PROBLEMS AND PROSPECTS OF DEVELOPING COUNTRIES

S. JAGANNATHAN, I.C.S. (RETD.)

Published by

THE A. D. SHROFF MEMORIAL TRUST
235 Dr. D. N. ROAD,
BOMBAY - 400 001.

PROBLEMS AND PROSPECTS OF DEVELOPING COUNTRIES

S. JAGANNATHAN, I.C.S. (RETD.)

Published by

THE A. D. SHROFF MEMORIAL TRUST
235 Dr. D. N. ROAD,
BOMBAY - 400 001.

A. D. SHROFF

(1899 - 1965)

A. D. Shroff's achievements in the field of business, industry and finance were many and varied. A large number of enterprises owe their origin and development to him. As an economist, his predictions have proved right over the years. Through the Forum of Free Enterprise, which he founded in 1956, as a non-political, educative organisation, he sought to educate the public on economic affairs. It was his firm conviction that a well-informed citizenry is the foundation of an enduring democracy.

George Woods, former President of the World Bank, paid the following tributes to A. D. Shroff:

> "In every age and in every society men must express anew their faith in the infinite possibilities of the human individual when he has freedom to develop his creative talents. For this is in large part how the message of freedom is passed from generation to generation. A. D. Shroff spoke eloquently in a great tradition, and thanks to him we can be sure that other great men of India will continue to speak this message in the unknown context of our future problems."

Published by M. R. Pai on behalf of The A. D. Shroff Memorial Trust, 235, Dr. Dadabhai Naoroji Road, Bombay 400 001, and Printed by B. D. Nadirshaw at The Bombay Samachar Press, Horniman Circle, Bombay 400 001.

THE A. D. SHROFF MEMORIAL TRUST

(Registered under the Bombay Public Trust Act, 1950)

OBJECTIVES

(i) Publication of one or more books in English, Hindi, and regional languages annually on some of the great builders of Indian economy aimed primarily at educating the younger generation in high standards of building the national economy as practised by those great entrepreneurs and placing the example of their lives for emulation by India's youth.

(ii) Organising one or more memorial lectures annually on subjects which were of interest to the late Mr. A. D. Shroff, namely, banking, insurance, and industrial finance, the subjects to be chosen in rotation, and the lectures to be delivered by persons eminent in these fields.

(iii) Awarding annual scholarship or scholarships to outstanding student or students in the field of management.

(iv) Instituting a prize to be known as The A. D. Shroff Memorial Prize for the student standing first in Banking at the Sydenham College of Commerce, Bombay.

(v) Doing all such acts, matters and things as are incidental or conducive to the attainment of the above aims or objects or any one or more of them; and

(vi) Without prejudice to the above charitable objects or any of them, the TRUSTEES shall have the power to spend, utilise and apply the net income and profits of the TRUST FUND for the TRUST FUND for the charitable object of education or such other objects of general public utility not involving the carrying on of any activity for profit as the Trustees may think proper, it being the intention of the SETTLOR that the income and/or corpus of the Trust Fund shall be utilised for all or any of the aforesaid charitable objects without any distinction as to caste, creed, or religion.

INTRODUCTION

While the general public and most of the economists are concerned with national economic problems, the growing impact of international economic developments on the Indian economy is seldom realised. The Indian experiment in this field is being watched with interest all over the world. How India manages to deal with international economic issues like rising oil prices and North-South trade, is of special interest to statesmen and students of the subject all over the world.

The "Problems and Prospects of Developing Countries" is the subject of a learned and stimulating study by Mr. S. Jagannathan, ICS (Retd.). Among the high offices which Mr. Jagannathan has held in his distinguished career as a Member of the ICS is that of the Governor of the Reserve Bank of India. His understanding and exposition of this subject is of special value, coming as it does from an eminent public servant who has had decades of experience in this field.

The A.D. Shroff Memorial Trust has pleasure in presenting to the public the text of the perspicacious lecture on the subject which he delivered in Madras.

N. A. PALKHIVALA
Chairman

PROBLEMS AND PROSPECTS OF DEVELOPING COUNTRIES

S. Jagannathan, I.C.S. (Retd.)*

Entrepreneurs of ability and pragmatism, boldness, clarity and leadership such as Mr. A. D. Shroff play a vital part and are needed in our country now more than ever.

I propose to say something about the problems and prospects of developing countries. This will include something about our own country, customarily referred to as the World's largest developing country; China's joining the I.M.F. and the World Bank should however make it easier for us to recognise that the phrase should rightly apply to China.

Our interest in the developing countries is of course for a number of reasons; firstly in just common humanity. Further there are undoubtedly many lessons, positive or negative, that we can derive from a careful study of the varied experiences of these countries, struggling like us for development and growth. We and the other less developed countries or l.d.cs debate many common problems and interests amongst ourselves, in certain forms, and these are propounded or negotiated, in other international forums. As you know, it was our Prime Minister Nehru who pointed out that it was not correct to speak of the West as developed or the East as undeveloped; it is the

* The author is a distinguished former civil servant. He was Governor of the Reserve Bank of India. This text is based on a lecture he delivered in Madras on 30th October 1980.

North, whether Centrally Planned or market economy countries, which is industrialised and it is the South which is struggling to develop. As members of the South, we have to study our common needs and jointly frame our demands. Moreover, since trade between the developing countries is important and has to grow, this, and cooperation in all its aspects with other developing countries needs to be maximised in our common interests.

It is well known that the International climate in which the countries have to strive for their social and economic progress is now much less favourable than it was a decade or even a year or two ago. It is not merely or even mainly the steep oil price increase. The prospect for world trade is affected by cyclical and other factors in the industrial countries, beset as they are by persisting high inflation, by degrees of recession, rising un-employment and trends of protectionism.

In considering the outlook for the developing countries, we have to consider them in two categories by the oil importing developing countries on the one hand and on the other, the rest, the oil exporting countries, in which live one-fifth of the developing world. Metaphorically, countries of the two differing categories may be a stone's throw from each other but in another sense are in two different worlds.

Oil exporting countries naturally have good prospects for growth in percentage terms compared with the rest of the world; their main concern has to be to ensure good economic management, in particular, efficiency of investment. Education and the training of their people for various skills has to be a high priority for them.

Of the oil exporters, a few, the very large exporters (who account for 64 per cent of the oil export) have such large oil income, in relation to their need for and capacity to absorb imports, that they accumulate capital, which they cannot hope currently to use. Their annual capital surplus is so enormous — estimated to be of the order of 115 billion dollars in 1980 — that the counterpart deficit of the rest of the world — concentrated unfortunately, but not expectedly, in the non-oil developing countries — is also enormous, which is a basic problem.

These non-oil l.d.cs are most conveniently considered in two groups — the middle income countries, where the per capita annual income now exceeds $ 400 and the low income countries whose income is below this level. The latter includes the South Asian countries, which unhappily, in just four of them — (India, Indonesia, Bangladesh and Pakistan) house half the world's absolute poor, and African countries south of the Sahara, the problem of whose people is, if anything, more acute than ours in South Asia, and whose path to development is unavoidably longer than ours.

The middle income countries have had a better rate of growth but they too are in a state of crisis.

All of us will remember, what was dinned into our ears then, that there was a quadrupling of oil prices in 1973-74. We the l.d.cs have survived that and even managed to have some slow growth. Oil prices have approximately doubled between 1978 and 1980. But the crisis for the oil importing developing countries is much more serious now. The reason for this is not the supposed truth that a particular experimenter and a good drinker claimed to have discovered. One evening in his pub-crawling of bars, this man began with a full bottle of Whisky — a fifth of a gallon as they call it, which he managed to put down. He wandered to the next place where he drank a half bottle. At subsequent places of call he consumed a double whisky, then a chota peg and finally a small beer. He then came out with the conclusion "The less I drink, the more drunk I get".

Coming back from this experimental scientist to the less happy world of the developing countries, the point is neither that "less is more" as he argued nor even what the keen drinker may have missed, about the telling cumulative effect of it all.

Even in absolute terms, the recent increase from about 15 dollars a barrel of 1978 to some \$32 a a barrel now, 20 dollars per barrel more is far bigger and far more of a blow than the earlier quadrupling from \$2 or \$3 barrel to \$12 a barrel and of course consumption in the importing countries has been going up in these intervening years, so that more oil has to be paid for now at these steep rates. It is the official estimate that in India we shall have to pay about Rs 5000 crores per year now for oil imports, which threatens to swallow up almost all our export earnings.

For just the oil importing low income developing countries as a group, the current account deficit, as against 1.2 billion in 1970 and 5.4 billion in 1975 is estimated at \$10 billion in 1980.

In our present situation it would only be natural and useful for us to consider how we managed after the crisis of 1973-74. Let us then go back to the five years from 1974 and see how the developing countries in general and we ourselves fared in that situation.

Friends were not wanting to point out to us in 1974, if we did not realise it ourselves, that we were in for very difficult times. Quite good forecasts were made of the big number of dollars that the large oil exporters would accumulate as surplus and that this surplus would need to be "recycled", i.e., made available to the countries with large deficits. Our own case as the largest oil importing developing country came in for special notice.

On the whole, judged by the initial pessimism about their ability to adjust, the developing countries have done so surprisingly well. The burden has been stupendous. The current account deficit of the middle income developing countries alone was just $4.4 billion in the year 1973 but became $34.2 billion in 1975. The I.M.F. then created a new "oil facility" to which both the industrial and the OPEC countries contributed. In addition to recycling through the IMF facility and official bilateral assistance, these middle income countries had enormous sums lent to them by commercial banks of the rich industrial countries. The lending of banks to developing countries totalled $110 billion in 1976, $151.1 billion in 1977 and $221.5 billion in June 1979. Of this large total about 65% was taken by the top ten countries and within this about 45% had been borrowed by just five countries, Brazil, Mexico, Venezuela, Spain and Argentina.

This enormous bank lending, besides benefitting firstly the banks themselves (which were bulging with petro-dollars stashed away by the capital surplus oil exporters) and benefitting the borrowing middle income countries, has been of great value for the sustenance of world trade and in fact for the industrialised countries themselves. Countries such as Brazil and South Korea maintained their import growth by foreign borrowing and used the borrowed funds mainly to sustain high levels of productive investments and consequent economic growth.

It is now recognised that in the post-1974 period, borrowing by the better off developing countries played a large part in recycling the funds and ensuring that they were turned into export orders for the industrialised countries of the North. Without this, the recession in that period would have been much worse. A study made by the O.E.C.D. suggests that the benefit of the recycling was equivalent to 900,000 jobs in the industrialised countries every year during 1973-77.

This enormous increase in the lending to and the indebtedness (especially short-term indebtedness) of the developing countries is widely known and discussed. But this is not the whole story. Fortunately for us, the developments in India were in a different direction. Firstly, these years witnessed good agricultural growth, thanks to the improved technical practices and the good fortune of favourable weather, for a number of years in succession. Notwithstanding all our faults and shortcomings, our country, in three decades, has established a diversified industrial structure. With the needs of our oil-rich neighbours in West Asia providing a stimulus, our exports and export contracts including construction contracts grew and some portion of our vast manpower found gainful employment in the Gulf region from where they made substantial remittances that gained us the foreign exchange. During these years we paid off all our short-term debt to the I.M.F. and began accumulating exchange reserves. The following figures will illustrate. With the change in the structure of our debt and increased exports, debt service as a percentage of our export earnings came down from the level of 20.9% in 1970 to 9.4% in 1978. As against our current account deficit (before interest payment on external debt) of the equivalent of $206 million in 1970, we had an unaccustomed surplus of $915 millions in 1978. As a matter of fact during the quarter century between 1956 and 1980 we had never been free from current account deficits except in the very few years between 1976 and 1979. Alas, after the massive oil price increases of 1979 and 1980, increasing our oil import bill from about Rs. 1,750 crores in 1978-79 to about Rs. 5,000 crores in 1980, we are back again in our customary deficit.

The present oil crisis is expected to be a much bigger headache for the developing countries than the 1973-74 one. The industrial countries who are the principal markets for the developing countries absorbing two-thirds of their exports are economically in a state of disarray. They have been suffering from high inflation persisting for years and what with this and the counter measures taken, their growth has slowed down. In the U.S. and the U.K., output is expected actually to decline in 1980. When the demand from them for our products falls because of a recession, not only is there a reduction in the quantity of their purchases but a significant fall in the leading countries is higher than it has ever been since World War II. It is in such times that illiberalism and protectionism in those countries get strengthened. As for the oil price increase itself, it is higher in absolute amounts than it was in 1973-74.

What is the future of oil prices? We should note that the price of oil in real terms fell between 1975 and 1978 meaning there was such an inflation in the price of internationally traded commodities that this exceeded such increases in oil prices in dollar terms as the OPEC brought about in that period. More specifically, the industrial countries were in a good position, naturally in a much better position than we to meet and take advantage of the needs of the large oil exporters for equipment, arms and all else, and at significantly enhanced prices that the traffic could bear, so that they wiped out the deficit in their current account arising from higher oil prices. This is why the deficit in the rest of the world, that is the counterpart of the capital surplus of the large oil exporters, is concentrated in the non-oil developing countries.

It is the informed expectation that in the coming years, OPEC will ensure that the price of oil will rise steadily in real terms. Notwithstanding any conservation that the industrial countries may achieve, the world demand for oil will steadily increase. The OPEC now have experience and expertise behind them and ample self-confidence. Far from any adventitious softening, we must expect hardening of prices in real terms. We have yet to know what will be the consequences to us of the Iran-Iraq war, seeing that we have been getting the bulk of our oil from these two countries.

The recycling of surpluses for those in need cannot be expected to take place as easily as in the past; a number of adverse circumstances have now supervened. Firstly, the accumulated indebtedness of the countries concerned has increased their debt service obligation to such a level that their capacity to borrow and service additional debt and their creditworthiness have been affected. Moreover, there is the slowing down effect of past lending on the lending banks themselves, because of portfolio concentration, i.e., over exposure in the particular countries. Lastly there is the concern of the national authorities which regulate the banks, over the greatly increased debt-equity ratio of the banks.

As against all this, have we any assets, have we learned from the past what policies and actions to repeat or continue and what mistakes to avoid?

What has struck me as the most remarkable is not so much the diverging views fifteen or twenty years ago, in the North and in the South, as to what should be emphasised and what should be secondary in the economic priorities of the developing countries. It is the truly remarkable way in which two things have happened since then. Tacitly or openly, the aid giving industrial countries have swung round to our views, on matters such as the need for a direct attack on poverty, the importance even in l.d.cs of education, nutrition, health and human development in general, the value of well considered food subsidies etc. We in our turn have reshaped our policies showing that we saw the force of some of the points made by the North about the need for adjusting our policies.

In the year 1964, there was a World Bank mission to India led by Mr. Bernard Bell, which spent a long time and made a detailed report on our progress, listing our strengths and our weaknesses.

We had by then, by a major effort, got our three public sector steel plants into production and also compensatingly made a declaration that in our Third Plan agriculture was our priority. The Bell mission, or the notorious Bell mission as it was more often called, made a number of points. It considered that our prices in India had risen faster than general world prices and that we needed to make structural adjustments, in short, devalue, for our own economic health. It declared that we should be doing vastly more than we were doing in agriculture, especially in the production and use of fertiliser, minor irrigation, new technologies especially high yielding seeds, better procurement prices to provide incentives for the farmer etc. It declared that our exports were stagnant (when world trade was steadily growing) and we were not doing enough at all in the fields of promoting exports or in family planning. Not surprisingly, the reception to this was very hostile in Government circles, especially in the key Finance Ministry, which insisted successfully that the Bell Mission report covering the sensitive exchange rate issue may not be published or even shown to anyone outside the World Bank.

We know what we have done since then: After some rethinking, in 1966, we devalued our currency and although it turned out in the light of later knowledge that 1966 was the second successive year of drought and in that sense the step was unfortunately timed, our currency has enjoyed good health since then and further, thanks to the currency value fixing policy we adopted in 1975, it has adjusted itself to survive in a world of currency turmoil. What we have done and achieved in agriculture since 1966 has put everything that went before in the shade. In particular, in 1966 we had to import every bit of ten million tonnes of foodgrains and the imports in the following years 1967, 1968, 1969 and 1970 came down rapidly and without a break, being 8 million, 6 million, 4 million, and two million tonnes respectively, the last going partly into stocks. In 1971 we were able to stop all imports and that was the year our Prime Minister received the F.A.O's CERES award for our successful "Green Revolution". Our agricultural fortunes have fluctuated no doubt since then with the weather, but our comparative strength is evident, in that from our own production, we have built up a sizeable stock.

With more vigorous and sustained efforts by us, our exports too have shown greater health and remarkable improvement in non-traditional fields such as trucks, machine tools and other engineering goods, made-up garments, shoes, steel, cement, cut gems etc., though here again, our export fortunes have fluctuated with the international climate for trade and our own domestic economic health. The Government family planning programmes were progressively more planned, vigorous and increasingly successful until in fact in 1976, the people felt things were being overdone.

The country as a whole, and the Press and all educated persons in particular, have now appreciated the great importance to us of agriculture and of exports and finally of family planning, in order to consolidate the progress we have made in agriculture and industry. We are now pragmatic regarding the exchange rate of our currency and less sensitive over even what is probably motivated criticism about our supposed mistake of undue emphasis on heavy industry.

On the other side, Western economists, two decades ago, were inclined to place the greatest emphasis on economic growth, the growth of G.N.P. as such and to believe that such growth would help everyone in the developing countries, that wellbeing would gradually trickle down to the poor as well. They were inclined to consider social expenditure or welfare expenditure as desirable no doubt, but for the time being a distraction or a detraction from the more urgent task of increasing the productive equipment and the infrastructure for it.

Countries such as Srilanka and Egypt which spend substantially on food subsidies were considered to be squandering their resources to no purpose. The I.M.F. circles felt quite strongly on subsidies if the budget was not balanced, as it seldom was. There was some substance in the joking criticism against the I.M.F. of those days that a country had only to devalue and abolish its food subsidies in order greatly to impress the I.M.F. and induce it to come forward with heavy short-terms assistance to the country in question, whatever else happened to the country.

All this has changed. Indian and Pakistani economists were amongst the first to study the question whether the poorest 40% (or other suitably fixed proportion of the poorest) in a developing country did or did not benefit from the current processes of development, and to urge that while growth was clearly necessary, it was not sufficient and that the basic needs of the people would need to be tackled directly. Others too have studied this aspect. Recent reports such as the World Bank's World Development Report, clearly mention the availability of studies in this field and the evolution of and change in thinking over the last ten or fifteen years. The pursuit of basic needs is of course a major development goal and not a mere development strategy but the view of the Bank is that sufficient empirical evidence exists to demonstrate the contribution that improved education and health often make. In particular it is considered that primary schooling can improve the productivity of the small farmer and the industrial worker.

On the subject of food subsidies it is conceded by Western economists that the process of reaching the rural poor and improving their nutrition is a difficult one and that food subsidies if they can be targeted to the poor (through the selection of the food article subsidised, the season, the region and in other suitable ways) can play a valuable part in the improvement of nutrition.

While recognising the difficulty of ensuring that the benefit of the subsidy goes just to those who need it, the World Bank Development Report says "Few low income countries have come near to nutritional adequacy without some form of food subsidies. Srilanka ration and food subsidy progammes in 1970 provided about 20 per cent of the calories and 15 per cent of the income of the poorest quintile of the population. Large-scale food subsidies are also common in the Middle East and North Africa; they have played a significant part in improving the health of the poor."

This illustrates the extent to which there has been a change in the thinking of economists of the West. I am not justifying or supporting our existing system of subsidising foodgrains which is very expensive, because we have not succeeded in targetting it for benefit of the very poor, including the rural poor.

On education, the benefits of the high degree of literacy in Srilanka and in Kerala and the part played by female education in particular in bringing about a decrease in fertility and an improvement in child care is now universally recognised.

As a telling proof of the coming together of differing yiews on development, it has been pointed out that equity-oriented countries such as the People's Republic of China, Cuba, Srilanka, and Tanzania have found it necessary to give greater attention to economic efficiency and growth, while some of the leading exponents of rapid growth, viz., Brazil, Mexico, Thailand and Turkey, are taking poverty alleviation more seriously.

Few things in life, however, are very simple and straightforward. The fact that the affluent industrial countries have come forward to espouse the basic needs approach has produced a reaction in the developing countries and a controversy instead of a consensus. There is a suspicion in some developing countries that the advocacy of basic needs represents a capitalist conspiracy to discourage and delay industrialisation and modernisation in the developing countries. With more substance perhaps, there is strong concern on the part of the negotiators for the South that the current debate on basic needs by the developed countries may be used by them to divert attention from the North-South dialogue on the New International Economic Order. There is a concern that the advocacy of basic needs will be used by the donors to tell the developing countries to reform their own national priorities before they question the inequities of the international system. Such an approach is of course quite unjustified. In reply one could ask, as in fact a thoughtful Indian has done, "How is it that after discarding the trickle down version of growth nationally it is accepted almost as an axiom internationally?" He adds "I have not seen any suggestion that the resources of all the countries of the world together, should first be concentrated on the elimination of poverty wherever it might be."

It is in response to such concern that the independent international commission, the Brandt Commission, has said, "we do not in any way wish to suggest that changes in domestic policy (in developing countries) must be a prior condition for reforms in the global system. The case for an International order conducive to development both equitable and rational in terms of relations between countries is valid in its own right. But the case for greater equity within nations is valid also; and it is directly relevant to prospects for economic development and the improvement in the quality of people's lives, which is its goal."

To get back from the specific problems of investment to questions of international payments equilibria and international trade, we may briefly consider what needs to be done and what prospects there are of its being done.

All oil importers, and, therefore, the industrial countries too, have the problem to adjust to higher oil prices. Imports, particularly of oil, are more expensive and the capacity to import is further affected by slackening world trade and diminished export prospects. There is a need, however, in the first phase, to avoid a drastic cut in imports and to accept instead large current account deficits to be financed from borrowing or aid.

For doing this, it is the non-oil developing countries that will need special assistance. The poorest of them will not be able to borrow on commercial terms; even the middle income countries are affected by these problems which stand in the way of the commercial banks being able to continue what they have being doing in recent years, let alone improve on it. The Banks will continue to lend but there will be a slowing down. However, all this is generally perceived and the World Bank and the I.M.F. are equipping themselves to handle a part of this task, by substantially increasing the sums that they would be able to make available for adjustment. The Fund is expected to be able to lend greater amounts in relation to members' quotas, and allow adjustments to stretch over longer periods. The World Bank plans to be able to give additional sums in a more flexible form. There will be need for all the possible help from these and other sources.

Industrial countries plagued by their high inflation have treated this as their foremost problem and considered the sacrifice of growth and determined deflationary measures as the best way of achieving the desired results on inflation. There has been a distinct slowing down of economic activity in these countries but, as it is generally agreed, this has already helped to relieve the upward pressure on prices. It is now necessary for them to pay heed to other aspects of economic management. Because of their weight in the World economy, the industrial countries in particular should maintain import growth, recognising that the maintenance of the import capacity of the developing countries will be of help to themselves in turn. It is my hope that they will be able to do this and that in the short-to-medium term we shall see the end of this particular difficult phase. In the U.S.A. it is already reported that the recession, in their elegant phrase "has already bottomed out" along with some easing of unemployment and inflation. The U.K. believes it has had some success in its attack on inflation.

From this general question of markets, I would like to deal with briefly the problem of the tariff and more particularly the non-tariff barriers to the export of manufactures from the developing countries. It is not denied in the countries of the North, that protectionism especially through non-tariff barriers, constitutes a discriminating hurdle for the manufactures of the l.d.cs. Yet developing countries accounted through such exports for only ten percent of the imports of manufactures by the industrial nations and less than two percent of their consumption. Both the Brandt Commission report and the World Bank development report recognise that an influx of manufactured imports from developing countries could raise local problems of adjustsment, but there are internal remedies for these problems and liberalisation of trade will pay off in faster productivity growth and a slower inflation. It has been observed that in industries with large import from the developing countries, retail prices have risen much less than the average price level in most of the North. A survey of consumer goods in the United States found that goods imported from Asia and Latin America were, on the average, sold for 16 per cent less than domestic products of the same quality. Other surveys have shown that the effect of large-scale imports from developing countries in displacing the labour force of the industrial countries is not of major significance.

Having regard however to all factors including the political factors in the developed countries, the developing countries have to fight for holding the line as it is and avoiding the imposition of fresh protective measures or aggravation of existing ones and secondly negotiate for a substantial increase, year by year, in the annual import quotas in those commodities which are of interest to them. Outside the well-known fields of clothing, textiles, shoes and steel, it appears l.d.cs have been able to increase the exports of manufactures to industrial countries and can hope to do better in the future, at any rate outside a few sensitive industries. Industrialising l.d.cs should in the coming years strive to increase their exports of manufactures to Eastern Europe and the U.S.S.R as also to other developing countries with suitable, mutually evolved plans for achieving this.

I shall not try to cover the question of foreign aid from the established aid givers, the disappointing position regarding which is widely known but there is an aspect I would like to refer to. It is widely recognised, including by the OPEC countries, that the increase in oil prices has hit most heavily the low income developing countries. OPEC countries have been quite generous in providing assistance to others. Considering that the capital surplus of the major OPEC countries this year is over one hundred billion U.S. Dollars, it is within their possibilities to assist all the low income countries by extending aid, say, to cover the increase in the cost of their oil imports to the extent that is caused by the increase in prices, occurring in the last two years.

India is making precisely this proposal to OPEC countries and there is some misapprehension or misrepresentation that India is a large importer of oil and, therefore, should be left out of consideration by OPEC. All of us know however that our per capita consumption of oil is very low. We import only two thirds.

Interestingly the Brandt Commission states, "One American uses as much commercial energy as two Germans, three Swiss or Japanese, six Yugoslavs, sixteen Chinese or 53 Indians." To continue, the people of Srilanka use half as much as we do per capita and countries like Nepal use an insignificant quantity. In short, it is practical to think of the OPEC countries giving some direct assistance to low income countries including India. The Brandt Commission included distinguished leaders and experts from developed and developing countries and the publication of the report is a major event. It is no criticism to say that the report which makes a comprehensive lucid summary of the problems of the developing countries suggests ideal or even idealistic solutions detailing the different ways in which rich countries can assist with more aid of higher quality, restructure international trade making it more truly free and reform the leading international institutions. In its broad compass the report does full justice to the grievances and aspirations of the developing countries which are seeking to have a New International Economic Order established through the North-

South dialogue and other efforts. It makes an interesting proposal that all countries including the l.d.cs, except perhaps the very poorest few, should tax themselves to contribute to a World Development Fund. The U.N. has resolved to hold a Summit meeting as recommended by the Brandt commission to consider its recommendations. We have seen all the disappointments of the prolonged North-South dialogue. While I am quite hopeful about the future of developing countries, given peace, stability and a modicum of good sense and dedication in the countries, I am not very optimistic about significant improvements resulting, at any rate in the short term, in the global aid and trade environment, following the World Summit. I hope I am wrong.

It is firmly my view that what we do ourselves, within the given external circumstances, by way of adjustment, and skilful management of the economy, is of much greater importance still. We have many assets including a large trained manpower, possessing technical, managerial and financial skills, a growing number of entrepreneurs, a diversified and to some extent modern industry and large investments in industry and infrastructure, as well of course as a reservoir of labour which can be trained and used wherever there is an opportunity to use it. One can say with assurance, that if the economy is managed well, the balance of payments will not prove intractable. One has necessarily to tackle first the immense problems which have somehow built up, in power, coal and rail transport sectors, and thereafter to increase the productivity of all our investments already made.

Reducing our current account deficit in the medium term is important but not more important than the need for doing so while maintaining economic growth. While using up our cushion of exchange reserves to some extent in the initial years, we have to strive for an eqilibrium but as high a level of economic activity as possible. In this both import substitution and export promotion will play equally important roles. One is reminded of the words of Joan Robinson: "Indeed on a high plane of generality, there is nothing very much in economic theory to say to the planner except, 'Do not listen to those who say you want this rather than that — agriculture not industry, export not home production, light industry, not heavy, you always need both' ".

Import substitution, mistakenly, is anathema to some economists but in its broadest sense it is only, as Joan Robinson called it, "Home production" — producing for the millions of India and what can be wrong with that? It does not mean, say, the elimination, through much investment and at high cost, of the last five or ten percent of the requirements for our tiny production of passenger cars. On the other hand, what immense benefits have we not given ourselves through increased home production instead of imports, of large quantities of wheat and rice, crude oil production of the order of ten million tonnes steel, also reckoned in millions of tonnes and a wide variety of capital equipment for our industries. When we remember that even now, when our capacity to import is sharply reduced, we are still having to import quantities of steel and cement and sugar at high cost, just because of heavy shortfalls in utilising the production capacity we already have and because we could not be sufficiently farsighted in our policy, we can see what immense need there is for increased home production of these commodities and of fertiliser, crude oil, non-coking coal and oilseeds, to mention just a few important ones. On the other hand, there should be ample import of coking coal so that we do not lose in the production of much more valuable iron and steel.

In the field of exports, even in these difficult times we can hope to step up our exports not merely to the U.S.S.R and Eastern Europe, but also to all the oil exporting countries not only in West Asia but to other developing countries such as Indonesia, Nigeria or Mexico. If the scope for construction contracts goes down, other fields including joint sector projects may offer increased scope.

Few will disagree that there is scope for getting much more from our existing investments. But even when steps are taken to achieve this objective, there will be need for a steady growth in fresh investments. Developing countries including India have succeeded in raising the level of savings to a fairly respectable level, foreign assistance is unlikely to provide the resources for even 10 **per cent** of our investment though we have to use all we can get. In addition to joining the developing World and the Brandt commission and other men of goodwill in realising such increases as are possible in Official Development Assistance, there will be the need also for well directed efforts by us to preserve and if possible improve our share; the share of India in such assistance has declined between 1962 and 1979 from 14.3 to 6.6 per cent as measured by actual disbursements. We have in the past availed successfully of sources such as Eximbank credits and even commercial bank loans, in particular fields such as the purchase of passenger planes and merchant ships. There is scope for doing much more to avail of such sources for very carefully selected fields of investment, including oil production. The present inflation makes it necessary and possible for us to consider paying rates of interest which could not be contemplated a few years ago.

Our basic problems and the challenge for us in India will be how to increase employment especially rural employment — task which could also be described as mobilising part of our unused manpower or of raising the incomes of the poor. This is one of the fundamental problems engaging our Planning authorities. The experts who felt some three years ago that we could, with safety, embark on bold measures, since we were well provided with cushions in the shape of foreign exchange reserves and food grain stocks were oversimplifying the task. These cushions have not sufficed to stave off one of our presently pressing economic problems.

While we need not be overwhelmed by the externally adverse situation, there is a greater need than ever before for financial prudence and good economic management. There is ground for hope that with sufficient vigilance and dedicated efforts we shall be able to cope with the problems of energy and build up in a few years a foundation for sustained growth in years to come.