India's Prosperity is linked with Progress of Private Sector

A LETTER BY

EUGENE BLACK

Chairman, World Bank

TO

T. T. KRISHNAMACHARI

Finance Minister, India.

FORUM OF FREE ENTERPRISE

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The bank has now an opportunity of considering the report of the economic mission led by Mr. Thomas McKittrick which visited India earlier this year at the invitation of your Government and I am writing to inform you of the general conclusions which we have reached.

We in the Bank have great admiration for solid achievements in the economic field which have been recorded in India during the past five years.

We have also been impressed with the broad outlines of development programme which your Government is proposing to follow during the next five-year period.

At the same time, there are certain aspects of the programme and of your plans for its execution which in the Bank's view should give India cause for concern.

On these I am sure you would wish me to state our views frankly.

In saying this, I have in mind the generally sympathetic reception which your Government has given to the observations on the economic programme and policies in India which our mission communicated to Mr. Deshmukh on June 30 and we welcome the fact that you have made these observations public in India.

In making my own comments, I should like first to emphasize once again my conviction that India's interests lie in giving private enterprise, both Indian and foreign, every encouragement to make its maximum contribution to the development of economy, particularly in the industrial field. While I recognise that the Government itself must play an important role in India's economic development, I have the distinct impression that potentialities of private enterprise are commonly underestimated in India and that its operations are subjected to unnecessary restrictions there.

Above all, in the country which is short of capitai and with limited resources of managerial and administrative talent, it is important that respective roles of public and private enterprise should be fixed entirely on the basis which will ensure the most effective contribution

of each to the economic development and not any theoretical concept of role that each should play. I see the tendency towards this latter approach in your industrial policy resolution of last April which reserves to the State exclusive responsibility for new undertakings in large number of industries including oil, coal and other minerals.

It seems to me that the policy rigidly applied could only result in imposing heavy additional burdens on the already overstrained financial and administrative resources of the public sector in restricting the rate of development in these vitally important fields.

The Bank has carefully studied the mission's findings with regard to the Second Five-Year Plan and it shares the Mission's conviction that in so far as the public sector is concerned the programme is too large to be completed within five years.

Quite apart from possible financial limitations, it seems inevitable in the light of past experience in India and elsewhere that the execution of projects will be delayed by administrative difficulties and by lack of trained managerial and technical personnel with experience of large-scale construction and industrial operations.

This makes it all the more important that every effort should be made to secure technical co-operation and financial support of foreign private enterprise in carrying out the development programme.

The bank welcomes arrangements that have been made to associate foreign firms with construction and operation of major undertakings both in the public and private sector but hopes that more positive measures will be taken to facilitate foreign investment that consideration will be given to suggestions made by the mission in its memorandum.

The Bank has been impressed with the record of financial stability maintained in India over the past five years and with skill displayed in the management of public finance.

At times when the rate of development is accelerating rapidly, I am sure that financial and monetary authorities will continue to realise the importance of keeping a close watch over financial balance and to take prompt action to curb inflammatory rise in aggregate demand which, if allowed to proceed unchecked, could easily jeopardise the success of the whole development programme.

There is danger that the amount of deficit finance proposed in the Second Five-Year Plan will prove to be well beyond the capacity of Indian economy to absorb without excessive price increases and the Bank would, therefore, urge upon the Government the need to keep a careful and continuous check on development expenditure in the light of financial resources currently available to meet them.

With regard to external finance, the Bank feels

that greater emphasis should be laid in the Second Five-Year Plan on measures to develop overseas earnings.

The demand for imports of industrial material, petroleum and other producers' goods must be expected to grow as industrialisation proceeds and concurrent expansion of exports will be essential if dependence on foreign aid and borrowing is to be progressively reduced.

Determined effort is, therefore, called for to strengthen competitive power of India's traditional export industries, particularly tea, jute and cotton textiles and to build up new exports both manufactured and primary products.

In some instances, for example, cotton textiles and vegetable oils, Government policies appear at present to have effect in actively discouraging exports and the Bank hopes that the Indian Government will be ready to reconsider these policies in view of the severe pressure on foreign exchange resources which is likely to persist throughout the coming period of intensive development in India.

It is indication of the Bank's sincere interest in the success of India's development programme and in improvement of the material well-being of the Indian people.

We are anxious to play our full part in assisting India to achieve satisfactory rate of economic growth.

The Bank believes that Indian economy has capacity to develop basic strength which would justify considerable increase in overseas borrowing during the next five years.

It is scarcely possible, however, for the Bank to commit itself to any specific figure for lending.

We feel that we will have to consider the pace and scale of our further loan operations in India from time to time in the light of economic conditions and prospects taking into consideration, the economic policies which are pursued by your Government.

On the one hand, we should have to take into account the extent and character of impact on India's balance of payments of services of external debt contracted from sources other than the Bank.

On the other hand, our disposition to lend would be favourably influenced by the amount of external financial assistance which India obtains without incurring the fixed foreign exchange obligations.

I hope that we may contemplate development of close co-operative relationship between your Government and Bank in which, from time to time, we shall mutually review the progress being made in execution of the Second-Five Year Plan and consider together further the role which the Bank may be able to play.

For the present, I should like to assure you that the Bank is ready to embark forthwith on consideration and analysis of such further investment projects as your Government may desire to put forward.

The problem of transport is one which has particularly engaged the attention of the Bank as well as of your own Government and of private interests throughout India.

We are struck by the extent to which lack of adequate transportation facilities threatens to constitute the bottleneck in the country's economic development.

We recognise that substantial resources are already allocated for investment in Railways under the Second Five-Year Plan and we are not necessarily suggesting increase in this allocation.

Indeed, in view of the acute shortage of capital for development and very high import content of Railway investment, attention should be given first to the po'ssibilities of improving operational efficiency of Railways and of encouraging road transport and coastal shipping; the latter between them should be capable of making considerably larger contribution than at present.

I think that transportation could appropriately be regarded as top priority for any Bank financing that may be devoted to the Second Five Year Plan.

As preliminary detailed examination of projects in this field, I suggest that it would be useful if the general problem of transport in India could first be discussed between your Government and the Bank in the light of study of Indian Railways which, I understand, has recently been carried out at your invitation by a team of American railway consultants.

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