

India seeks assistance for large-scale industrial projects

by Paul Zykofsky, New Delhi correspondent

An economic analyst in New Delhi recently noted that "the year began with French President Giscard's visit, and will end with the visit of Soviet President Brezhnev." This summary of India's foreign and economic policy characterizes Indian efforts to obtain assistance from the European and socialist bloc countries in building large-scale industrial projects over the next few years. The important economic agreements signed during Giscard's visit, and the proposed agenda for discussion when Brezhnev arrives Dec. 8, also bear this out. In addition, a large delegation from the German industrial association Bundesverband der Deutschen Industrie (BDI) is currently in India to discuss Indian development projects.

India's massive push to sign agreements stems from the commitment by the Indira Gandhi government both to upgrade and modernize India's sagging infrastructure, and to assert her role as an industrial leader in Asia. India is looking to sign, or has already signed, agreements for large-scale steel, coal, energy, oil, and fertilizer development projects. The projected scale of these projects will surpass anything India has done in the past 20 years, since the first major industrial investments undertaken during the Second Five-Year Plan.

The government has outlined plans to modernize and expand all four public-sector steel plants; build two new shore-based steel plants (Visakhapatnam and Paradeep); double oil production from the Bombay High oil fields; increase coal production, and build five more "super"-thermal power stations in addition to the four now under construction.

The need to modernize plant and equipment in the new projects is most clearly reflected in the decreased productivity of three sectors during the past year. 1980 first-half figures indicate that the overall industrial production index has fallen slightly more than 1 percent in the last year, in power generation, steel, fertilizer, and crude oil.

Despite labor problems and bottlenecks in the coal and railway sectors, the government believes that only new investments of the type currently under discussion can break the economic impasse India is currently suffering.

The Gandhi government has been encouraging link-ups especially with the European and socialist bloc countries. France has agreed to build a large aluminum plant on the east coast of Orissa, in the same area as a similar Soviet-built plant under construction.

The BDI delegation in India from Nov. 2-12 was reportedly interested in oil, steel, coal, energy, and transportation projects. Dr. Kurt Hansen, head of the West German delegation, enumerated the reasons why West Germany seeks India as a trading partner in an interview with India's *Financial Express*: "India's important role as a major leader in Asia, among the nonaligned countries, the United Nations . . . [and] the tremendous economic potential of India in view of its gross national product, population, market size, raw

Blast furnaces and cooling towers at the Durgapur steel plant in West Bengal.
Photo courtesy of the Information Service of India.

materials and reservoir of [skilled] manpower.”

Currently, West Germany is also involved in modernizing and expanding the steel plant at Rourkela. Mannesman is bidding for a tender for a new steel plant at Paradeep, Orissa, along with Britain and Rumania.

Soviet involvement

Indian Planning Minister N. D. Tiwari, on a recent visit to Moscow, reportedly discussed with Gosplan head Babikov the idea of dovetailing India's Sixth Five-Year Plan with the Soviet Union's Eleventh, both currently under preparation. While an Indo-Soviet economic mission will meet in New Delhi in mid-November to discuss the options, it is not known if the Soviets will agree to expand their level of assistance to India. However, India is reportedly seeking \$5.2 to \$6.5 billion in Soviet assistance for coal, energy, steel, aluminum, and oil projects, and an increase in petroleum imports from the Soviet Union from 3.5 million tons per year to 7 million tons. Currently, Soviet credits to India total \$14.95 billion. It is expected that agreements for substantial Soviet aid to India will be signed during Brezhnev's upcoming visit.

Financing

India must also seek foreign financing for its development projects, given that the cost of India's oil imports this year alone add up to 70 percent of her total export earnings. Thus, the Sixth Five-Year Plan is proposing public sector allocations for industrial development of \$117 billion, when a projected \$182 billion allocation would be necessary to achieve an overall growth rate of 5 percent.

So far, India has been assured financing for the Paradeep steel project and the French aluminum project at Orissa. Rather than relying on aid from the World Bank, the Aid India Consortium, and government-to-government credits, India may well go into the private financial market, as exemplified by a \$680 million credit from the Eurodollar market recently granted to India with French aid.

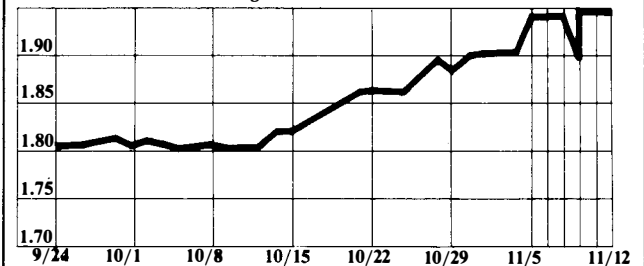
The large Eurocredit is to finance the French aluminum project and involved the Banque Nationale de Paris, the Société Générale, and the Bank of America. This type of credit is a relatively new departure in project financing for India, particularly in its size. India received excellent terms for the credit, reportedly at 0.5 percent over LIBOR, terms granted to good credit risks.

If India is to achieve the desired levels of industrial growth, considerably more capital aid from Europe and elsewhere will have to be made available. By January the new Sixth Five-Year Plan will be adopted, and it will be important to watch the response to India's newest industrialization proposals.

Currency Rates

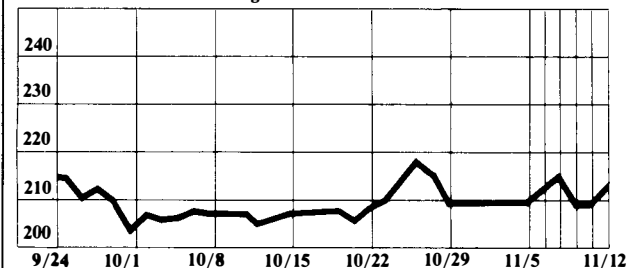
The dollar in deutschemarks

New York late afternoon fixing



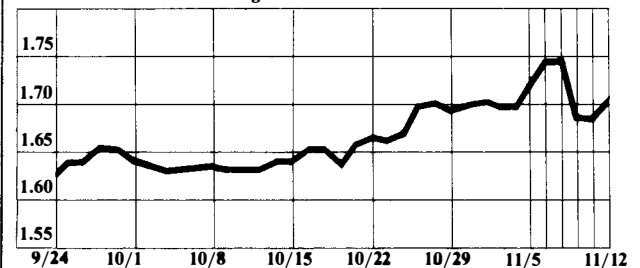
The dollar in yen

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The British pound in dollars

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