

## India's industrial growth regains its momentum

by Daniel Sneider, Asia Editor

Indian Prime Minister Indira Gandhi, as a leader of both Third World nations and the Non-Aligned movement, will be one of the most important heads of state present at the Oct. 22 North-South summit at Cancún, Mexico. Along with Mexican President José López Portillo and such leaders from the developed world as President Reagan and West German Chancellor Helmut Schmidt, Mrs. Gandhi will bear the responsibility of making this session of the world's top leaders a fruitful step in reshaping international economic policies toward growth and industrialization.

As the prime minister gave me this interview on July 30 in New Delhi, the enemies of those policies took two dangerous steps. The first is the seemingly uncompromising decision by the Reagan administration to supply an unstable military dictatorship in Pakistan with a \$3 billion arms package, including sophisticated F-16 fighter aircraft. The danger of war—in the eyes of scenario-makers in London and Washington a “limited war” on the Indian subcontinent—is in the air here. People are quick to recall that current developments parallel the 1971 period, when the United States, China, and Pakistan carried out a joint strategy to throw the subcontinent into a bloody confrontation. With this analogy in mind, Mrs. Gandhi succinctly put the current regional situation in the following terms: “Our concern is not just our concern. We see the problem in the larger context of world confrontation.”

Equally disturbing has been the announcement by U.S. Treasury Secretary Donald Regan that the American administration still has “serious questions” about

the extension to India of a \$6 billion credit by the International Monetary Fund. With a threat of a U.S. obstruction of this loan, on the eve of the Cancún meeting, India is faced with hard choices.

There is no doubt, that despite all these odds, as the world's largest democracy and one which is committed to “independent” economic and political policies, India under Gandhi is something of an example for other developing countries. It is the country that on its own launched satellites into space; it has built its own nuclear plants; it has a growing cadre, the third largest in the world, of scientists and engineers. With a sizeable industrial capacity, with a large population, India has accomplished a goal many in the Third World aspire to: agricultural self-sufficiency, albeit at a lower level of consumption.

### Getting over the ‘economic hump’

Not many countries in the Third World would voluntarily follow the “China model” of forced population control and ruralization. Quite a few, however, look at India's jagged but persistent victories against its economic problems as a model for their own nation-building efforts. From this standpoint, the remarkable improvement of industrial and infrastructural capacities in this country during the last year and a half heralds a period in which India could experience sustained economic growth, if international economic factors do not weigh to the contrary. From mid-1977 to 1980, India had in power what was known as the Janata Party-Lok Dal regime—a motley mixture of leftists, rightists, and



Information Service of India

*Mrs. Gandhi meets Indian Muslims in Srinagar, the capital of Jammu and Kashmir.*

outright World Bank agents, who presided over rising communal disorder and violence, and economic downturns in all key areas of production.

The Gandhi government can point to some significant success in the past 18 months of its return to government. The key sectors of coal, power, and transportation, which had reached a state of crisis during the previous regime, were tackled head on, with the prime minister taking a direct role in overseeing their production. Coal production, which had been stagnant during the previous three years, increased by 10 million tons (to 115 million tons) last year and will go up another 7 to 8 million tons this year. Total freight tonnage moved by the railways, the principal transport method, which had declined each year of the previous regime, has increased rapidly, up 16 percent in the first quarter of the current fiscal year.

Those improvements have contributed to solid improvement in electricity production, which in the first four months of this fiscal year rose 17 percent over the previous year. This is partly a result of improved capacity utilization and (less so) of added capacity. A foreign visitor finds this to be one of the most evident changes: last year, power cuts for hours on end were a daily phenomenon in almost all Indian cities, including the capital.

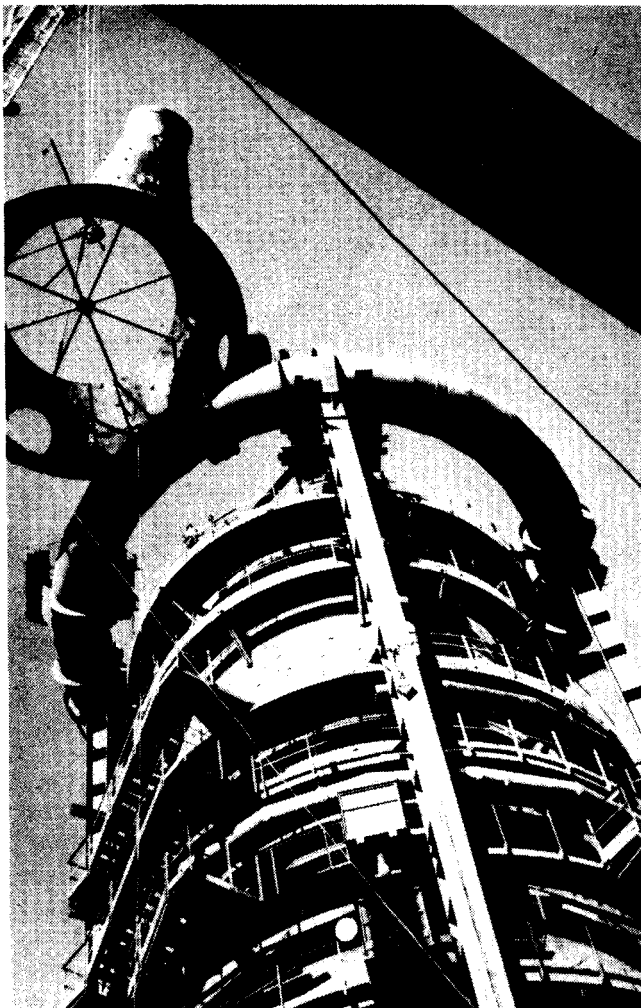
All this, particularly the availability of power, has contributed to an 8 to 10 percent increase in industrial production. In the first quarter of the fiscal year, steel production has increased by 26 percent; fertilizers by 46 percent; and cement by 20 percent.

On the agricultural front, performance has also been good, although it remains subject to weather conditions. Earlier estimates put the 1981-82 crop at a record level of about 135 million tons, but a drop in the monsoon rains midway through the rainy season in the Northwest breadbasket area could somewhat lower this figure. The Indian government's decision to purchase 1.5 million tons of wheat from the U.S. at a fairly cheap price to bolster grain reserve stocks now appears to have been a wise measure.

The state of agriculture will affect India's persistent inflation. Although part of that problem is externally generated, when the Gandhi government took office in January 1980, inflation was running at an annual rate of 23 percent. The government now says the current annual rate of wholesale price increases has been cut to 10 percent, although that does not seem to have shown up to much effect in the marketplace.

The Indian economy remains sensitive to global economic conditions which can act to slow down, if not abort, its progress. Indian exports have not grown sufficiently to match the pace of petroleum price hikes and rises in the cost of imported capital goods. Some 70 percent of total export earnings alone goes to pay for petroleum products; and the Indian trade deficit has more than doubled since 1979-80 to over \$5 billion.

This comes at a time when India has ventured out into the commercial capital markets for the first time, borrowing over \$800 million on the Eurodollar market last year at good rates. The U.S. high interest-rate policy "has really hurt us," one senior government



*Blast furnace construction at the public-sector Bokaro steel plant.*

economic official told me. This includes the impact of the artificially high dollar rate on the Indian trade picture.

This situation brought the Indian government to the International Monetary Fund this year to request a \$6 billion multiyear balance-of-payments credit. Indian government sources, responding to widespread criticism and fear of the infamous IMF "conditionalities" (particularly devaluation of the rupee), claim that the IMF is asking for no onerous conditionalities of any kind. In part, critics of the loan say, this is because the government has already moved to carry out certain measures aimed at reducing the budget deficit, anticipating IMF demands. Those critics point out that in the first year of a similar balance-of-payments credit to neighboring Sri Lanka, no "conditionalities" were explicitly attached, but last year the money was cut off midway when Sri Lanka turned down IMF "advice."

It is possible that the IMF is withholding harsh

demands, knowing full well the Gandhi government will not accept them at this time. I suspect that the IMF is willing to wait and then move in for the squeeze, as part of the regular review of the availability of the credit installments under IMF procedures. Such a circumstance, some Indians have concluded, would be part of a long-range effort to destabilize the Gandhi government.

### **Political stability for now**

For it is under such circumstances that the political stability and widespread support which the Gandhi Congress Party government now enjoys could be undermined. At the moment, the Congress has an unchallenged two-thirds majority in the parliament and controls most of the state governments. Mrs. Gandhi is the key to this situation: she is respected and loved throughout the country, even when and where the Congress Party is not. But it can also be said that her own personal strength hides the weakness of the party machine, although the Congress remains, as the inheritor of the national independence struggle, the only all-India political party of any significance.

The opposition is split into a multiplying number of parties, many of them little more than shells for one political figure or another. What had conglomerated into the Janata Party to form the previous regime has predictably broken up into its constituent and usually squabbling parts. Within this mess are two parties which must be seen as present and future threats to the stability of the country.

On the right is the RSS, the extreme quasi-fascist Hindu chauvinist organization which has been exposed many times, including in a recent court inquiry into riots last year in Jamshedpur in eastern India, as responsible for sparking "communal" (Hindu versus Muslim) violence in the country. The RSS seeks cover under the Bharatiya Janata Party (BJP), formerly the Jan Sangh party, which had been the controlling element in the previous Janata regime.

The RSS's counterpart and open collaborator on the left, is the Communist Party of India-Marxist (CPM), a split from the pro-Soviet CPI in the early 1960s: essentially a mixture of Maoism and social democracy in its outlook, it heads two state governments in its traditional strongholds of West Bengal and Kerala. Neither the CPM nor the RSS has the national strength to hold power at the center. They remain a danger to Indian political stability.

The Gandhi government, however, is capable of meeting such challenges. The key remains the economic situation and ability of the government, even under internationally adverse conditions, to effectively mobilize the resources for the country and accomplish well-conceived national economic goals.