TABLE VI: INFLATION

YEAR/MO.	WHOLESALE INDEX		CONSUMER INDEX	
	Per cent change from preceding year	Per cent change from preceding month	Per cent change from preceding year	Per cent change from preceding month
1972	0.8		4.5	
1973	15.9		11.7	
1974	31.3		24.5	
1975	3.0		11.8	
NOV 1975	0.8	0.3	8.1	-0.5
JAN 1976	2.4	0.8	8.7	2.0
FEB	3.7	0.7	9.3	0.6
MAR	4.5	0.6	8.6	0.4
APR	4.9	0.6	9.3	2.5
MAY	5.3	0.4	9.2	0.3
JUNE	5.9	0.5	9.5	0.2
JULY	6.8	1.0	9.9	0.5
AUG	6.7	0.5	9.2	-0.8
SEPT	6.8	0.4	9.7	2.7
OCT	6.5	0.1	8.6	0.6
NOV				

India's 1976 Success Based on New World Order in 1977

India has ended 1976 in one of its strongest economic positions ever, as a result of premising its policies on an early realization of a new world economic order. Cultivating its heavy-industry state sector, its trade with the Soviet Union, and high-technology "trilateral" exchanges, the Gandhi government has achieved the first balance of trade surplus the nation has had since the early 1950, and has ended the year with a better foreign reserve position ($3 billion) than any Indian finance ministry official has known since 1948.

These economic achievements have provoked a debate on how to sustain the year's improvements, pitting Mrs. Gandhi's pro-growth faction against the very opposition forces whose World Bank program Mrs. Gandhi largely ignored on the way to the 1976 success. The demand that Mrs. Gandhi reverse her economic approach in favor of a program whose rejection proved fortunate can be credibly raised in India at this time only because landlord-based right-wing interests in the ruling Congress Party are receiving public support for such sleight-of-hand from prominent Carter Administration advisors who are promising an "India tilt" in U.S. policy. Robert McNamara, President of the World Bank, and Orville Freeman, head of Business International and the "zero population growth" Worldwatch Institute, have promoted the Indian controversy by offering generous new aid and preferential market treatment to help India overcome continuing capital and credit limitations — provided that Mrs. Gandhi curtails further high-technology imports, de-emphasizes the state sector, degrades the composition of India's exports toward primary commodities and materials, shifts trade volumes away from the Soviet Union into U.S. dependency, and uses both new loan monies and export earnings to perennially repay what is currently a $17 billion foreign debt.

Mrs. Gandhi and her supporters have had occasion to observe the weakness of the opposition recommendations. While the right-wing and their liberal-counterparts credit speed-up of labor, general wage-controls and good monsoon rains for India's economic advance, the Prime Minister's advisors have publicly emphasized those points of the World Bank program she would *not* tolerate, with these results:

*** With grain production over 110 million tons for the year, government take-over of the private grain trade has resulted in a 75 per cent increase in grain stocks in 1975-76 from 10 to 17 million tons.**

*** Industrial production in state sector industries like iron, steel and coal broke all records, with India becoming a net exporter of steel for the first time.**

*** India secured contracts valued at $800 million for infrastructural development in the Middle East and Africa, and has skilled technicians exploring for oil on behalf of such important pro-socialist allies as Tanzania and Vietnam. As a result, the nation is excellently situated within the expanding nest of triangular trade agreements of Europe, Arab-OPEC and Comecon partners to ensure a continued high-technology composition**

of both imports and exports, and growing access to development-oriented capital aid and credits.

* Average per capita caloric intake rose from 2,000 t o 2,300 daily.

* Foreign exchange reserves doubled from $1.6 billion to $3 billion.

A cause for celebration among industrialists and pro-growth political leaders throughout the world, India's impressive performance is a cause for concern in New York financial circles. India "is pivotal in either strengthening the Bretton Woods system or drastically weakening it," wrote a Brown Brothers Harriman executive in a recent book on India. His co-thinkers advise the nation to sacrifice development in favor of increasing exports to repay its dollar-denominated debt. Traditionally western markets for Indian exports have been confined to products like sugar and textiles which do not further India's industrial development.

Similarly, the World Bank report on India in 1975 declared: "India has entered 1974-75 with *1)* foreign reserves net of IMF obligations equivalent to less than one month's imports at 1974-75 levels... *2)* no substantial secondary lines of reserves in the form of food stocks; *3)* secondary reserves with the IMF already partly utilized; *4)* considerable debt obligations ... over a very short period; *5)* little relief in sight from continuing sizable trade deficits." The World Bank proceeded to propose opening up the public sector to multinational corporations, drastic reductions in Indo-Soviet trade ("which does not produce foreign exchange to pay the debt") and drastic domestic austerity — the opposite of what Mrs. Gandhi subsequently did to reverse the situation.

Those who would raise the World Bank program all over again to "sustain" the 1976 economic performance are indeed so discredited that Mrs. Gandhi has chosen to announce new elections, and lifted the "State of Emergency" she declared in 1975 at the time of her decision to buck the World Bank program (and weather at all costs the inevitable destabilization operations thrown against her government.) Mrs. Gandhi summarized both her confidence and her intentions during the surprise announcement: "May I say that the Emergency was procalimed because the nation was far from normal. Now that it is being nursed to health, we must insure that there is no relapse... The election will surely uphold the fair name of India as a land committed to the path of reconciliation, peace and progress."

Agriculture

Although the weather has been on India's side a major factor in producing bumper harvests in both 1975 and 1976, the uncertainties of depending on the monsoon rains are already seen in a fall in the 1976 summer crop of 65.4 million tons compared to the previous year's 70 million. Estimates for 1976-77 are 110 million tons of grain production compared to 118 million the previous year. The difference is noticeable in the administration of the countryside, where through June 1976 the government launched a major campaign to procure grains for state storage. The current state stocks are at an all time high of 17 million, though spoilage is expected to be about 25 per cent. The government has already moved to rectify the storage problem by making the first priority of the next few months the building of 20 million tons of good storage capacity compared to the existing 6 million tons.

Fertilizer production domestically has also risen the major problem remains the use of it in agriculture. Usage remained almost stagnant (2.9m. metric tons to 3.1 million metric tons) because of the extreme poverty of the majority of Indian farmers.

The major gains and problems have been in the area of social and administrative reorganization. Mrs. Gandhi's 20-point economic program emphasizes an improvement for the rural population calling for: peasant debt mora-

AGRICULTURAL PRODUCTION
(Millions of Tons)

	1974-1975	1975-1976	1976-1977
Agriculture	100	118	110 (est.)
Nitrogeneous Fertilizer	0.95	1.22	1.4
Potassium Fertilizer	--	.3	--
Fertilizer Consumption	--	2.9	3.1
Fertilizer Capacity	--	--	2.4
Foodgrains			
Food Stocks	10	8	17
Summer Crop (Kharif)	--	70.9	65.6
Winter Crop (Rabi)		47	44.6 (est.)
Caloric Intake (Average)	--	2,000	2,300
Northwest	--	2,300	2,700
South	--	--	2,000
Crops			
Sugar	--	14.2	15.0

toriums, land reform, the enactment of rural and urban land ceilings, an end to hoarding, and anti-smuggling operations. The main problem in implementation has been the central government's inability to extend the amount of credit needed at the rapid pace to make the peasant debt moratorium effective. Moreover, numerous state Congress Party leaderships are predominantly controlled by landlord interests who resist the government's policy. Despite the fact that 18 major new rural banks, and over 115 branches were set up in 1976, the moneylender remains an active figure in India's countryside.

Industries

The most remarkable performance of the economy is in the core industries. Increased worker productivity overall has resulted in a 100 per cent utilization of plant and equipment. This is reflected in the performance of the steel mills at Bhilai, Rourkela, and Bokaro, initially built with Soviet, West German and British capital in the 1960s. In 1976 for the first time in Indian history, India became a net exporter of steel earning $115 million; major expansion plans have been laid out for the Bhilai steel mills in 1977. Industrial production rose 3.9 per cent in 1975 against a 2.2 per cent increase over 1974. In 1976, the average industrial production index (1970= 100) stood at 131.1 during the first six months of 1976, a 13.0 rise over the corresponding period in 1975. The high technology content of the economy's new activity accounts for the fact that the public sector's accelerated growth rate has been over 30 per cent. In the areas where both exports and production have increased are saleable steel, cotton textiles, jute, cement, electricity, aluminum, agricultural tractors, automobiles and machine tools. The sectors that declined in production have been sugar, rubber products, and some textiles which are predominantly private owned. Exports to the Mideast in particular have been composed in larger installments of machine tools, construction equipment and engineering goods from the state sector. Traditional exports such as textiles, sugar, leather goods have registered major foreign earnings as well but at lower unit value realization given the fluctuations in world commodity prices.

The immediate economic problems can be isolated easily. First, 25 per cent of the previous economic activity collapsed under the government's anti-black market drive. Construction has been the major sector affected, and small business that lived off it have been folding. With the black market under control, unemployment has soared in these areas. Secondly, while India has huge construction contracts for 1977, and has already exported huge amounts of machinery to Soviet financed projects in the Third World, its own internal demand for goods is abysmal.

Purchasing power is extremely low, and export of technology at this state of its development without substantial capital inputs, fails to aid internal industrialization that would change the 80-20 rural-urban population ratio to one of urban growth. India has the world's third largest pool of unemployed or underemployed scientists, as shown by the continued export of doctors while failing to increase their employment in India's own rural areas. Current rates of production, the optimal the economy can reach, cannot be sustained into next year without huge capital replenishment.

INDUSTRIAL PRODUCTION
(Million Tons)

	1973-1974	1974-1975	1975-1976	1976-1977
Iron Ore	---	34.6	42	---
Finished Steel	4.5	4.9	5.8	6.5 (est.)
Crude Steel	---	6.7	8.3	9.3 (est.)
Coal	82	91	95.9	108 (est.)
Cement	---	14.4	18.1	---
Industrial Production (1970=100)	114	120	131.3	131.3 (first six months)
Wholesale Price Index (1970=100) June	---	---	158.7	167.3
Consumer Price Index - July	---	178	180	156

*1976-1977 figures are projections made by the government of India, Ministry of Commerce based on current trends.

Energy

The energy policy best demonstrates the government's understanding that new areas of the economy must be explored through the state sector. India consumes 20-24 million tons of petroleum a year, domestically producing 8.3 million tons and importing 14 million tons. Oil and fertilizers, next to food grains, have traditionally been the depletors of foreign exchange.

Petroleum Minister K.D. Malaviya has just announced that the 1976 production figures will hit 9 million tons, primarily because the newly explored Bombay High Oil fields now have a production of 32,000 barrels a day.

The Bombay High exploration has involved the government in the implementation of its longstanding strategy to arrange oil for technology agreements only through the independent oil companies and nationally held ventures. In 1974, India, Iraq and Iran signed government to government agreements whereby India provided intermediate technological goods for development of the Mideast in exchange for concessionary oil prices. At the same time, Iran's National Iran Oil Company (NIOC), India's Oil and Natural Gas Commission (ONGC), and Italy's ENI agreed to form a working relationship whereby they would explore oil fields in the Mideast by pooling their resources rather than depend on the multinationals.

Oil, as food and fertilizer in the past, has been a major drain on the foreign exchange reserves of India. However, in 1976, significant progress was made to barter arrangements with the major one being the December offer from the Soviet Union to sell India 5.5 million tons of oil over the next four year period in exchange for Indian iron ore exports. Soviet oil experts have also been instrumental in exploring the Bombay oilfields, completing a study that totally refutes the U.S. multinationals by concluding that India can be self sufficient in oil by the mid-1980s.

With this estimate, Malaviya has toured Europe and socialist countries seeking rapid capital inputs. Malaviya has been instrumental in effecting the nationalization of all of India's 24 million tons/year refinery capacity, effective Jan. 1977. Caltex and Exxon were the major firms nationalized.

Monetary and Fiscal Policies

As seen in the adjoining chart, the major accomplishment of the economy is its $3 billion reserves by Jan. 1977. A phenomenal figure for a third world country, this has been achieved through 1) breaking black market money operations and forcing the inflow of foreign remittances at a $150m monthly rate; 2) reducing major traditional import items such as food, fertilizer, oil, either through straight cuts as in the case of food, or through alternate arrangements; 3) increasing exports earnings by over 20 per cent over 1976, particularly through the performance of the public sector industries. Reserves have been used mainly to make continued debt payments to India's western creditors. In 1976-77, India's debt service payments amounted to $650m. Total debt figures are estimated as high as $17 billion, of which over half is owed to the World Bank.

The weaknesses remain in short-term achievements. Food imports, reduced to zero since June 1976 could be forced upward by a bad harvest. Fertilizer stocks are up because of minimal increases in usage, not a good sign for expansion of agricultural productivity. The government must still deal with bringing back into existence in some form sectors of the economy collapsed by the end of the black market and those which need capital replenishment such as textiles. The danger here lies in that while the government has announced in September 1976 that it will utilize $400m. foreign exchange over two month period for import of raw materials and industrial inputs, the private sector of the economy, which for the most part has not accounted for any remarkable economic performance, has succeeded in capturing the industrial inputs. Raw materials will be used for both sectors. The private sector is also calling for the relaxation of foreign exchange controls, as overly protective of the Indian state sector.

The internal economic picture shows disturbing trends. Since June 1976, wholesale prices for essential commodities began to rise at a 2 per cent monthly rate. After nine months in which the inflation rate was zero, the relaxation of the government's anti-hoarding drive then enabled big landlords to create artificial scarcities in the countryside. While grain prices in the cities have

OIL CHART
(Millions of Tons)

	1973-1974	1974-1975	1975-1976	1976-1977
Consumption	20.4	-	20	20-24 (est.)
Domestic Production	7	8	8.4	9
Imports	13.4	-	-	11 (est.)
Refinery Capacity	20.2	-	-	24

Source: India, The Energy Sector, P.D. Henderson, 1975. World Bank.
Government of India, Ministry of Commerce.

BALANCE OF PAYMENTS
(In Millions of Dollars)

	1973-1974	1974-1975	1975-1976	1976-1977* (Est.)
Total Foreign Debt (Long Term)	---	---	---	18,762
World Bank	---	---	---	8,920
Outstanding IMF Drawings	---	---	---	730
Short Term Debt Service Ratio	---	19.4	19.5	---
Debt Service	---	750	800	643
Expected Aid Inflow	1,600	1,800	1,100	1,400
Foreign Exchange Reserves (Year)	---	969	1,800	2,960 (Through September)
Total				(April-September)
Imports	---	5,022	5,585	2,952
Exports	---	4,017	4,350	3,025

*1976-1977 Figures and estimates released by government.

Other Sources: State Bank of India Weekly.
Economic and Commercial News, Ministry of Commerce, New Delhi.

remained stable, prices of edible oils rose substantially. With workers's wages and bonuses frozen and a percentage of the civil service salaries impounded, the inflation rate has reduced the standard of living of the entire population despite the production increases.

The invisible factor in India's balance of payments surplus is necessarily the nation's relationship with the socialist sector, which has provided the Italian economy with trade allowing India to expand economic activity without draining its foreign exchange reserves. In 1975-76 Comecon became a significant supplier of fertilizers, kerozene, diesel oil, non-ferrous metals, all products which otherwise would require foreign utilization. The basic quality of this relationship is drastically different from India's relations with the West. In the 1960s, the import pattern involved capital goods, and essential plant and machinery, as well as raw materials, to shape the heavy industrial core sector in iron and steel, and machine tools. A new phase of imports were realized through exports from the socialist sector in the 1960s, where conventional machinery imports into India were replaced by Comecon assimilation of Indian exports. A new phase begins now with continued imports of ships, special steel, petroleum products, and pharmaceuticals but with India balancing this trade by providing the plant and equipment for third country-Soviet financed projects such as in Africa. Relations between the two sectors are conducted in Credit Agreements where the supply of goods is ensured for specific projects and repayment is made in installments once the projects are in operation. (see chart for comparative figures) Yearly evaluations of trade balances are made. This month an Indian delegation in the Soviet Union is discussing the parity of the rupee to the ruble. Early in Jan. 1977 the Soviet Union valued the rupee parity as R. 11.2 to one ruble and was advising the Indian government to increase its gold holdings to back the rupee instead of using a basket of currencies of its trading partners. With an increased gold content, the Soviet Union has been interested in a new parity.

Trade Trends: Future Economic Policy

India's diplomatic calendar in the past six months and the major contracts it has secured for development of the Mideast demonstrate a major shift in trade trends phasing out dependence on the U.S. As the adjoining chart indicates, exports to Europe and the Mideast have dramatically increased compared to only slight gains in U.S.-India trade. In particular, Britain has imported large quantities of Indian goods in 1976 bringing back into operation the Commonwealth trade and economic ties. The tentative decline in trade with the socialist sector in 1975-76 is not expected to last through the current fiscal year, particularly since India can barter with industrial products as exports. As regard the Middle East and Africa, India has entered into arrangements such as the

INDIAN IMPORTS
(Millions of Dollars)

	1970-1971	1973-1974	1974-1975	1975-1976	1976-1977 (Jan.-Nov./est.)
U.S.	594.8	633.3	845.7	1,298	1.1
U.S.S.R.	139.6	320.6	474.3	343.1	---
Comecon	---	504.2	746.6	621.7	---
EEC	370.0	951.7	1,006.6	1,211.5	584.6
Britain	168.0	314.2	255.2	310.8	182.1
Japan	111.0	328.0	526.0	---	---
West Germany	142.5	251.2	367.5	413.6	---
Mideast	---	33.2	1,533.0	---	---
Iran	122.1	---	548.3	---	---

INDIA FOREIGN TRADE EXPORTS
(Millions of Dollars)

	1970-1971	1973-1974	1974-1975	1975-1976	1976-1977 (April-Sept.)
U.S.	270.3	498.2	435.9	659.4	---
U.S.S.R.	279.7	364.3	488.7	478.8	---
Comecon	---	617.7	759.9	751.8	745.8
EEC	324.8	829.5	805.0	950.1	763.3
Britain	227.1	331.1	356.1	468.1	264.4
Japan	271.3	455.8	342.4	---	---
West Germany	---	105.5	227.5	137.2	---
West Asia	---	---	451.3	---	---
Mideast	---	---	374.2	---	---
Iran	---	---	248.8	---	---

announced decision that India will prepare a study on the scope of industrial expansion activities for Libya's 5-year plan. Already agreed upon is India building a new airport in the Saharan region. Through 1976, India earned Rs. 2.7 billion ($550m. approx.) in consultancy exports and execution of projects in Libya, the largest export venture for the year. Government estimates are that India is now running a favorable balance of trade of $75m. accounted for by a 33 per cent increase in exports against 9.9 per cent decline in imports in April-October 1976. The same period in 1975-76 ran a $916m. deficit.

To sustain this growth Prime Minister Indira Gandhi recalled all Indian ambassadors in the Mideast to hold high-level trade-meetings in New Delhi Jan. 10. Mrs Gandhi made the ambassadors' first priority the search for new contracts. The industrial activity in the first six months of 1977 is substantially premised according to government sources, on the expansion of contracts to build infrastructures in trade with Mideast and Africa at a rate five times as much as in 1975. Such growth needs the use of OPEC oil resources in agreements with both India and Europe.

India has depended on advanced technology from the west, which is unavailable in the quantities it needs for rapid expansion of the economy. The cluster of arrangements worked out as alternatives to the World Bank proposals represent a perspective on which the next six months of economic activity will be based.

With India already having invested so much of its future in economic recovery based on an alternative monetary structure, what the Carter Administration has proposed to Mrs. Gandhi is an eminently suicidal package. The advice given no doubt reminds Mrs. Gandhi of two past periods of crisis in the economy. In 1965, in her first year as prime minister she was pressured into following World Bank advice to devalue the currency only to find that the much promised aid and markets never came through. Now India is promised big export markets only to find the western economies in a recession. The promises are worth little in the light of India's alternatives.

EXPORT/IMPORT TRADE TRENDS
(Percentage)

	Exports 1974-1975	Imports 1974-1975
Africa	7.1%	3.4%
North America	12.7	--
Canada	1.3	--
USA	11.4	--
East Europe	20.6	14.6
Soviet Union	12.7	9.0
Czechoslovakia	1.8	0.7
*EEC	20.9	18.8

*includes United Kingdom, Federal Republic of Germany, Belgium, Italy.

Economic Trends in Southeast Asia: An Overview of the ASEAN Countries

The five member nations of ASEAN (Association of Southeast Asian Nations), Indonesia, Philippines, Thailand, Malaysia, and Singapore, passed 1976 in a deceptively stable "holding pattern" that reassured only naive observers. The turnabout in Indonesia's reserve and payments situation from the "Pertamina crisis" of 1975 masked a near stagnation in development projects and domestic economic growth, and the effects of substantially reduced imports in the first half of 1976 on the economy. Malaysia's export revenue expanded in the first half of the eyar at a 30 per cent annual rate against constant imports, but most of this was accounted for by price rises in speculative trading on the London commodities markets, and export increases to Japan and the U.S. that cannot be sustained in 1977. The Philippines faced a debt crisis as 1976 ended that was characterized in New York banking circles as comparable to the crisis in South Korea a year ago. In fact, it is much worse, with exports falling, debt soaring, and no feasible means to reverse the situation. Despite the coup in Thailand by know-nothing fascist military men seeking to return the country to a Vietnam-era American military colony, foreign investors have been slow to return. Beneath the bulge in agricultural exports lies a stagnating economy in terms of long-term development. Only Singapore continued much as it has for the past several years, with no dramatic changes in any major indicators.

The most fragile feature of the superficially healthy trade picture for the ASEAN countries in 1976 was the substantial rise in exports for every country except the Philippines (see *Table A*). In reality (see *Table B*), most of the increases were registered with Japan and the United States which traditionally have accounted for the bulk of the region's foreign trade. However, these two economies face the greatest difficulties in 1977becauseof the mounting crisis of the dollar for the U.S., and the foreign trade dilemma which threatens to throw Japan into serious depression. Malaysia's increased exports were based largely on the 86 per cent jump in sales to Japan, an increase of $373 million in the first eight months of 1976, and on a 23 per cent increase in shipments to the U.S. Indonesia and Thailand also registered most of their increases to these two countries. Even so, exports of two of the traditional mainstay commodities, tin and timber, were badly off last year's pace at midyear, with substantial gains registered only in rubber (see *Table C*).

Japan imported heavily from the region based on its short-term export boom, engineered at the expense of Europe and the U.S. That boom can not continue, as has been made clear to Japan, and with its passing will pass the export life-saver for ASEAN. Without very favorable export prospects, the ASEAN nations would under normal conditions face a grim year in 1977.

However, unlike, for example, the very limited options available to the Philippines when it faced a debt crisis in 1970 and reorganized its economy under International Monetary Fund direction, the nations of the region today have the option of integrating their economies into a fast-materializing new international economic order, emerging through an alliance of the Third World Non-Aligned nations, Europe and the Soviets. The economic boom imminent in these sectors of the world eocnomy will provide not only an almost unlimited market for the ASEAN region's exports of raw materials; it will provide the basis for large increases in development project assistance to each country, to accelerate their stalled development programs. Already, Indonesia's President