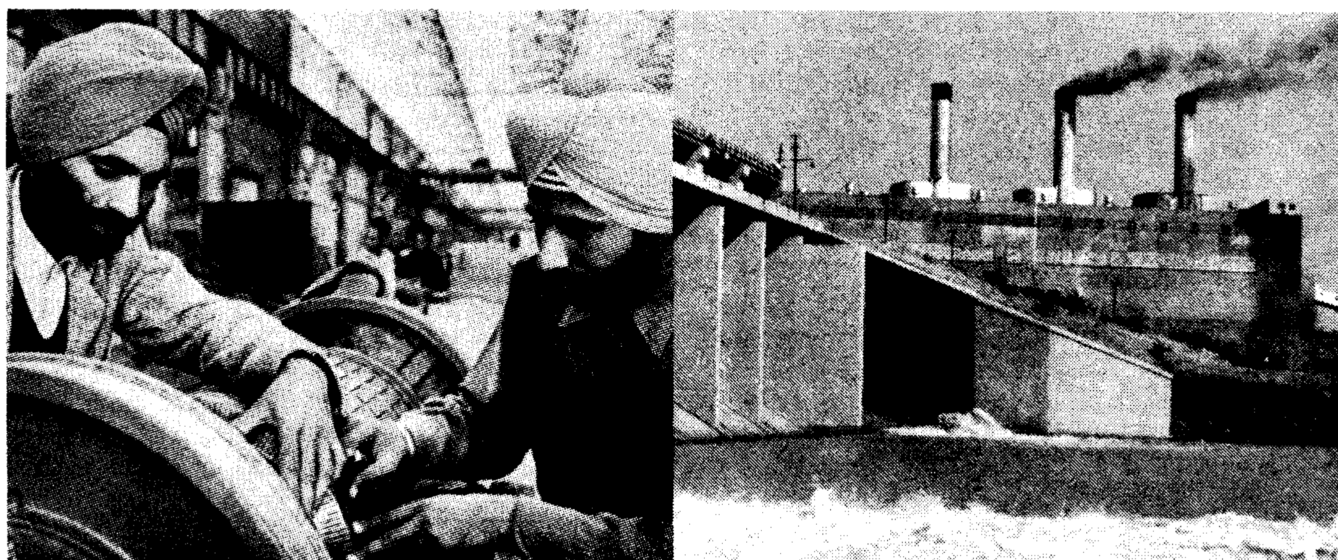


Figure 2

Sixth Plan public sector outlays

(billions of U.S. dollars)

	Outlays by government	Outlays by states	Total	Percent of total
Agriculture	$ 3.06	$ 3.89	$ 7.11	5.8%
Rural development	2.89	3.77	6.70	5.5
Special area programs	—	1.85	1.85	1.5
Irrigation & flood control	0.79	14.24	15.20	12.5
Energy	14.99	17.86	33.17	27.2
Power	5.90	17.86	24.08	19.7
New & renewable sources	0.13	—	0.13	0.1
Petroleum	5.38	—	3.58	4.4
Coal	3.58	—	3.58	2.9
Industry & minerals	15.96	2.73	18.77	15.4
Village & small-scale	1.15	1.02	2.22	1.8
Large & medium	14.81	1.71	16.54	13.6
Transport	10.52	4.63	15.51	12.7
Railways	6.38	—	6.38	5.2
Roads	1.04	2.99	4.29	3.5
Road transport	0.08	1.38	1.49	1.2
Other transport	3.02	0.24	3.34	2.7
Communications & information & broadcasting	3.88	0.04	3.91	3.2
Science & technology	1.06	0.02	1.08	0.8
Social services	5.56	11.04	17.54	14.4
Education	0.92	2.03	3.15	2.6
Health & family welfare	2.01	1.36	3.54	2.9
Housing & urban development	0.51	2.30	3.11	2.5
Water supply & sanitation	0.76	3.90	4.90	4.0
Total	$59.06	$60.75	$121.88	100%

Figure 2 presents a sector-by-sector breakdown of the public sector outlays for the Sixth Five-Year Plan. The emphasis on infrastructure, such as energy and transport, as well as on agriculture and irrigation is reflected in the large amounts allocated for these sectors.

The importance given to project implementation by the states in certain areas—such as power and irrigation—is also evident in the central government/state breakdown.

Expenditures by "Union Territories"—areas under central government control like New Delhi and a few other cities and islands—account for less than 2 percent of total public sector outlay and have thus been omitted.

food stocks were maintained at over 15 million tons.

With this in mind, the new plan proposes large investments in irrigation—12.5 percent of total public sector spending—and in fertilizer production. During the course of the new plan, the first phase of a massive long-term water management scheme interlinking a number of rivers will also be initiated.

Despite the general positive thrust of the new plan, it has met with skeptical response in some quarters. Clearly, one of the major reasons for this has been that, despite the many advances made by India since independence, its rate of economic growth has remained erratic and fairly low. Furthermore, since planning was first initiated with the launching of the first Five-Year Plan almost exactly 30 years ago, each plan has successively fallen short of its targets.

Critics often argue that planning, as it is carried out today, has ceased to have such meaning. When planning was first initiated after independence from the British, Prime Minister Jawaharlal Nehru outlined a clearcut strategy for development based on building up heavy industry and the capital goods sector. This strategy was viewed as essential if India were to emerge out of centuries of imposed backwardness through rapid economic development. Planning at that time was used to marshal the country's resources for this task. The population was mobilized around the need to meet these development goals, and the plans were widely discussed and debated.

However, the combined effect of droughts, the wars with China and Pakistan in the mid-sixties and early seventies, and the IMF-imposed devaluation of the rupee in 1966 pushed India off the planning strategy pursued by Nehru and onto a "crisis management" track. This, together with the international propaganda campaigns for "limits to growth," "appropriate technologies," "minimum basic needs," and so on have made Indian planners overcautious and afraid to "think big."

A linear outlook?

Although the plans have continued to pose the need for high growth rates, they have tended to become glorified five-year budgets, with little attention given to the need for evolving a clear *strategy* for development, as was the case during the Nehru years. The recent plans—especially the short-lived plan evolved under the Janata government for 1978-83—have given more attention to detailed discussion of allocation and targets for all sectors, while reducing economic development strategy to slogans of "ending poverty and unemployment."

In doing so, the plans have succumbed to the drawbacks of all economic forecasting based on linear projections and input/output models. Resources are allocated arbitrarily, in the best of cases, to achieve certain specified targets, rather than on the basis of where they can have the most impact for ensuring rapid and thermodynamically efficient growth of the economy. For example, instead of taking advantage of one of India's greatest assets—its large scientific and technological manpow

and water development, resources are diffused into many unproductive sectors, such as cottage industries and other rural employment schemes.

This weakness is also evident in the new plan. While it poses the need for higher growth rates, and even singles out some of the key sectors for investment, it still lacks a clearcut economic strategy which can ensure that high growth rates can, in fact, be achieved. This is especially evident from the continued emphasis on labor-intensive, rural employment projects, and the absence of a deliberate policy of planned urbanization to reduce the large proportion of the population still employed in low-productivity work in the rural areas.

Planning Commission member Dr. M. S. Swaminathan revealed some of these shortcomings during a recent conversation with foreign journalists when he minimized the differences between the new plan and that of the ruralist Janata by stating that there is "continuity since the first plan, because, after all, in a country where so many people are poor, where many villages have no drinking water, where unemployment is the most important challenge, whoever has to plan for development obviously will have to provide employment, will have to provide basic minimum needs."

While no one can dispute these goals, the Indian planners appear to retain the simplistic approach that the best way to create jobs is through labor-intensive schemes. On the contrary, while this may be a necessary expedient in the short term, no country has been able to solve the problem of underdevelopment, or even unemployment, in this way. This was clearly understood by the Planning Commission during Nehru's days, when the development strategy was based on building up heavy industries like steel or capital goods, along with the power sector. While these did not employ a large number of people directly, indirectly they created the conditions for rapid growth and employment and higher productivity levels.

Planning problems

The planning process in India also suffers in the implementation stage. For example, one of the major impediments is the conflict between the central and state governments. Although the states can play a positive role in many projects, their jurisdiction over such key sectors as irrigation, education, and power has often become an obstacle to implementing development schemes on a *national* scale.

Even in the central government, the powers of the Planning Commission have been eroded since its early days, when it played an important role in coordinating the activities of the various ministries and monitoring implementation. Although the prime minister still acts as chairman of the commission, the commission no longer plays much of a role in supervising the implementation side of things.

Another factor which has added to the complexities of planing in India is the existence of a mixed economy whose large private sector has grown to the point where it now accounts for approximately 60 percent of the economy's output. Aside from forecasting an aggregate amount of investment by the private sector, the plans do not incorporate it in any great detail.

In the new plan, the private sector receives only passing mention with general estimates that its outlay will account for approximately 43 percent of total expenditure during the plan period. Nevertheless, since all the major banks are nationalized, the government does exert control over private sector investment decisions through its control over credit. If anything, over the years, the government has been criticized for trying to deal with the existence of a large private sector by imposing numerous regulations and restrictions which have stunted real economic growth.

In light of this, the new plan poses the need for streamlining the cumbersome licensing and capital market regulations and taking appropriate fiscal and monetary measures to allow the private sector to function with "greater competitive ability, reduced cost and greater mobility and flexibility."

India's future borrowing plans

One aspect of planning during the Nehru era that the Planning Commission has incorporated into the latest plan concerns the question of foreign borrowing. While economic analysts often mistakenly view as "autarkic" Nehru's emphasis on self-reliance and the need to build up domestic industrial capabilities, the second plan carried out under his direction relied on foreign capital for as much as 20 percent of its financial resources. This percentage has diminished over the years, and the new plan projects a foreign-resource component of about 10 percent, although it may well go beyond that level.

Indian planners are being careful to ensure that the new commercial credits go into productive ventures capable of generating sufficient surplus to comfortably pay back the loans. The projects chosen so far for commercial credits include a new steel plant to be built in Paradeep, Orissa; an aluminum complex, also in Orissa; and a number of petrochemical complexes.

Although only token allocations were made for these projects in the plan, India's success in obtaining its first commercial credits during 1980 has made Planning Commission officials optimistic about the outlook in the coming years.

In fact, in its first venture into the capital markets in 1980, India obtained the largest-ever syndicated Eurodollar loans in Asia for $680 million for the aluminum project in Orissa. Its high credit rating was demonstrated recently when it obtained a $200 million commercial loan for oil development at an interest rate of only 3/8 over LIBOR—the same rate available to borrowers in industrialized countries.

This creditor confidence is due not only to the excellent potential of the Indian economy, but also to the fact that India's total foreign debt of approximately $14 billion remains low for a country of its size, especially in comparison with other developing countries.

In addition, despite an estimated foreign trade deficit of $5.6 billion in 1980-81—largely due to the high cost of oil imports—India's foreign reserves remain above the $5 billion level.

At present, the Five-Year Plan proposes to get approximately $12 billion in foreign credits. Of these, net aid is expected to provide approximately $7 billion with commercial borrowing bringing in about $5 billion—which means that India expects to borrow approximately $1 billion on the capital markets each year of the plan. However, since this still does not include allocation for some of the major industrial projects—which will be included after a mid-term review of the plan in 1983—the foreign component may well rise beyond this.

A debate is currently taking place within the Planning Commission and Finance Ministry as to whether India should go in for the more expensive commercial credits, or draw on its enhanced quota of 6 to 7 billion in Special Drawing Rights from the IMF. The response India gets from the U.S. and Europe in obtaining these capital resources on favorable terms and in reasonably large amounts may very well determine whether it will plan more aggressively in the years ahead.