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<td>Majumder, Shyamal</td>
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Economic Developments In India

By

Shyamal Majumder
13 November 1988

To
Mr Achal Mehra,
Senior Programme Specialist,
Asian Mass Communications Research
and Information Centre,
39, Newton Road,
Singapore 1130,
Republic of Singapore

Dear Mr Mehra,

Sub: Background report on economic developments in India

I thank you for inviting me to participate in the Conference on Economic Perspectives of SAARC in Dhaka from November 19-24, 1988.

A background report on the economic developments in my country is attached. I hope that you have already received my confirmation of participation at the conference.

I am looking forward to a response from you.

Yours sincerely,

(SHYAMAL MAJUMDER)
Senior Sub Editor,
Business Standard
India, which began its tryst with destiny at the stroke of midnight on August 15, 1947, has made rapid strides indeed. The strategy accepted and adopted for the development of the Indian economy is the strategy of balanced growth and comprehensive planning. A reading of the Five Year Plans suggests that the strategy outlined in India has emphasised balanced and simultaneous development all over the economy.

However, this assumption of the planners did not come out to be true. This implies that after broadly laying down sectoral priorities, careful assigning of priorities within each sector was not taken up seriously.

The government has, however, woken up to the tests and has adopted several measures to overcome the shortcomings.

Firstly agriculture. In order to reduce the vulnerability of agriculture to adverse weather conditions, a long time strategy has been evolved. The most important element of the strategy is to maximise the area under assured irrigation. Plan allocation for major and medium irrigation projects is being augmented.

Despite emphasis on assured irrigation, however, the major portion of cropped area will continue to depend on rainfed agriculture at least till the end of this century. Accordingly, Contd....p.2.
the full exploitation of groundwater in high rainfall areas like the Gangetic region is being emphasized to achieve increases in gross acreage through multiple cropping. A 'coarse grain policy' is also being worked out for rainfed areas which will integrate production plans with pricing, storage and procurement of coarse grains, while a special R & D thrust is being given to oilseed production under a technology mission set up for this purpose.

A third dimension of the strategy is to optimise water use in dryland agriculture by methods of water management which will maximise the area and output per unit of water. Henceforth, the thrust of agricultural research will also be redirected to support the development of rainfed and dryland agriculture. Afforestation programmes are being stepped up and integrated with programmes of irrigation and water management.

Implicit in this approach is the central role of regional factors in agricultural planning. Separate strategies are being worked out for each distinct agroclimatic region to suit the requirements of agricultural development specific to that region.

To maintain the momentum of economic growth, the planning Commission has accepted an annual growth rate of 6 per cent for the eighth five year plan (1990-91 to 1994-95), despite loud proclamations in favour of higher targets. Even a 6 per cent annual growth
will be difficult to achieve but the rate lies within, or perhaps right on, the feasibility frontier. And if a 6 percent target finally ends with an achievement of 5.5 per cent per year, that also will be a creditworthy record.

A steady growth at 6 per cent per year will mean a gross domestic product rising by 33.8 per cent in five year, which is considerably above the 27.6 per cent increase resulting from a 5 per cent annual growth. There will of course be year-to-year oscillations around the target rate, but what is desired is a series of annual growth rates that are arithmetically equivalent to a compound growth rate of 6 per cent. If the population growth rate during the period can be kept below 2.2 per cent year, the scope for improving the income, distribution will be fairly large.

The government has also started levying surcharges on personal income tax, corporate income tax, wealth tax and customs duty. Several external assistance initiatives have been taken to mobilise and accelerate the disbursal of external capital.

The outlay on successive central plans have also been stepped up to maintain the priority for development.

In the industrial sector, several changes are being introduced to ensure that competitive pressures bring in cost-efficiency. The important reforms in the area of industrial

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policy in the recent past have emphasised relaxing licensing constraints on entry in priority sectors, growth (capacity endorsement), flexibility to respond to changing demand conditions (broad-banding) and cost efficiency (e.g. prescribing minimum scales of production in a number of commodities). The impact of these policy initiatives is to some extent, reflected in acceleration of industrial growth in recent years.

Apart from regulating the overall level of credit in the economy, the objective of credit policy is to promote an effective use of credit and also to encourage the spectrum of borrowers covered by bank credit keeping in view the national priorities laid down from time to time.

The governments’ growing budget deficit has raised several eyebrows. The government is the "largest player" in the economy; its "economic performance" is, therefore, crucial to the country's economic well-being. Perhaps more important than the growing budget deficit is the use of the capital account surplus for purposes of revenue expenditure. Hence there is a strong case for curtailing non-plan revenue expenditure or alternatively, raising taxes.

It is not without reason that Mr. Michel Comdessus expressed his apprehensions about the budget deficit. Even the Reserve Bank of India annual report for the year ended June, 1988, called for a
cautions monetary stand to check inflation which is running at 10 per cent annually.

It is not known if the REI policy of "backdoor" devaluation will improve the current account balance.

The following is an item-wise discussion on different economic sectors.
RURAL

Rural India is the backbone of the country's economy as over 70 per cent of population lives in the rural areas. Despite concerted industrialisation in the last two decades, agriculture occupies a place of pride.

The country's foodgrains production is expected to touch 170 million tonnes in the current year. Commercial crops are also expected to do exceptionally well with cotton output projected at 110 lakh bales and sugar 10 million tonnes. Recent trends in edible oil production also reflect the large kharif crop expected this year.

This reflects the resilience shown by Indian agriculture during severe droughts in three consecutive years.

Cooperative credit to farmers during this year's rabi season registered an unprecedented increase. The bulk of it was handed over to the growers in kind, in the form of fertiliser. The panicity of wheat seed was made good by drawing some quantities of grains from food stocks and using them as seeds. These were supplied to the states at a huge subsidy.

The planning commission has decided to implement a project, which aims at more diversified agriculture, covering, besides crop husbandry, poultry farming, dairying and agro-processing.

Agriculture is also the main support for India's transport system, since the railways and roadways secure bulk of their business from the movement of agricultural goods. Finances of the government, especially the state governments depend, to a large extent, upon the prosperity of agriculture.
RURAL DEVELOPMENT SCHEMES

The government has implemented several rural development schemes with the main objective of alleviating poverty. The schemes include Integrated Rural Development Programme, National Rural Employment Programme, Rural Landless Employment Guarantee Programme, Training of Rural Youth for Self-Employment etc.

The Schemes have however failed to be much of a success due to several factors.

There is widespread under-employment with regional variations in the levels of development in the country. Similarly, there is highly skewed distribution pattern of resource base in the form of landholdings, productive assets and levels of technology adopted in villages.

Further, there are wide differences in the pattern of income, saving potential, investment capabilities, risk-taking, educational levels and access to knowledge about improved agriculture factors.

Proof growth of agro-based industries for providing supplementary part-time employment to farmers and their families is also another major constraint.
To offset these problems, several banks, financial institutions and companies have taken up village adoption schemes for marketing farm surpluses and providing loans and expertise to educated unemployed youths.
MANUFACTURING

Due to pragmatic policy initiatives, the growth rate for the manufacturing sector, which accounts for 77 per cent of total industrial production, has been impressive, showing a growth rate of around 8 - 10 per cent in recent years despite severe drought.

India is now almost self sufficient and her manufacturing sector produces everything - from pin to aircraft. India can now sustain the likely growth of most of her industries with domestic production of the capital goods and only with marginal imports. The infrastructure, including R & D capability has shown a remarkable growth.

It is important to note that while there are large variations in growth performance across industries, the growth is not confined to a narrow base, but is fairly widely dispersed in the manufacturing sector. Industries accounting for over two-thirds of the total weight of the manufacturing sector have shown positive rates of growth during this period, while the weight of industries, registering a growth rate of over 10 per cent add up to about 21 per cent of the total weight of the sector.
Although technologically, we are still way behind, the latest thrust is on updating, liberalised imports the industry is being exposed to external competition. Restrictions on capacity are also being removed. With a view to encouraging export production, undertakings, which have obtained export orders, have been permitted to take up manufacture of the items concerned without having to obtain an industrial licence provided the entire production covered by such permission is exported.

The scheme for broadbanding have been extended to cover new areas to enable the industry diversify its product range on similar lines. For example, a truck manufacturer can now produce cars as well. Similarly, steel mills have been allowed to produce end-products like steel pipes and bearings.

All these have resulted in buoyancy in industrial production.

Apart from big and medium-sized units, small scale industries have also shown a steady growth in terms of volume of production and exports. The share of small scale
sector in India's total exports was 25.3 per cent in 1985-86. A number of promotional efforts provided by the Government has led to progressive diversification in this sector. The range of products varies from electronics to handicrafts. Different banks and financial institutions also provide loans at easy repayment facilities. The Government has also decided to set up a Small Industries Development Bank with a corpus of Rs. 300 crore.

The Country's economy is heavily dependent on public sector units with a massive outlay of Rs. 1,80,000 crore. Our First Prime Minister Jawaharlal Nehru's dream that the public sector units will take us to the commanding heights of economy has not been fulfilled totally because of the low level of returns on investment.

The Government has now started opening core sectors of the economy to the private sector, giving birth to a new generation of entrepreneurs.
ENERGY

This is one of the fastest growing sectors in India.

Electricity

Requirement for power has gone up phenomenally due to rapid industrialisation, dispersal of industries in far flung rural areas and massive rural electrification programme.

The country's installed capacity for power generation is nearly 60,000 mw. The capacity is targeted to be raised to over 100,000 mw within the next 12 years. Several massive power project have already been identified and negotiations are in progress with world Bank, Asian Development Bank and other countries for financial tieups.

Our energy programme envisages a balanced growth in all three areas of generation - thermal, hydel and nuclear.

In nuclear power sector, as such as 10,000 mw capacity has been planned.

With several measures taken to step up thermal generation, it is now expected to increase steeply in the current year. In the context of the recurring drought, various measures like demand management, regulation of supply to different sectors and transfer of surplus power between states and regions have also been taken to even out shortages to the extent possible.

In hydel power generation, the potential is very large, especially in the Himalayan mountains and the western Ghats. However, the growth in this sector has not been at par with expectations due to long bad time, deforestation and delayed monsoons leading to reduced inflows in water reservoirs.
The overall satisfactory performance of power generation has been possible largely because of a progressive increase in the plant Load Factor of thermal power stations.

**Coal**

India produces around 160 million tonnes of coal a year and the growth has been at the rate of 8-10 per cent a year. Though the country's premier organisations - Coal India Limited and Singareni Collieries Co. Ltd have improved performance, overall coal production still remains short of requirements. As a result, we do not import any coal for power generation, but have to import in order to meet the requirements of the steel industry.

A major problem with Indian coal is its high ash content, affecting smooth and efficient operation of blast furnaces and their production. The indigenous boiler manufacturing industry has however been able to evolve a technology that can handle coal up to 50 per cent ash content.

**Petroleum**

Though the country's requirement is about 50 million tonnes a year, we are hardly able to produce 50 percent of the requirements. This necessitates large scale imports, involving huge foreign exchange drainage.

Two public sector undertakings - oil & Natural Gas Commission and Oil India Limited - have intensified the hunt for oil, both onshore and continental shelf. Several foreign oil was like chevron.
Exaco have been allowed oil exploration to explore oil in offshore areas on a production sharing basis.

As:

In view of the emergency importance of gas in the national economic scene, an independent authority called the "Gas Authority of India" was set up in August, 1986 with the primary objective of gas transportation and distribution. The immediate task before the Authority is to execute the HBJ gas pipeline project at an estimated cost of Rs. 1,700 crore including a foreign exchange component of Rs. 680 crore.

Gas available from this pipeline will meet the feedstock requirement of six fertilisers plants and fuel requirement of two power plants.
**SERVICE**

**Banking:** The banking sector in the country has grown by leaps and bounds, encompassing the length and breadth of the country. Since its nationalisation in 1969, the bank branches have spread extensively. Today, banking facilities are available in almost all backward areas.

The Reserve Bank of India has liberalised the credit authorisation scheme to allow for greater access to credit to meet genuine demands in production sectors without its prior sanction. Banks have also been advised to extend liberal credit facility to farmers as also facilities for credit rescheduling.

Important changes have also been made in the structure of interest rates of banks and postal deposits etc. to reduce the overall cost of money in the economy and impart greater flexibility to interest rate policy.

Scheduled commercial banks' data show that their aggregate deposits had risen by over 23 percent due to a marked acceleration in the growth of demand deposits.

Non-food credit also forms an important feature of the services provided by banks. Credit to industry and exports have risen considerably. There are several schemes to mobilise adequate financial savings from small savers, in particular, by offering them attractive real return on deposits.
Interest rates on both export credit and export refinance have been revised downwards. In keeping with the falling interest rates abroad, interest rates on Foreign currency (Non-Resident) Accounts have been kept at levels attractive for Non-Resident Indians to place deposits under the scheme.

**INSURANCE:**

The central government undertakings - Life Insurance Corporation and the Subsidiaries of General Insurance Corporation have launched insurance schemes, covering almost all areas of activity. The deposits of these corporations have soared in recent years due to the attractive premiums. The insurance schemes cover crop insurance, life insurance to even burglary insurance.

There are several small insurance companies, which are mainly engaged in reinsurance activities.

**POST & TELEGRAPH:**

Previously, this sector was departmentally managed. However, to improve performance, a business-like approach has been taken. Both the departments have now been brought under a corporate set-up. The establishment of Mahanagar Telephone Nigam is an important step in this regard.

**TOURISM SECTORS:**

Apart from the Indian Tourism Development Corporation, which has set up several luxury hotels, the private sector has also been given a key role for setting up luxury hotels and low cost tourist lodges.
AIR, DOORDARSHAN:

Both of these are government owned and have increased their sphere of activity considerably in recent years. The revenue collections have also been buyout with private companies allowed to sponsor various programmes.

Due to their importance as a mass media, the government has ruled out several proposals for according autonomy.
INTERNATIONAL TRADE AND FINANCIAL INSTITUTIONS

At the end of August, 1988, the country’s external debt stood at Rs.54,817 crore. A quarter of this represents commercial borrowings. Much of the country’s external liabilities, have been contracted for on concessional terms. It is interesting to note that India is the largest recipient of World Bank credit. IBRD/IDA assistance, as of June 30, 1987, totalled $27.326 million for 200 projects.

The stock of debt has doubled in the last five years.

India’s cumulative current account deficit during 1980-86 amounts to a staggering $15 billion. After the first oil shock in 1973-74, the current account registered a surplus in 1976 and 1977, largely due to a better export performance and higher remittances. The second oil shock in 1979 proved to be crippling. In November, 1981, net IMF repurchases shot up sharply as India arranged a SDR 5 billion financing.

The bunching-up of IMF repayments and other loan amortisations will put pressure on the BoP during the rest of the eighties, the government acknowledges. The country’s debt service ratio (DSR) has risen alarmingly from 10 per cent in 1982-83 to around 24 per cent in 1987-88. (If this figure includes rupee-based trade with the Soviets, then the ratio will be much higher). A 20 per cent DSR is considered to be the safety limit.

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Declining remittances from the Gulf area, hardening oil prices following the Iran-Iraq ceasefire, poor terms of trade, lacklustre export performance and import liberalisation will continue to keep the current account in the red. Not surprisingly, the US-based International Institute of Finance projects India as Asia's largest debtor by 1989-90.

Many economists tend to passively view the deficit as "structural", i.e. inevitable, for a developing country. Others favour a more aggressive policy of restricting imports as a way of correcting the deficit; they tend to ignore the fact that curbing imports may also slow down growth. The deficit may be viewed from another angle as well. In national accounting terms, it represents a "dissaving". It is, therefore, suggested that instead of thinking simply in terms of boosting exports and curbing imports, there is a need to see that investment is made more productive, that ICOX ratios come down.

Meanwhile, with multilateral assistance tapering off, there is a strong but so far unsuccessful bid to attract equity funds and commercial borrowings from abroad. ('W1s are a pampered lot these days!)

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In buttoning up commercial credit, Indian banks and financial institutions are gradually acquiring the expertise to tap global credit markets for their foreign currency operations. The successful commercial paper issue in the US market by SBI recently is one example of this trend. Not only was SBI able to secure a top credit rating, which is a prerequisite for entering this short-term debt market, but it was also able to utilise its top rating to secure attractive rates. The issue represents a move away from syndicated loans which tend to be loaded with front-end fees.

Nevertheless, an excessive reliance on commercial borrowing may not be a healthy trend. Although the fact that the country still enjoys an excellent credit rating cannot be disputed, it is not known how long this blissful state of affairs will prevail if the borrowing spree continues unabated. Moreover, short-term private capital inflows like commercial borrowings, NRI bonds and FCNR deposits are vulnerable to external interest rate movements. It is well known that FCNR deposits, for example, offer higher than market rates and the recently introduced NRI bonds, which seek to tie up funds for a longer period, offer rates that are even higher than FCNR deposits. Consequently, debt inflows tend to be costly propositions.

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What, then, is the alternative? One feeling that is increasingly gaining ground is that the government should encourage a greater inflow of equity funds. So far, there has only been a concerted bid to attract equity funds of a portfolio nature by floating offshore mutual funds. Very little has been done to attract direct equity investment from abroad in the industrial sector. Boosting direct foreign equity investment is a sensible proposal. Equity unlike debt is far cheaper to service. Moreover, it implies a greater commitment on the part of the investor. Foreign exchange outflow on account of repatriation of dividends should not pose any problem if the enterprise in question is able to generate handsome profits, particularly on its export operations. Siphoning off foreign exchange through dividends is a miniscule affair compared to the outflow that takes place through the transfer pricing operations of multinationals. In this connection, it is also important to mention the 40 per cent ownership rule for Fera companies. Technology transfer can only be facilitated if this rule is relaxed. Otherwise such transfers will remain confined to screwdriver technology. How can an investor be expected to pass on the fruits of years of R & D if he is not allowed a majority stake in the enterprise?

ONE of the consequences of liberalisation is the growing "internationalisation" of the economy. The earlier focus in the external sector, which was simplistically confined to boosting

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exports through a variety of fiscal incentives and restricting imports to essential items to conserve foreign exchange, is slowly, even if in minute doses, giving way to a more complex scenario which calls for a greater economic sophistication in managing international capital flows. The Centre's emphasis on technological upgradation has led to a variety of foreign collaborations and relaxation of import norms in a bid to accelerate economic growth. The consequent rise in trade flows has been accompanied by a corresponding growth in capital flows as well. The country's commercial debt has today reached record levels, causing apprehensions about the possibility of falling into a debt trap.

The domestic economy is no longer immune to international economic influences as it once was. Like exporters, manufacturers and financial institutions are having to learn the lessons of survival in a competitive environment that is constantly subject to the uncertainties posed by volatile interest and exchange rates. The learning process has taken place in fits and starts and has not been altogether painless. Manufacturers, particularly in the auto industry, are still smarting from the appreciation of the yen in recent years. Their low-cost yen loans are no more a bargain.

However, the picture is not all that dismal. In the private sector, several firms have entered into swap deals to manage their interest rate and foreign currency exposure. Their timing, in most cases, were impeccable, thanks to their foreign bankers. Interest rates, which were seen to have bottomed out, suddenly started inching upwards, prompting the government to raise FCNR rates. Companies like Nalco had already entered into
currency swaps to diversify foreign currency obligations. Others like ICICI have managed to gain entry, albeit indirectly, into the blue-chip Eurobond market. The external sector is clearly going a transitional phase as the country inches its way towards a more open and mature economy. Changes are always painful but despite the mixed bag of successes enjoyed so far, it is definitely a change for the better.
ECONOMIC RELATIONS WITH OTHER SAARC NATIONS

SRI LANKA:

The Indo-Sri Lankan accord on resolving the ethnic problem has generated a favourable business climate providing opportunities to make a fresh beginning for strengthening mutually beneficial economic relations.

Indian has provided Rs. 50 Crore assistance in the current year to part-finance the $700 million three-year reconstruction programme of Sri Lanka following the damage caused by the ethnic strife.

Both the Government have reactivated the Joint Economic Commission. The Rs. 50 Crore assistance will be in two parts - Rs. 25 crore of soft credit and an equivalent amount of grant and agreeing to collaborate in oil exploration.

Indian officials hope that Sri Lanka may soon become one of the main Asian consumers of Indian engineering goods. The supply of Indian buses is expected to rise by 10 times during the next couple of years as a result of the acceptance of lines of credit by some Primate transporters in Lanka.
Good prospects for exports of Maruti 800 and Premier model cars have also been noticed. It is expected that the total Indo - Sri Lankan trade will increase significantly.

An agreement on establishing Indian Small-Scale projects in Sri Lanka has been signed, under which India will help Sri Lanka set up 50 such projects in sectors like plastics, automobile components, rubber and castings.

At the end of 1987, there were 19 joint ventures under implementation in Sri Lanka. The Indian investment in the Rupee currency amounted to Rs. 7.18 crore and in foreign exchange Rs. 5.34 crore, and in foreign exchange Rs. 5.34 crore, representing 47 percent of the total cost involved in these projects.

KALADIYES:

Long before the formal adoption of the concept of Saare, there were trade contacts between the two countries. The two countries signed a bilateral trade agreement in 1981, identifying the various merchandise for two-way trade.
development. The areas of Cooperation have steadily expanded over the years.

India and Nepal have set up a joint commission at the ministerial level to review existing cooperation, ways to diversify it and build it according to the plans and priorities of the Nepalese Government.

The two countries have also agreed to promote their economic and commercial ties through joint ventures and projects.

Both sides have also agreed to explore the scope for greater Indian participation in projects of Nepal in various fields, including power stations, transmission lines and cement.

At present, there are 11 Indian joint ventures and two wholly-owned subsidiaries in Nepal. Of the joint ventures, 7 are in the manufacturing sector, two in the field of exploration of minerals and one each in hotels and tourism.
Before 1981, Maldives' main imports from India were Sugar, Stone, Sand and gravels, metal manufactures, machinery and transport equipment and medicinal products. India's imports were restricted largely to crude minerals.

After the conclusion of the trade protocol in 1981, Maldives enlarged its imports from India to include rice, sugar, flour, cement, salt and petro products. On the Indian side, course shells and red coral were added to the list of imports from Maldives.

The opening of direct shipping service between India and Maldives has given a boost to bilateral cooperation. Previously, most of the trade was routed through Singapore.

There is scope for further strengthening of economic ties between the two countries. India can lend its expertise to Maldives in construction of hotels & promotion of tourist spots.

Nepal:

At the beginning, a bulk of Indian and since the early fifties went into building necessary infrastructure for
The trade turnover between India and Nepal in 1986-87 rose to Rs. 206.19 crore, an increase of 7.4 percent over the level of 1985-86. While the balance of trade has been in favour of India continuously, imports from Nepal have also gone up substantially in recent years. The main items of import are animal feed, some chemicals and related products and textile fabrics.

BANGLADESH:

Till last year, Bangladesh had a whopping Taka 953 40 crore trade deficit with India. The Indo-Bangladesh joint economic commission is trying hard for achieving a stable and balanced growth of trade with an objective to offsetting the existing trade imbalance, adversely affecting Bangladesh.

Both the countries have a long-term arrangement for certain commodities like newsprint and refractories for which India has allowed concession for facilitating imports of Jamdani Sarees and jute carpets from Bangladesh.
India also gives attractive credit lines to Bangladesh for supporting development activities in that country. Bangladesh has also gained from Indian experience in domestic resources mobilisation, management of agricultural credit and credit operation in small industries.

However, the economic cooperation between the two countries has been below expectations. There is an urgent need for speed and a clear-cut result oriented police so that the advantages to be gained from cooperation are utilised properly.

At the end of 1987, there was only one project under implementation in that country. The Indian investment in rupee and foreign exchange amounted respectively to Rs. 2.43 crore and Rs. 0.19 crore, which accounted for a little less than one third of the project cost.

**Bhutan:**

India has a wide-ranging development assistance programme to Bhutan. The Indo-Bhutan Chukha transmission
link could mark the beginning of a Soarc power grid.

The Chukkha hydro - electric project, set up with grants and soft loans from India and with the involvement of Indian engineers, is a milestone in Indo-Bhutan friendship. India will buy all the surplus power from the project at mutually agreed rates.

India has also responded positively to Bhutan's suggestion that the intake of Bhutanese students for technical training in Indian colleges should be increased.

India contributes a substantial part of the Plan allocation and several Indian agencies assist Bhutan outside the scope of the plan. There is good scope for Indian entrepreneurs to set up joint ventures in Bhutan and efforts are underway towards this goal.

PAKISTAN:

Political differences and an atmosphere of severe distrust has impeded the growth of economic cooperation between the two countries Indian newspapers are even now as much a taboo in Pakistan as Indian coal.
The initial keenness shown by Pakistan for bilateral trade seems to have died down after strong protests by industry circles and some politicians in Pakistan that such an exchange of items would adversely affect the Pakistani industry.

The two-way trade between the two countries is a mere Rs. 50 crore with Pakistan running up a significant surplus. Trade contacts between are mainly confined to Public sector agencies while private trade has been allowed in a limited way.

However, efforts are being made to improve ties and Pakistan's expected return to democracy has raised hopes. Another redeeming feature has been that Pakistan has agreed to give India the most favoured nation treatment within the framework of Gatt.