



INDIA PRESENTATION PAPER

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

FEBPUARY, 1979



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1. U. S. INTERESTS IN INDIA'S DEVELOPMENT

THERE IS AN HISTORIC OPPORTUNITY FOR THE UNITED STATES IN PARTICIPATING NOW IN INDIA'S DEVELOPMENT EFFORT.

IN RETURNING TO DEMOCRATIC GOVERNMENT WITH FULL POLITICAL LIBERTIES, INDIA HAS BECOME AN EXAMPLE FOR OTHER LDCs. INDIA ALSO HAS COMMITTED ITSELF TO ECONOMIC AND SOCIAL PROGRESS FOR THE MAJORITY OF ITS POPULATION. THE UNITED STATES HAS A STRONG INTEREST IN SEEING INDIA SUCCEED IN THESE ENDEAVORS AS AN IMPORTANT EXAMPLE THAT LDCs CAN ACHIEVE DEVELOPMENT UNDER DEMOCRATIC GOVERNMENTS WITHOUT RESORTING TO TOTALITARIAN METHODS. IF ECONOMIC ASSISTANCE IS TO SERVE U.S. INTERESTS, IT MUST NECESSARILY DEAL WITH INDIA'S MASSIVE DEVELOPMENT PROBLEMS.

POVERTY AND POPULATION. HALF A BILLION POOR PEOPLE LIVE IN INDIA, WHICH CONSTITUTES 50% OF THE POOR IN ALL A.I.D.-ASSISTED COUNTRIES. OF INDIA'S TOTAL OF 530 MILLION PEOPLE, AT LEAST ONE QUARTER ARE UNDERFED AND MALNUTRITION IS WIDESPREAD AMONG CHILDREN. DESPITE FAMILY PLANNING EFFORTS WHICH HAVE LOWERED THE POPULATION GROWTH RATE TO 2.1% PER YEAR, THE POPULATION OF INDIA INCREASED BY ONE MILLION EACH MONTH (SEE CHART).

FOOD. A RECENT INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE (IFPRI) STUDY EMPHASIZES THAT FOOD PRODUCTION MUST INCREASE DRAMATICALLY IN DEVELOPING COUNTRIES IF CONSUMERS THE WORLD OVER ARE TO AVOID SHARPLY RISING COSTS.

THE INSTITUTE PREDICTS A 70-85 MILLION TON FOOD DEFICIT BY 1990 IN THE LOW INCOME, FOOD DEFICIT COUNTRIES.^{A/} OVER HALF OF THAT DEFICIT WILL BE IN ASIA.

THE STUDY ESTIMATES THAT INDIA WILL ACCOUNT FOR ROUGHLY 50% OF FOOD PRODUCTION IN THE LOW INCOME DEFICIT COUNTRIES IN 1990. HOWEVER, EVEN WITH SUCH LEVELS OF OUTPUT, INDIA WILL REQUIRE 18-22 MILLION TONS OF GRAIN IMPORTS UNLESS RATES OF AGRICULTURAL GROWTH INCREASE.

THE POTENTIAL FOR SUCH GROWTH IS CLEAR. IT IS RECOGNIZED BY THE DONOR COMMUNITY AND BY THE INDIAN GOVERNMENT ITSELF.

AT PRESENT THE INDIAN FARMER OBTAINS AVERAGE YIELDS OF 1,000 POUNDS PER ACRE. IF WE COULD HELP HIM ACHIEVE 50% OF U. S. YIELDS ON THE CURRENT ACREAGE OF RICE, MAIZE AND SORGHUM, INDIA WOULD FEED ITS OWN MILLIONS AND ELIMINATE THE 18-22 MILLION TON IMPORT GAP. IF THE INDIAN FARMER COULD MERELY INCREASE HIS PRODUCTION BY 4.0% ANNUALLY, RATHER THAN THE CURRENT 2.5% RATE OF GROWTH, INDIA COULD REDUCE THE PROJECTED FOOD DEFICIT BY THE LOW INCOME NATIONS BY ONE HALF. (SEE CHART)

II. INDIA'S DEVELOPMENT PERFORMANCE AND PROSPECTS

SINCE ITS ELECTION IN 1977, THE JANATA PARTY GOVERNMENT IN INDIA HAS SHIFTED DEVELOPMENT POLICIES TOWARD A RURAL-BASED, EMPLOYMENT-CREATING APPROACH. SLOW AGRICULTURAL GROWTH HAS BEEN

^{A/} THIS GROUP CONSISTS OF 34 COUNTRIES WHICH HAVE AN ANNUAL PER CAPITA GNP OF LESS THAN \$300 AND FOR WHICH A FOOD DEFICIT IS PROJECTED FOR 1990.

THE CORE OF INDIA'S DEVELOPMENT PROBLEM. AGRICULTURE HAS GROWN AT 2.1% PER ANNUM DURING THE PAST 10 YEARS, DESPITE RECENT RECORD HARVESTS. IT HAS NOT ONLY PERPETUATED INDIA'S MASSIVE RURAL POVERTY BUT SLOWED OVERALL GROWTH. AS THE INDIAN FIVE-YEAR PLAN FOR 1978-83 STATES OF THE 30 YEARS SINCE INDEPENDENCE:

PER CAPITA AGRICULTURAL PRODUCTION HAS REMAINED STAGNANT. THIS HAS PROVED TO BE A CONSTRAINT ON THE PACE OF GENERAL ECONOMIC DEVELOPMENT, AND FLUCTUATIONS IN AGRICULTURAL OUTPUT HAVE OFTEN LED TO UNPLANNED CUTBACKS IN PUBLIC INVESTMENT AND BOUTS OF INFLATION, BOTH OF WHICH HAD A DEPRESSING EFFECT ON GROWTH.

PAST GROWTH HAS NOT BEEN WITHOUT ITS BENEFITS. A MODERN INDUSTRIAL SECTOR HAS BEEN CREATED AND IMPORTANT INVESTMENTS HAVE BEEN MADE IN INDUSTRIAL AND URBAN INFRASTRUCTURE. BUT 75% OF THE POPULATION IS STILL RURAL AND UNEMPLOYMENT REMAINS HIGH. MODERN AGRICULTURAL TECHNIQUES HAVE BEEN INTRODUCED IN SOME PARTS OF THE COUNTRY AND A GRAIN RESERVE OF 20 MILLION TONS HAS BEEN ESTABLISHED IN RECENT YEARS. THIS IS DUE MAINLY TO A SUCCESSION OF FOUR FAVORABLE MONSOONS IN A ROW -- AN OCCURRENCE UNHEARD OF IN MODERN TIMES AND UNLIKELY TO BE REPEATED. PER CAPITA GRAIN CONSUMPTION REMAINS VERY LOW, OVER 150 MILLION ARE CONSIDERED SERIOUSLY UNDERFED AND MALNUTRITION IS WIDESPREAD AMONG CHILDREN.

IN ADDITION TO STORING A GRAIN RESERVE, INDIA IS PROVIDING MORE FOOD DIRECTLY TO ITS POOR BY EXPANDING FOOD-FOR-WORK PROGRAMS AND INCREASING STATE GOVERNMENT FOOD INPUTS TO SCHOOL LUNCH PROGRAMS. IN FY 79 CARE WILL COMPLETELY PHASE OUT OF FOOD-FOR-WORK AS THE GOVERNMENT OF INDIA PICKS UP AND ENLARGES THE PROGRAM WITH ITS OWN COMMITMENT OF 1 MILLION METRIC TONS.

IF INDIA SHOULD SUFFER SEVERAL DISASTROUS MONSOONS AS IT DID IN 1966-1967, ITS FOOD BUFFER STOCKS LITERALLY WOULD BE EATEN UP. INDIA WOULD BE FORCED TO BUY FOOD ON THE OPEN WORLD MARKET, WHICH RAPIDLY WOULD ERODE ITS PRESENT FOREIGN EXCHANGE POSITION. THE RESULT WOULD BE A SEVERE SETBACK TO INDIA'S DEVELOPMENT PLANS AND INCREASED WORLD GRAIN PRICES. (SEE CHART)

THE APPROACH OF THE NEW GOVERNMENT, AS REFLECTED IN THE NEW FIVE-YEAR PLAN, IS TO SHIFT MORE RESOURCES INTO RURAL DEVELOPMENT, SMALL-SCALE INDUSTRY, EMPLOYMENT CREATION AND THE MEETING OF BASIC HUMAN NEEDS. OVERALL GROWTH IN GNP IS PROJECTED AT 4.7% ANNUALLY, WITH EMPHASIS ON INCREASING THE RATE OF GROWTH IN AGRICULTURE TO 4%. THIS 4.7% IS LESS THAN THE TARGET RATES SET IN PREVIOUS PLANS AND PROBABLY LESS THAN WOULD BE POSSIBLE THROUGH AN INDUSTRIAL GROWTH STRATEGY. BUT, IF ATTAINED, IT WILL BE HIGHER THAN THE 3.2-3.8% GNP GROWTH RATES ACTUALLY ACHIEVED UNDER PAST PLANS.

INDIA HAS SHIFTED ITS DEVELOPMENT PRIORITIES IN ITS NEW FIVE-YEAR PLAN. (SEE CHART)

AGRICULTURE AND RURAL DEVELOPMENT. INDIA HAS A RECOGNIZED VAST POTENTIAL FOR INCREASING ITS AGRICULTURAL PRODUCTIVITY AND OUTPUT. IN THE CURRENT FIVE YEAR PLAN THE GOAL IS TO DOUBLE THE PAST RATE OF GROWTH THROUGH:

- A 35% INCREASE IN TOTAL IRRIGATED AREA. THIS AMBITIOUS PROGRAM WILL ACCOUNT FOR THE LARGEST SECTORAL INCREASE IN PLAN EXPENDITURES.

- HIGHER YIELDS PER HECTARE THROUGH IMPROVED FARMER ACCESS TO FERTILIZER, HIGH-YIELDING SEEDS, CREDIT, RESEARCH, EXTENSION SERVICES, STORAGE, MARKETING AND ELECTRIFICATION.
- ALLOCATION OF THE LARGEST SHARE (43%) OF PLAN OUTLAYS TO AGRICULTURE AND RURAL DEVELOPMENT.
- IN ADDITION, RURAL DEVELOPMENT WILL BENEFIT THROUGH (1) INCREASED ASSISTANCE TO SMALL-SCALE AND COTTAGE INDUSTRIES; AND (2) PRIORITY IN ALLOCATION OF OTHER INFRASTRUCTURE AND SOCIAL SERVICE EXPENDITURES.

THE BUDGET FOR INDIAN FISCAL YEAR 1978-79 (APRIL, 78 TO MARCH, 79) PROVIDES PROOF THAT AGRICULTURE AND RURAL DEVELOPMENT DO IN FACT HAVE TOP PRIORITY:

- AGRICULTURAL OUTLAYS WILL BE UP 39%, COMPARED TO A 17% AVERAGE INCREASE FOR ALL EXPENDITURES;
- SPECIAL PROGRAMS FOR HELPING SMALL AND MARGINAL FARMERS AND AGRICULTURAL LABORERS WILL CONSTITUTE THE LARGEST SINGLE AGRICULTURAL BUDGET ITEM;
- IN KEEPING WITH THE DECENTRALIZATION POLICY OF THE NEW GOVERNMENT, THE STATES AND TERRITORIES WILL FOR THE FIRST TIME UNDERTAKE OVER HALF OF AGRICULTURAL DEVELOPMENT OUTLAYS.

EMPLOYMENT CREATION. THE PLAN PROPOSES TO ATTACK THE MASSIVE PROBLEM OF UNEMPLOYMENT AND UNDEREMPLOYMENT ON MANY FRONTS. ITS GOAL IS TO CREATE 49 MILLION NEW JOBS DURING

1978-83, OR 63% MORE THAN THE EXPECTED INCREASE OF 30 MILLION PERSONS IN THE LABOR FORCE.

HALF OF THE NEW JOBS ARE TO BE CREATED IN AGRICULTURE AND RELATED ACTIVITIES. EMPLOYMENT WILL BE ENCOURAGED BY:

- LAND REDISTRIBUTION AND CONSOLIDATION;
- REGULATION OF THE GROWTH OF LABOR-DISPLACING FARM MECHANIZATION;
- ENCOURAGEMENT OF HIGH GROWTH SECTORS SUCH AS DAIRYING, HORTICULTURE, FORESTRY AND FISHING.

IN INDUSTRY THE EMPHASIS WILL BE ON SMALL-SCALE AND HOUSEHOLD PRODUCTION OF CONSUMER GOODS, AIDED BY GOVERNMENT HELP IN:

- DEVELOPMENT OF NEW APPROPRIATE TECHNOLOGIES;
- CREDIT, DESIGN AND MARKETING.

MEETING MINIMUM HUMAN NEEDS. THE NEW PLAN SETS MORE AMBITIOUS TARGETS AND COMMITS MORE FUNDS TO A COMPREHENSIVE PROGRAM THAT INCLUDES:

- ELEMENTARY EDUCATION, WHOSE COVERAGE WILL BE EXPANDED FROM 69% TO 90% OF CHILDREN 6 TO 14 YEARS;
- ADULT EDUCATION, WHICH HOPES TO MAKE LITERATE 66 MILLION OF THE ESTIMATED 100 MILLION ILLITERATES AGED 15 TO 35 YEARS;
- RURAL HEALTH WORKERS, HEALTH CENTERS, AND DRINKING WATER FACILITIES, TO BE PROGRESSIVELY EXTENDED IN ALL AREAS;

- RURAL ROADS AND ELECTRIFICATION, TO BE SUBSTANTIALLY INCREASED;
- HOUSING ASSISTANCE, TO BENEFIT 8 MILLION LANDLESS LABORERS AND 13 MILLION URBAN SLUM DWELLERS;
- IMPROVED NUTRITION, THROUGH SUPPLEMENTARY FEEDING PROGRAMS BENEFITTING AN ADDITIONAL 6.6 MILLION CHILDREN AND NURSING MOTHERS.

III. NEED FOR EXTERNAL RESOURCES

INDIA WILL CONTINUE TO RELY MAINLY ON ITS OWN DOMESTIC SAVINGS TO FINANCE ITS DEVELOPMENT EFFORT. HOWEVER, THE RURAL-BASED EXPANSION OF OUTPUT AND INCOMES FORECAST IN THE NEW PLAN WILL GENERATE A GENERAL INCREASE IN ECONOMIC ACTIVITY, INCLUDING USE OF IDLE INDUSTRIAL CAPACITY. EVEN WITH CONTINUED FOREIGN ASSISTANCE, THIS ACCELERATED GROWTH WILL RESULT IN A \$1.4 BILLION DRAWDOWN OF INDIA'S FOREIGN EXCHANGE RESERVES. WHILE A CONTINUING FAVORABLE BALANCE OF PAYMENTS SITUATION IS PROJECTED, RISING IMPORTS OF ESSENTIAL COMMODITIES, RAW MATERIALS AND CAPITAL GOODS ARE EXPECTED TO CAUSE A LARGER TRADE DEFICIT IN 1978/79 THAT COULD REACH \$1.5 BILLION.

FOREIGN ASSISTANCE WILL BE NEEDED ON A STEADY, DEPENDABLE BASIS TO AVOID REPETITION OF PAST INTERRUPTIONS TO INVESTMENT AND SOCIAL PROGRAMS. BASED ON PAST EXPERIENCE, INDIA'S CURRENT FAVORABLE FOREIGN EXCHANGE AND GRAIN RESERVE POSITION IS NEEDED AS A CUSHION AGAINST UNFORESEEN CROP FAILURES AND NATURAL DISASTERS.

FOREIGN ASSISTANCE PLEDGES FROM THE INDIA AID CONSORTIUM, CHAIRED BY THE WORLD BANK WITH MEMBERSHIP OF THE U.S. AND 12 OTHER BILATERAL DONORS, TOTAL \$1.65 BILLION (NET OF SCHEDULED DEBT REPAYMENTS) FOR THE CURRENT YEAR. CONSORTIUM ASSISTANCE HAS RECENTLY EMPHASIZED PROJECT ASSISTANCE TIED MORE CLOSELY TO RURAL DEVELOPMENT. NOW THE INDIANS HAVE RESPONDED. CONTINUED U.S. AID IN THE CONSORTIUM CONTEXT WILL SIGNAL U.S. SUPPORT FOR THE AMBITIOUS RURAL-BASED DEVELOPMENT STRATEGY ON WHICH INDIA HAS EMBARKED IN ITS NEW PLAN.

AS A RESULT OF CONTINUED HIGH LEVEL TALKS WITH INDIAN OFFICIALS, INCLUDING ADMINISTRATOR GILLIGAN'S MEETING WITH THE PRIME MINISTER IN JANUARY 1978, TWO THINGS HAVE BECOME CLEAR:

FIRST, INDIAN OFFICIALS ARE GRATEFUL FOR ASSISTANCE RECEIVED FROM THE UNITED STATES IN THE PAST AND BELIEVE IT HAS BENEFITTED THEIR DEVELOPMENT GREATLY.

SECOND, THE INDIANS CONTINUE TO WANT OUR ASSISTANCE, IF WE WISH TO RE-ESTABLISH OUR DEVELOPMENT COOPERATION EFFORT THERE.

ON THE FIRST COUNT, OUR PAST AID, IT IS CLEAR THAT WE HAVE HAD A ROLE IN SUCH ACCOMPLISHMENTS AS:

OVER THE PAST 20 YEARS, LIFE EXPECTANCY HAS INCREASED IN INDIA FROM 32 TO 57 YEARS.

THE INFANT MORTALITY RATE HAS DECLINED FROM 140 TO 122 PER THOUSAND.

THE POPULATION GROWTH RATE HAS DECLINED FROM 2.4 TO 2.1 PERCENT.

THE PROPORTION OF CHILDREN ENROLLED IN PRIMARY SCHOOLS HAS INCREASED FROM 20 TO 65 PERCENT.

ON THE SECOND COUNT, INDIANS WELCOME A RENEWED ASSISTANCE RELATIONSHIP IN THE KINDS OF PROGRAMS WHICH MEET THE CONGRESSIONAL MANDATE.

LAST YEAR, WE SENT A COMBINED TEAM OF PRIVATE SPECIALISTS AND AID OFFICIALS TO INDIA TO MAKE RECOMMENDATIONS ON A PROGRAM FOR THE TERM 1980-1985. THIS TEAM GAINED ACCESS TO APPROPRIATE INDIAN DEVELOPMENT OFFICIALS AT ALL LEVELS AND FOUND A PREVAILING SPIRIT OF OPENNESS AND COOPERATION. NOT ONLY DID THE INDIANS AGREE THAT OUR EFFORTS SHOULD BE IN AGRICULTURE AND RURAL DEVELOPMENT, BUT ALSO EXPRESSED AN INTEREST IN RENEWING U.S. ASSISTANCE TO FAMILY PLANNING EFFORTS--A SUBJECT IN WHICH THE CONGRESS HAS EXPRESSED CONSIDERABLE INTEREST.

WE RECOGNIZE THAT INDIA WILL SOMETIMES TAKE ACTIONS WITH WHICH WE AS A NATION DO NOT AGREE.

BUT INDIA IS A LARGE AND PROUD COUNTRY, MUCH LIKE THE UNITED STATES. IT IS POTENTIALLY A WORLD POWER, AND MOREOVER, A DEMOCRATIC COUNTRY WHOSE GOVERNMENT IS ACCOUNTABLE TO THE PEOPLE.

IF WE IN THE UNITED STATES REACT TO UNPLEASANT ACTIONS BY THE INDIANS BY DENYING OR RESTRICTING OUR ECONOMIC ASSISTANCE, WE WILL NOT CHANGE INDIAN GOVERNMENT POLICIES. THE EFFECTS, HOWEVER, WILL:

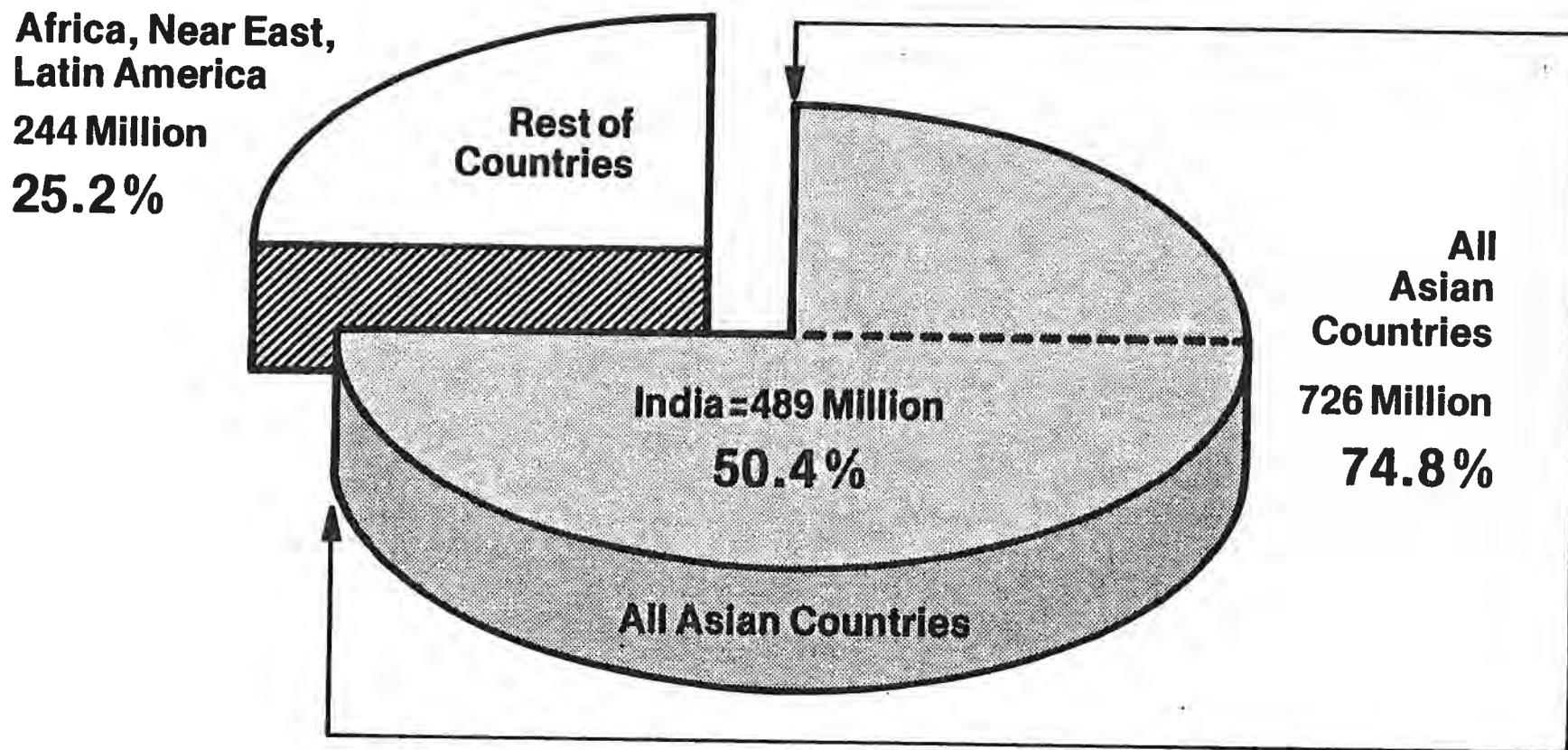
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PENALIZE THE INDIAN POOR WHO NEED ASSISTANCE, AND
MISS THE OPPORTUNITY TO MITIGATE THE PROJECTED WORLD
FOOD CRISIS OF FUTURE YEARS.

AT THE PRESENT HOUR, IT IS THE HISTORIC CHOICE WHICH IS
OURS TO MAKE.

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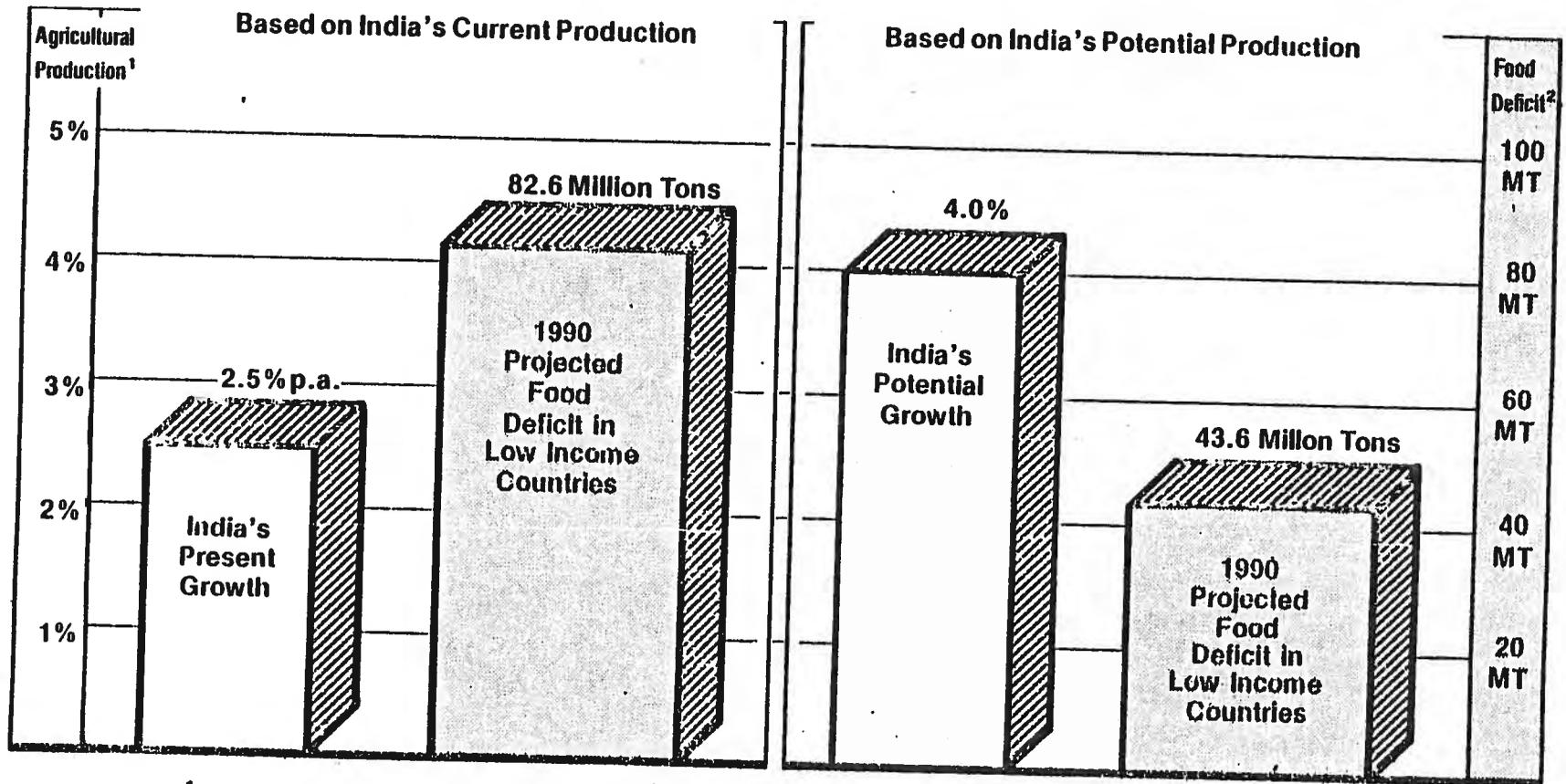
Poor Majority Population in A.I.D. Assisted Countries



Poor Majority in AID-Assisted countries according to proportion of population receiving less than \$150 per capita per year--970 million people.

Source: AID Report on "Implementation of New Directions in Development Assistance", July 1975 - Appendix 5.

India's Agricultural Production and the Food Deficit in Low Income Countries by 1990

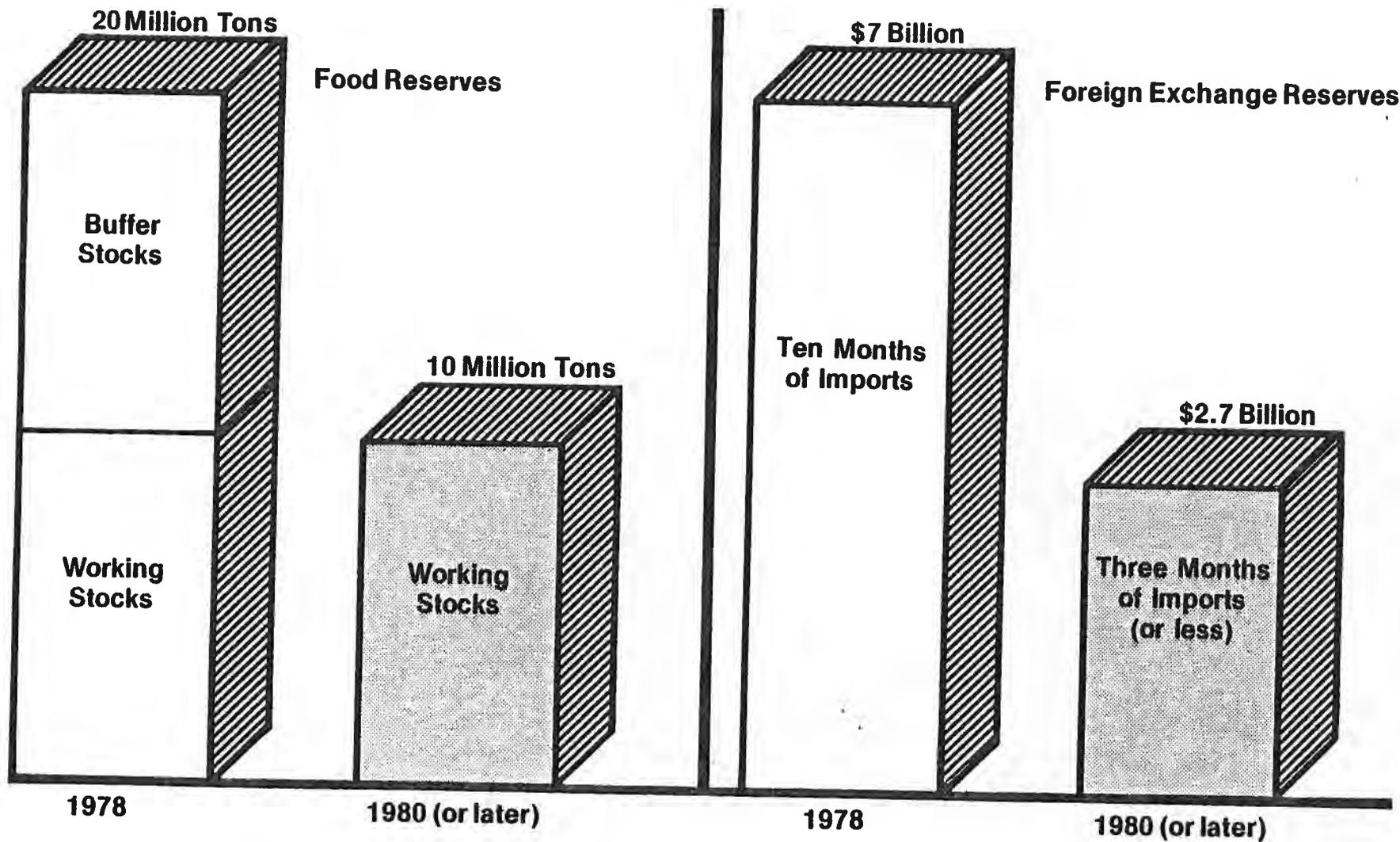


¹ Annual Increase in India's Agricultural Production

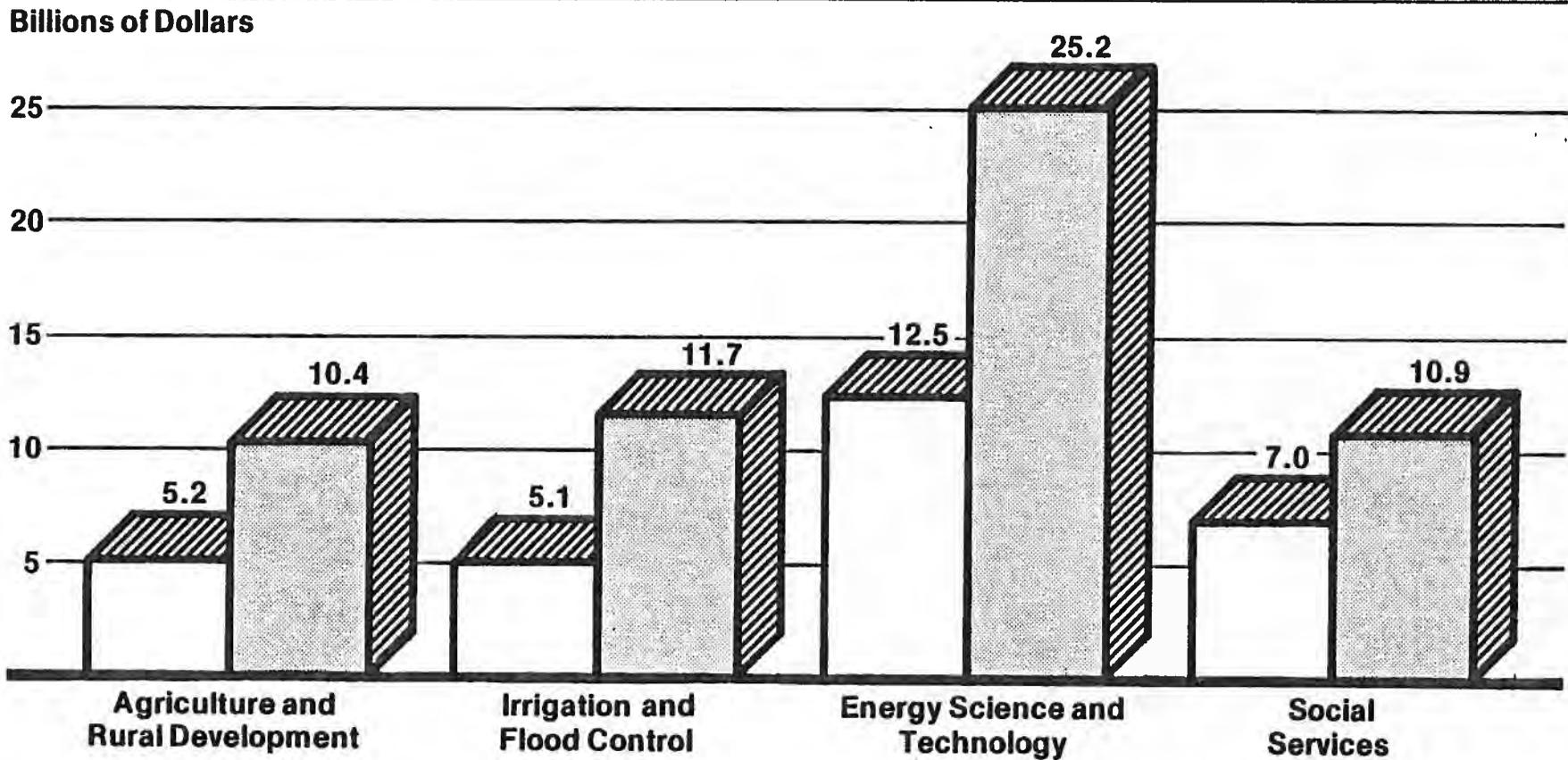
² Projected Food Deficit (Millions of Metric Tons) in Low Income Countries by 1990. This group consists of 34 countries which had a 1973 per capita GNP of less than \$300 and for which a food deficit is projected in 1990.

Source: IFPRI

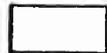
Reduction in India's Grain and Foreign Exchange Reserves (Likely Result of Two Consecutive Adverse Monsoons)



India's Investments in Development Sectors (Old Priorities vs. New Priorities)



Old Priorities (Fifth Plan: 1974-79)

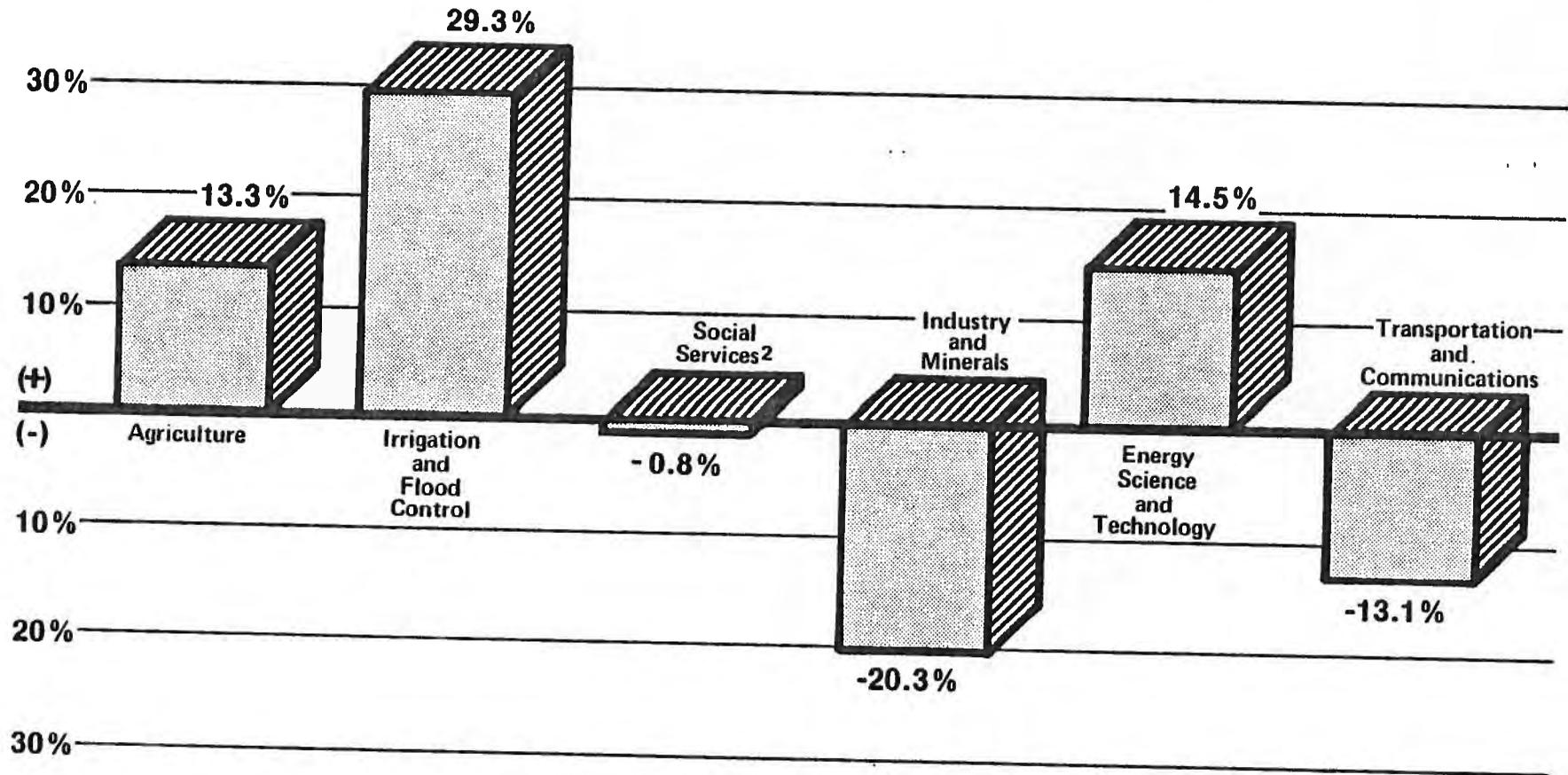


New Priorities (Sixth Plan: 1978-83)



Source: Government of India, Draft Five Year Plan, 1978-83

India's Sixth Five Year Plan (1978-83) Changes in Sectoral Shares¹



¹ Changes in the share of financial outlays attributed to each sector from the 5th Plan (1974-79) to the 6th Plan (1978-83)

² Priority given to the social sector is understated since increased amounts of recurring expenditures have been shifted from the Plan to the operating budgets of the Central and State budgets.

Source: Government of India Draft Five Year Plan 1978-83.