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16 August 1963

OCI No. 0293/63A
Copy No.

SPECIAL REPORT

INDIA'S ECONOMY UNDER THE THIRD FIVE YEAR PLAN

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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INDIA'S ECONOMY UNDER THE THIRD FIVE YEAR PLAN

As the Indian Third Five Year Plan (1961-66) approaches midterm, it is increasingly apparent that many of its goals will not be attained. Increased defense spending has had little effect so far, but agricultural stagnation and long-standing industrial stumbling blocks have retarded progress. While encouraging advances have been recorded recently in a few important industrial undertakings, the overall growth of the economy remains sluggish. Against a planned yearly increase in national income of 5 to 6 percent, actual growth was only 2.1 percent in 1961-62 and 2.7 percent in 1962-63. If current trends persist, key elements of the plan will be far behind schedule by April 1964, the end of the third year of the plan. Meanwhile, a population growth now estimated by the Indian Government to be about 2.4 percent annually--rather than the 2.2 percent upon which the plan is predicated--will have offset much of the progress made during the first two years.

Objectives of the Plan

In drafting the Third Plan, the government deliberately aimed high. With a population expanding by more than 10 million persons annually, planners realized that a massive effort would be required in order to move the nation toward the goal of self-sustaining growth. They therefore projected a growth in national income of 25 to 30 percent. Self-sufficiency in foodstuffs was to be attained through a 30-percent increase in agricultural output, and industrial capacity was to be expanded by over 50 percent. An even higher rate of development was expected in power and transportation.

The Third Plan has been beset from the beginning by serious difficulties, many of which are legacies of failures encountered in the earlier plans. Many industrial programs did not reach levels prescribed in the Second Plan until the end of the Third Plan's second year. Deficiencies in certain areas of the complex plan, such as cement production, have retarded progress in scores of related programs.

Faced with almost certain shortfalls, Indian planners will meet in September to review the plan's progress, and are likely to recommend that many of its targets be reduced.

Agriculture

Failure to boost the production of foodstuffs continues to be a major factor in retarding the pace of economic development. Eighty percent of the Indian labor force is engaged in

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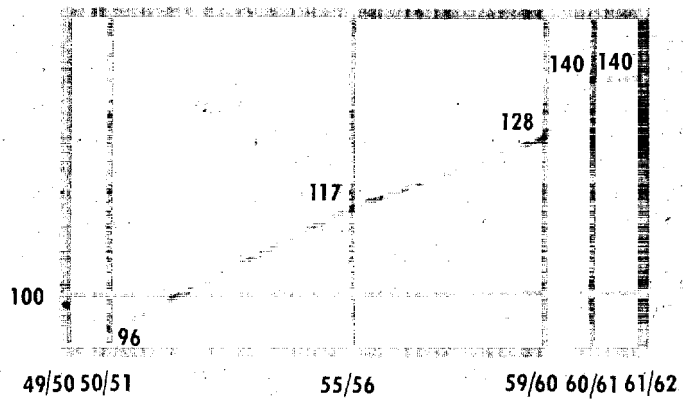
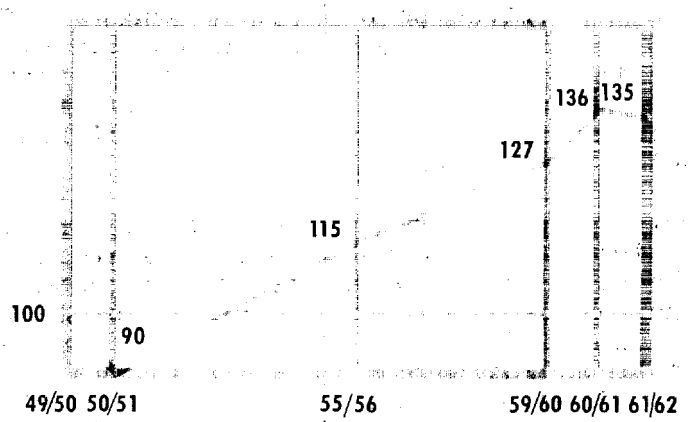
INDIA : AGRICULTURE INDEXES

(1949/50 = 100)

AGRICULTURE : ALL COMMODITIES



AGRICULTURE : FOOD GRAINS



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agricultural activities, in most cases using ancient and inefficient methods which keep yields per acre among the lowest in the world. A multitude of state and central governmental agencies shares responsibility for the massive agricultural development program. Administration has been chaotic, and most projects are far behind schedule.

Food-grain harvests have been particularly disappointing. Encouraged by a dramatic upturn in productivity in 1960-61, Indian planners projected a rise in grain output of 5 or 6 percent annually, leading to self-sufficiency by mid-1966. Production actually dropped in the first year of the Third Plan, however, and the output by mid-1964 is likely to be little higher than in 1961.

The production of rice, which constitutes over 45 percent of India's food-grain output, has continued to decline for the second straight year, offsetting a modest gain recorded in the production of other grains. Adverse weather conditions in two of the largest rice-producing states account primarily for the rice deficiency.

Although there have been severe rice shortages in a few remote areas, agriculture officials do not expect a major food crisis to develop. Imports of food grain, primarily from the US under the PL-480 surplus food program, are expected to meet consumption requirements and provide a sufficient surplus to enlarge the government's stocks. Food prices, which have jumped by nearly 10 percent over the past year, have caused more serious concern. Since the largest part of the Indian family budget is devoted to food purchases, any major rise in food prices seriously depresses living standards.

Industry

Industrial development continues to be hampered by now familiar problems--shortages of foreign exchange, raw materials, and power. Nevertheless, the estimated rise in industrial production was nearly 9 percent during the year ending March 1963, against a rise of about 7 percent in the previous year. This increase was well below the planned growth rate of 12 percent annually, however.

Several major gains were recorded during the past year in key areas. Crude-steel production rose sharply in early 1963, and estimates of output reflect a high degree of plant utilization. For the first time, all major plants appeared to be functioning properly. The manufacture of industrial machinery continued to advance at a rate substantially above that of the general industrial index, and managed to keep pace with the increase in demand for machine tools, thus avoiding a jump in imports.

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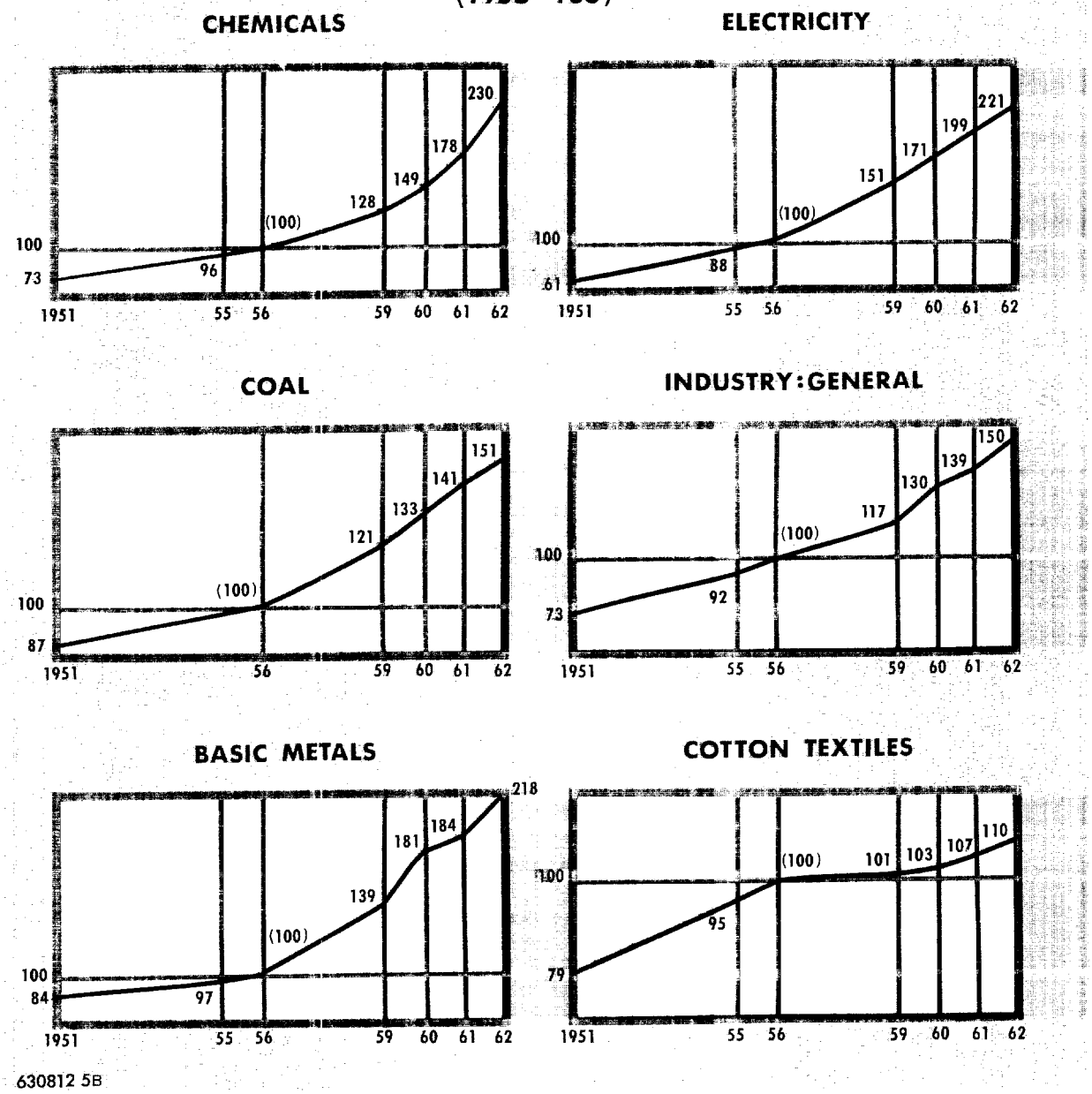
INDIA : INDUSTRIAL INDEXES

(1956 = 100)



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Despite these gains, industrial prospects for the remaining two years of the Third Plan are less than encouraging.

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Even those enterprises in which progress to date has been relatively satisfactory, such as steel and machine tools, will be hard put to meet the ambitious goals of the plan. Industrial expansion projects are behind schedule, with few major additions to capacity expected to be completed until late in the plan. Pending the installation of new facilities, growth in some industries will level off as production comes up to the limits of capacity.

Many of the old bottlenecks that have held back progress for years are likely to continue to be major problems. The massiveness of the development program has overloaded the government's administrative machinery, and lengthy procedural delays are encountered in virtually every phase of the plan. The central government is highly effective in drafting detailed economic programs, but delegates the supervision of their execution to a confused constellation of central and state bodies with no clear lines of authority. Plan implementation has lagged most seriously where projects have been left in the hands of the states, which have often been chary of imposing new taxes to pay their share of the costs.

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A chronic shortage of power continues to cause underutilization of industrial capacity. Thermal and hydroelectric generating capacity rose from 2.3 million kilowatts in 1951 to 6.9 million kilowatts in 1963, but the growing demand for power has kept well ahead of supply. The delay in the onset of this year's monsoon rains caused a partial shutdown of hydroelectric generation in several eastern areas. Limitations in the power grid prevent emergency transfers of electrical energy from reaching temporarily deficient areas.

The transportation problem eased somewhat during the past year, owing largely to more efficient operation of the country's railroad system, which accounts for 80 percent of the ton-miles carried. During the Chinese invasion of October-November 1962, and throughout the winter as well, the railroads responded adequately to the demands placed upon them. However, it is likely that future transportation demands, particularly for deliveries of coal--industry's major source of energy--will once again overload available resources. Transportation requirements will

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probably reach 305 million tons during 1965-66, while for the same period capacity is projected at only 255 million tons.

Financing the Plan

Obtaining foreign exchange for new undertakings has not been the problem it once was estimated to be. The hard-currency requirements of the Third Plan are estimated at more than $5.5 billion of the nearly $25 billion total plan outlay. With India's reserves at a minimum, the foreign exchange requirements of the plan must be met largely through intergovernmental loans.

Prior to and during the first two years of the plan, the consortium of Western countries providing aid to India offered $2.36 billion, while the Soviet bloc agreed to provide some $600 million. Pledges made this year by the consortium amount to $1.052 billion, bringing the total hard currency committed to the plan thus far to more than $4 billion. This year's commitment will fall short of the $1.25 billion requested by the Indians for 1963-64, but Indian planners appear to be satisfied that this amount generally meets their needs.

However, most of the aid pledges have been tied to specific projects, and offers of funds without such a tie were substantially lower than the $550 million requested for the third year of the plan. The scarcity of hard currency with which to import spare parts has led to the deterioration of capital equipment and has contributed significantly to industry's inability to fully utilize its installed capacity. Furthermore, the general pressure on foreign exchange reserves has limited the availability of raw materials, thus also restricting potential output.

The Indians have long recognized the importance of boosting export trade to help meet foreign currency costs. However, their efforts to promote exports have met with only limited success. The rising domestic demand for manufactured goods has discouraged the sale abroad of finished products, while world requirements for India's traditional exports--jute, tea, and cotton--are relatively inelastic.

Effects of Defense Build-up

Since last September India's defense spending has been doubled and now amounts to 5 percent of the gross national product. The direct effects of the defense build-up on general development have thus far been slight, however. Determined to press ahead with major development programs, the government reduced its education and welfare outlay and cut investment in consumer industries. Most of the initial increases in defense costs have gone to support the manpower costs of enlarging the army by 250,000 men. With human resources generally underemployed,

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diversion of this miniscule portion of the nation's population to the military has had a negligible impact on the economy. Imported materiel has been almost entirely financed by foreign grants or rupee purchases, and has not aggravated the tight foreign exchange situation.

In the longer run, however, the heightened emphasis on defense will inevitably strain the already overburdened economy. As defense production facilities come into operation, the demand for scarce raw materials will intensify. Dislocations can also be expected in transportation and, to a lesser extent, in power.

The recent heavy increase in taxes, aimed primarily at corporate income and nonessential consumer spending, has resulted in a sharp reduction in the rate of rupee capital investment. New stock issues since the Chinese invasion have declined by as much as 50 percent, and many offerings have been fully subscribed only with great difficulty. While the capital market is likely to improve with time, the depressant effects of the government's fiscal policies will further reduce the likelihood that growth in private enterprise--a major bright spot in the Second Plan--will reach the levels envisaged in the Third Plan.

Political Effects

Shortfalls in the plan and difficulties in the planning process are producing more political heat than in previous plan periods. The generally acceptable progress under the first two plans provided little in the way of political targets, but both right- and left-wing opposition parties have recently homed in on economic questions.

Within the government, ministers involved in the execution of various phases of the plan have become unusually sensitive to criticism as the jockeying for succession to Nehru has become more intense. They have seemed eager at times to lay the blame for failure at the doors of other ministers, thereby confirming the opposition's criticism that responsibility is too diffused. At the state level, there is growing disgruntlement in the ranks of Nehru's Congress Party over the central government's "wartime" austerity measures and the impact they are having on the electorate.

As all these pressures increase and popular support for the defense effort wanes, shortcomings in the economic sector are likely to take on as serious a political significance for Nehru's government and party as they have for India's development.

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