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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

THE COLOMBO PLAN

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Table of Contents

Exchange rates used for conversion:

Rupees (India and Ceylon)	4.77 = $ U.S. 1
Rupees (Pakistan)	3.32 = $ U.S. 1

Summary and Conclusions

1. "The Colombo Plan for Co-operative Economic Development in South and South-East Asia" brings to the fore the urgent need of the countries in the area to develop their economies in order to increase particularly food production and consumption, to maintain and to raise slowly the real income per head of their peoples. A large-scale flow of capital is essential to any permanent increase in productivity and living standards in the area. The countries themselves do not have enough economic resources to undertake a major program of development. The Colombo Plan presents six-year development programs for the period 1951/52 - 1956/57 for India, Pakistan, Ceylon, and the British territories in Southeast Asia. The development programs concentrate on the most important and urgent needs, such as increased production of food and agricultural raw materials, increased production of electric power, improvement of transportation, and development of some industries.

2. The total cost of the program is estimated at the equivalent of $5,228 million. Of this amount, India's share is about three fourths. Of the total, 32% is to be spent on agriculture, 34% on transport and communications, 6% on fuel and power, 10% on industry and mining, and 18% on social capital such as housing, health and education. The proposed development programs would raise, although not greatly (except in the case of Ceylon), the present low rate of investment. It must be realized, however, that without foreign financial assistance, the present rate of investment would decline and the development work would need to be curtailed. Taking into account the expected rate of investment per capita yearly, which is estimated

to $1.85 for India, $1.59 for Pakistan, $6.6 for Ceylon and $4.16 for Malaya, it may be said that the programs are within the absorptive capacity of these countries.

3. In the course of the program, the total balance of payments deficit is estimated at $3,034 million, of which India's share is $2,289 million. The program expects that India will finance internally 56% of the program, Pakistan 54%, and Ceylon 59.6%. The internal finance available for the programs was calculated on the assumption that the required external finance is forthcoming. Both in India and Pakistan, it is assumed that in the first half of the program the percentage of the internal financing will be lower and will rise as the program develops, economic activity increases, and the government revenue improves. The proposed internal financing seems to be within the possibilities of Ceylon and Pakistan. This may also apply to India if one assumes that the large-scale development program expected to be financed through foreign financial assistance would be realized, and would stimulate an increased activity throughout the country and improve the present situation in the capital market. A reduction of the high defense expenditure both in India and Pakistan could release substantial resources for the financing of the program.

Of the total balance of payments deficit of $3,034 million, $591 million will be covered by sterling balance releases. An amount of $2,345 million must be provided from other sources.

Cost of capital goods imported for the program amount to 79.3% of the balance of payments deficit in the case of Pakistan, 64.9% in the case of

Ceylon, and 29% in the case of India. The balance of payments deficit will include not only the costs of capital goods imported for the program but also the costs of additional imports which are needed to meet the indirect foreign exchange impact of the program. Such impact will be greatest in the case of Ceylon which depends on import for nearly half of its food requirements and must also import most of the other consumer goods. The impact will be least in Pakistan, a country with a sufficient and growing supply of food. The impact on India will be greater than on Pakistan but not so great as on Ceylon.

In the case of India, external financing is supposed to provide, especially in the first years of the program, supplementary resources not only to check the indirect foreign exchange impact of the program but also to eliminate various acute shortages of consumer goods including food, which have been aggravating the existing inflationary pressure, and thus to contribute to the rehabilitation of the Indian economy. Perhaps this operation may be compared to the concept of the Marshall Plan. The local currency counterpart of these supplementary resources will help to finance the local expenditure of the development program.

4. The implementation of the program would have highly beneficial effects on the countries concerned. It would help to increase overall production, in particular of food. It would increase exports and also reduce import needs and make possible the achievement of balance of payments equilibrium at a higher level of income and external trade. The countries' creditworthiness would greatly increase but it still will not be possible for them to provide the service of loans amounting to the total external finance

required for the program. A part of it, therefore, would have to come in the form of special external assistance from various governments which, in turn, would raise the creditworthiness of these countries. Such assistance would make possible larger and quicker development, of which a part would be directly productive, increasing production and improving the foreign exchange position. The situation is not the same for all three countries. Most dependent on special assistance for the implementation of the whole program is India, while Ceylon would hardly need special assistance if one could expect that the present high prices of the three main export commodities (tea, coconut, and rubber) and the favorable terms of trade would continue.

In concluding, it may be said that the programs presented in the Colombo Plan are justified and constructive. The programs for individual countries appear to fit well into their overall development patterns. It will be necessary, however, to examine the various development projects with regard to their priorities, technical feasibility, stage of preparation, and also overall coordination of the programs. It will be very important to determine priorities fairly accurately because of the improvement in foreign trade expected from various projects and also because the needed assistance may come slower than anticipated. The programs are on the whole within the absorptive capacity of the three countries to execute, provided:

(a) The technical assistance which is greatly needed in all three countries will be available to the extent which is necessary. A lack of technical assistance might delay the carrying out of the program, even if the economic and financial resources were available.

(b) External financial assistance in the form of loans and grants will be obtained.

(c) Internal finance will be available.

(d) Adequate amounts of supplies from abroad will be available.

I. The Development Program

"The Colombo Plan for Co-operative Economic Development in South and South-East Asia" was prepared by the Commonwealth Consultative Committee which met in London in September-October 1950. At the first meeting of the Committee in Sydney, May 1950, it was decided to draw up a six-year development program and to invite non-Commonwealth countries in the area (Burma, Indonesia, Thailand, and the three states of Indo-China) to join in this enterprise "to make a comprehensive attack upon the problem of poverty and underdevelopment in the area as a whole." The non-Commonwealth countries, however, did not submit their development programs to the London meeting.

Thus, "The Colombo Plan" contains six-year development programs only for India, Pakistan, Ceylon, and the British territories in the area (Malaya, Singapore, North Borneo, and Sarawak). The report brings to the fore the urgent need of the countries in the area to develop their economies, to increase food production and consumption, to raise national income, and at least to maintain the real income per capita. The following features are common to the whole area: (a) a very low standard of living with the real income per capita around $50 to $70; (b) a shortage of food, especially rice; the export surplus of rice in Asia, which amounted to 6 million tons before the war, totalled only 2-2½ million tons in recent years; (c) a population growing at a yearly rate of 1-1½% in India and Pakistan, 2.2% in Ceylon, and 2.4% in Malaya. The overall production in the area is still below prewar.

The Colombo Plan is not an integrated development program for the whole area; it consists of a series of independent plans which were prepared by the respective governments. These plans have not been reviewed together nor critically examined either by the Colombo Committee or by outside economists or even between the countries attending the Colombo conference. The main purpose was simply to sponsor the presentation of such plans. To the extent to which the programs reveal a lack of coordination - as for instance in the case of some Indian and Pakistan projects - it may be hoped that this defect will be ironed out in the future meetings of the Committee.

The objective of the programs is to satisfy the most urgent and justified needs which are: increased production of food and agricultural raw materials; improved transportation; diversification of the economies of Pakistan, Ceylon, and Malaya; further industrialization of India; and increased supply of electric power which is a prerequisite for economic development throughout the area. Substantial amounts are also provided for education, health, housing, technical training, and others.

Successful implementation of the program would lead to the following results by 1957: increased acreage under cultivation, 13 million acres (increase of 3½%); increased land under irrigation, 13 million acres (increase of 17%); increased foodgrain production, 6 million tons (increase of 10%); a substantial increase in the production of oilseeds, cotton, and jute; increased electric generating capacity, 1.1 million KW (increase of 67%).

In spite of the expected progress, the growth of productive power is

not likely to show spectacular results by 1957. During the first years the programs will do little more than hold the present position. As the execution of the most important projects will require several years, the expected increase in production resulting from them will be obtained only towards the end of the program. The full effects of the program on production and standard of living will thus appear in the years following the completion of the program. Moreover, a large-scale development program would give a strong initial spark to the economies of these countries and help them to reach a stage of development from which further progress should be easier.

The total cost of the proposed plan is estimated at about $5,228 million, of which India's share is 73.6% (estimated population 347.3 million), Pakistan's 15% (estimated population 82.2 million), Ceylon's 5.4% (population 7.3 million), and the British territories 6% (population 7 million).

The division of cost for the development programs of the individual countries among the main groups is seen from the following table.

Percent of the Total

	India	Pakistan	Ceylon	Malaya and Borneo
Agriculture	33	32	37	12.1
Transport and Communications	38	20	22	19.5
Fuel and Power	3	18	8	18.7
Industry and Mining	10	19	6	0.3
Social Capital	16	11	27	49.5
Totals in $ equivalent(mil.)	3,859	784	285	299

Of the $5,228 million, total cost of the program, 32% is planned for agriculture, 34% for transport and communications, 6% for fuel and power, 10% for industry and mining, and 18% for social capital.

II. The Pattern of Development and the Rate of Investment of Each of the Countries Concerned

The programs now contemplated are not new. They embrace schemes already begun and, in addition, others of high priority which could be undertaken as soon as adequate finance is available. Of the total proposed investment for India, little more than 20% is for new schemes, the rest for schemes "in hand." For Ceylon, new schemes amount to only 13½% of the total, while for Pakistan the percentage of new schemes of the total cost of the program is 45, which is probably due to the fact that this country started to prepare its plan later than India or Ceylon.

All three countries have made serious attempts to start the needed development and have spent substantial amounts on various projects over the recent years. This investment was possible only because the countries used sterling balances[1/] and government balances accumulated during the war. According to the Colombo report, in 1950/51 domestically financed investment in India amounted to 2½% of national income as compared with total investment of 4% of national income; and in Pakistan of total investment of 2.2% of

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1/ In the years 1946-49 India, Pakistan and Ceylon drew upon their sterling balances to the extent of £ 340 million to finance their deficits on current account.

national income, probably less than 1% was financed from domestic resources.

It has become clear, however, that it will not be possible to continue to use up government balances with central banks and sterling balances at the rate of recent years. Therefore if no new sources of financing were available, the countries would be compelled to curtail their development programs, i.e. the rate of investment which would drop below the present rate. The rate of government investment foreseen by the Colombo Plan would not increase greatly over the present rate in the case of India and Pakistan, especially not in the first years of the program.

Below are given the main features of the program for India, Pakistan, Ceylon and Malaya, and the rate of investment as a percentage of national income. It must be pointed out, however, that the data on national income and on private investment are only very rough estimates.

1. India

The figures for the Indian program are as follows:

(In Millions)

	Rs.	$ Equivalent
Agriculture	6,080	1,276
Transport and Communications	7,027	1,473
Fuel and Power	576	121
Industry and Mining	1,800	379
Social Capital	2,913	610
Total	18,396	(3,859)

The main objectives of the program are the production of enough food

to make possible a 16-ounce cereal ration for the population in the rationed areas against 9-13 ounces at present, a 15-yard per capita consumption of cloth against 10 yards at present and sufficient production of cotton and jute to enable India's two main foreign exchange earners to overcome the country's raw material deficiency. The Government will intensify its "Integrated Crop Production Plan" from which it is expected to bring an additional 4.5 million acres under cultivation by reclamation and small irrigation projects. Three multi-purpose projects would bring under irrigation 6 million acres of new land. As the result of these projects, the generation of electric power would increase by 708,000 KW, i.e. by 50 per cent of the present capacity.

The proposed outlay on transportation is greater than on agriculture. If, however, the normal railway depreciation, Rs. 200 million yearly, and expenditure on the construction of two locomotive factories is deducted, agriculture will represent the largest expenditure in the Indian program. The most important industrial project is a new steel plant with a capacity of 500,000 tons yearly and the proposed increase in productive capacity of the three existing iron and steel mills. Included in the social capital expenditure is an amount of Rs. 750 million for the rehabilitation of refugees. This item has been a regular expenditure of the Government of India since 1948, and it amounted to Rs. 134 million in the budget for 1950/51.

The total development plan for the six years is equal on the yearly average to about 3.10% of the 1949 national income. Annual expenditure per head on the program would amount to $1.85. The yearly government expenditure on development of Rs. 3,070 million represents an increase of 36% over the

estimated 1950/51 expenditure of Rs. 2,250 million. The net private investment in 1950/51 and 1951/52 is estimated by the Reserve Bank of India at Rs. 1,600 million yearly. This amount does not include agriculture where the current rate of investment was assumed to be nil. The following table indicates the magnitude of total investment in India during this period.

Investment in India

Rs. Million
($ Equivalent)

	1950/51	1951/52	1956/57
Government Investment	2,250 ($471)	3,070 ($643)	3,070 ($743)
Net Private Investment	1,600 ($335)	1,600 ($335)	2,600 ($544)
	3,850 ($806)	4,670 ($978)	5,670 ($1,187)
Investment as percentage of national income of each year	4%	4½-5%	5½-6%

According to these figures, in the first year of the program the total rate of investment would increase over that in 1950/51, at a maximum, by 25%. But in the last year of the program, it may be 50% higher than the 1950/51 rate of investment due especially to the expected increase of private investment. The program estimates the private investment in the last year at Rs. 2,600 million (63% more than in the first year). That this estimate may be slightly optimistic is not denied by the report on the Indian Plan which states that this amount is considered to be the desirable rate of investment, for which necessary resources are expected to grow as the plan proceeds. The most important assumption of this calculation is that the capital markets would be

restored to normalcy.

At present, the investment in agriculture and rural industries is assumed to be nil because of lack of data, but investment in housing accounts for 63% of total private investment. For 1956/57 investment in agriculture and rural industries is given at Rs. 400 million; investment in housing would amount to 52% of total private investment. Finally, it is expected that the national income, estimated at Rs. 96 billion ($20.1 billion), will reach in the last year of the program an amount of Rs. 103 billion ($21.6 billion). This would represent an increase of about 1.04% yearly or only just about what has been the annual population increase of India in the last decade. This estimate appears to be too conservative even if the fact is taken into account that many of the important projects will be completed only towards the end of the program.

2. Pakistan

The most important parts of the program also for Pakistan are agriculture and transport and communications. The outlay for industry is relatively greater than for India.

	Million Pakistan Rupees	Million $ Equivalent
Total	2,600	784
Agriculture	820	245
Transport and Communications	530	164
Fuel and Power	470	141
Industry and Mining	490	147
Social Capital	290	87

The objectives of the program are to increase agricultural production, to establish a number of new industries, to improve the situation of railways and ports, and to augment production of power. It is expected that 6 million acres will benefit from the new irrigation works and the

anti-water logging measures. In addition, it is planned to put 4 million acres under double cropping. The capacity to generate electric power is expected to be increased by 256,000 KW. Among the industrial projects, the most important are new cotton mills, jute mills, and one paper mill.

According to the Colombo Plan, the total investment in Pakistan during the six-year period would be as follows:

Investment in Pakistan In P. Rs. Million	($ Equiv.- Million)
Government investment	2,200 ($660)
Net private investment within the program	400 ($120)
Net private investment outside the program	450 ($135)
Total	3,050 ($1,215)
On the yearly average	508.3 ($152.5)

The total investment included in the program of Rs. 2,600 million would amount to $1.59 per head on the yearly average.

The program does not contain any estimate of private investment in Pakistan in recent years. Public investment in 1950/51 is around Rs. 220 million, to which a net private investment of around Rs. 100 million may be added. The total investment would thus amount to only 2.2% of the 1949 national income estimated at Rs. 15 billion to Rs. 16 billion. As in the case of India, private investment in the agricultural sector is not included, and no estimates for it are available.

The total development plan would amount on the annual average to about 2.75% of national income, which is 0.35% less than in the case of India. The total rate of investment as percentage of national income as

calculated in the program would be higher in India by 1.8% to 2.3% in the first year and by 2.1% to 2.6% in the last year of the program. This substantially higher rate of investment may be explained by the much greater industry, trade, and mining in India in which a continuous and growing investment is assumed. Moreover, the Indian estimates may be too optimistic and the Pakistan too conservative.

3. Ceylon

As the table below shows, the most important items in the program for Ceylon are also agriculture, transport and communications, and, furthermore, a substantial outlay for social capital.

	(In Rs. Million)	Equivalent (In $ Million)
Total	1,359	285
Agriculture	503	106
Transport and Communications	297	63
Power	109	24
Industry	75	16
Social Capital	375	78

The main objective of the program is to concentrate on opening up new areas for food (mainly rice production) in order to give more stability to the Ceylonese economy, to provide more diversified agriculture without abandoning specialization in traditional lines of production. This, together with various light industries, should make for a better balanced economy. In transportation, the most important project is the expansion of the Port of Colombo. The hydro-power generating capacity would be increased by 50,000 KW.

The six-year expenditure per capita on the annual average amounts to $6.5 or much more than in the case of both India and Pakistan. In the 4 years 1947/48-1950/51, the government expenditure on development was Rs. 116 million yearly, or about 5% of the 1949 national income of Rs. 2,330 million, which figure is certainly underestimated. (In 1950/51 this is estimated to be Rs. 136 million, or 5.8% of the national income.) The development expenditure during the six-year program would amount to Rs. 226.5 million, or 9.7% of the national income annually. Thus, the program would mean a substantial increase in the rate of investment financed by the Government. The higher per capita expenditure on investment in Ceylon may be explained by several reasons: The economy of Ceylon was not greatly disrupted by war. The real income per head is higher than in both India and Pakistan; the Government revenue represents a substantially higher share of national income than in the other two countries; and the defense expenditure amounts to less than one percent of total expenditure (about 0.4% of national income). The country is engaged in one really great project, the Gal Oya Multi-purpose Project. It may be assumed that, once this is completed, the government development expenditure will decline.

The report gives no information on private investment in Ceylon, which certainly has been going on, especially in the tea, rubber, and coconut estates. Assuming an amount of Rs. 50 million of net private investment, the present investment in Ceylon would reach a figure of about 7.5% of the national income and would rise to about 12% of the national income during the period of the program.

4. Malaya

The program proposes to increase the present low yields from the existing rice acreage by providing irrigation, drainage, and better seeds, and also by opening up new rice land. However, the planned increase in rice production will do little more than keep pace with the rapidly increasing population. An increase of hydro-power generating capacity is also proposed.

The six-year program envisages total expenditure of U.S.$ 125 million, or on the yearly average $ 4.16 per head. Assuming an income per head of $70, this investment would represent about 5.9% of national income yearly. Breakdown of the total program is as follows:

	Equivalent In $ Million	Percent of Total
Agriculture	30.5	24
Transport and Communications	30.2	24
Fuel and power	28.0	22
Industry	0.56	0.5
Social Capital	35.84	30.0
	125.2	100

The table on the next page indicates the annual government investment per head of population during the duration of the program as compared to the present government investment.

	1950/51	1951/52-1956/57	1951/52-1956/57 As % of National Income
India	$1.35	$1.85	3.10
Pakistan	$1.09 (1949-50)	$1.35 1/	2.30
Ceylon	$3.83	$6.60	9.7
Malaya	$2.24 (1949)	$4.16	5.9

1/ This does not include $0.24 per capita yearly of private investment within the program.

Even if the assumed private investment is added, a conclusion may be reached, namely, that the proposed investment is within the absorptive capacity of these countries. It must be pointed out, however, that these countries will be able to carry out the program only if they obtain (a) technical assistance and (b) substantial financial assistance.

III. The Problem of Technical Assistance

The contemplated development programs involve the application of modern technological skills for the underdeveloped and the traditional economies of the countries of Southeast Asia. For the program to succeed, it would be absolutely necessary to provide trained men, to carry out the projects already in hand, to initiate other schemes in the programs, and to raise the level of technical skill among agricultural and industrial workers.

An indication of the magnitude of the problem may be obtained from the estimates of the numbers of experts of various kinds required to carry out the six-year plan. The four countries altogether have requested to date 1,411 technical experts from abroad, of which India will need 638 and Pakistan 460. However considerable, these requirements are incomplete. They

do not cover all projects, and they are limited to high-level experts whose assistance is required in many instances for a very short period.

In addition to these high-level experts there will be a very great need for foremen, supervisors, and skilled workmen. It will take some time before the countries concerned will be able to provide the needed personnel. The plan budgets for an increase in the output of local training institutes and colleges from the 1949 level of 150,000 men to 300,000 in 1957.

A Council for Technical Cooperation was organized by the Commonwealth countries, the main functions of which will include provision of such assistance as: (a) training of personnel, from countries within the area, in countries where suitable instruction is available; (b) providing experts, instructors, and advisory missions to assist in planning development or reconstruction or for use in public administration; (c) providing equipment required for training or use by technical experts in the region. The Council intends to operate in the fullest cooperation with the United Nations and other agencies providing technical assistance in the area. It can be taken for granted that a coordination of the work of the Council with the Point IV program of the United States will be sought. Commonwealth governments have agreed to contribute an amount up to a maximum of £ 8 million over three years for the financing of the work of the Council for Technical Cooperation.

The lack of higher-level managerial and engineering personnel and of skilled labor of all categories may create a major difficulty in a speedy execution of the program, especially in countries where the proposed development plan is of very substantial proportion. It might be the lack of skilled personnel rather than the lack of resources available which might prove the main bottleneck in the realization of the program. Therefore,

it is quite possible that even if the needed financial and material resources should be available, it would be necessary to space the program over a period longer than six years.

IV. Financing of the Program

The table on the next page indicates how it is proposed to finance the $5,228 million cost of the program.

Cost and Financing of the Program 1/

Expressed in $ million equivalent

	India	Pakistan	Ceylon	British Territories	Total
Total "Colombo" development program	3,859	784	285	299	5,228
I. Cost					
(a) Cost of Capital Goods Imported for the Program	663	322	109	56	1,150
(b) Other Imports Related to the Program	1,626	84	59	115	1,884
II. Means of Financing					
(a) Internal Financing of the Colombo Development Program	2,161	423	171	129	2,884
(b) External					
Total balance of payments deficit	2,289	406	168	171	3,034
Covered by:					
1. Sterling balance releases	591	45	53		689
2. Other external finance	1,699	361	115	171	2,345

1/ Individual items do not necessarily add to totals due to rounding.

As the table shows, it is assumed that during the six-year period the countries will run a balance of payments deficit calculated at $3,034 million as compared to $2,349 million of external finance which is required for the program. However, the balance of payments deficit should be related not only to the Colombo development program but also to the whole expected investment in these countries. This cannot be done at the present state of the Colombo Plan studies nor can the effects on the balance of payments be appraised.

The balance of payments deficit is substantially greater than the cost of capital goods imported for the program, which is estimated at $1,150 million (22% of the whole program and 37.9% of the total balance of payments deficit). The report emphasizes that "The need for external finance cannot be measured by the cost of imports of capital goods for the projects in the development programs; consumer goods as well as capital goods are needed to carry them out. The need for external finance arises from the size of the balance of payments deficit which is required in order to permit the development programs to be carried through; the criteria to be adopted are therefore to be found, firstly, in the soundness of the development programs themselves and, secondly, in the extent to which a balance of payments deficit is necessary in order to provide the external resources to support the economies of the developing countries." (p.60)

The need for external finance is a reflection of the lack of capital in the area which can be overcome only by imports of capital.

The external finance would thus cover not only the cost of capital goods needed for development but also the cost of additional (induced) imports which may be considered as an indirect foreign exchange impact of development. Increased income resulting from such large scale development will generate additional demand for consumer goods, increasing demand for imports and will also reduce exports. Paucity of data makes it difficult to determine the total real impact of a development program and the supplement to consumption which will be needed to maintain living standards especially of the low income groups. As will be shown, the situation is different in each of the countries concerned and therefore the impact of development on imports may also vary.

The costs of imported capital goods needed for development represent only 29% of the balance of payments deficit in the case of India as compared to 79.3% for Pakistan and 64.9% for Ceylon. These figures indicate great differences in the financing of the program of each country. Therefore, an analysis of the external and internal financing by countries is necessary.

1. India

Internal Financing. The amount for internal financing mentioned in the table on page 16 is expected to be available in all these countries on the assumption that external finance is forthcoming. On this assumption India estimated that her domestic resources available for public investment will amount to $2,161 million over the six-year period ($1.04 per head annually. In recent years, however, the growing difficulties in raising local finance have hindered the pace of development. The Government could not implement its plan to raise stated amounts of funds in the market. The

overall budgets, which included sizable expenditures on development, ended with substantial deficits which were met chiefly by drawing on the government deposits with the Reserve Bank of India. Thus, it may be said that development expenditures were financed by drawing on these deposits plus various small savings and deposits with the Government (provident funds).

The annual rate of internal financing, according to the program, would be $360.8 million (Rs. 1,720 million). However, in the initial years, the available resources are likely to be less than this average figure, and a gradual improvement in the availability of resources for public investment is expected, according to the Colombo report, as a result of (a) restoration of confidence in the capital markets and (b) public investment expenditure undertaken from year to year as outlined in the Plan. In the later years, therefore, internal resources will be higher than the average postulated in these estimates. The total resources available for the six-year period of Rs. 10,310 million are expected to be forthcoming in the following manner:

(Rs. Million)					
1951/52	1952/53	1953/54	1954/55	1955/56	1956/57
1,360	1,490	1,590	1,780	2,000	2,090
Percentages of the Total Program					
44.3	48.5	51.8	58	65.1	68.1

In the first year of the program, the internal financing will probably be not higher than that in 1950/51.

The report indicates the sources from which the financing of Rs. 10,310 million ($2,164 million) might be obtained. They are:

(In Rs. Million)	Yearly
Increase in revenues of Central and State Governments	633
Economies in expenditure of Central and State Governments	183
Receipts from State-owned enterprises (mainly railways)	300
Net borrowings from the public	400
Receipts of Railway Depreciation Funds	200
Total	1,716

Of these five items, it can be said that the amount of Rs. 400 million for net borrowings from the public might be achieved easily and that the estimate is rather conservative. The budget estimate for 1950/51 expects from small savings around Rs. 346 million (Rs. 297 million was obtained in the year 1949/50). To that sum, the annual increase of the various provident funds can be added. It might also be possible to increase the receipts of the Railway Depreciation Fund which were only Rs. 68 million net in the budget estimate of 1950/51. The item "Receipts (gross earnings) from State-owned enterprises" is not clearly explained. The net revenues from railways and post and telegraphs are at present included in the budget. Together they amount to only Rs. 108 million in the 1950/51 budget estimate, but it has been reported that the earnings of Indian railways have increased very substantially. The main source is the expected increase in government revenues and economies in expenditures, amounting to Rs. 816 million annually. As mentioned before, apparently the Government of India expects that as the program gets underway, its initial spark will have a very strong impact on the Indian economy and will make it possible to collect substantially

more taxes than in the past years. The report does not indicate how the various revenues are expected to increase during each of the six years.

With regard to the expenditure side, it is said in the Indian Plan that "defense expenditure could be considered for some reduction" which would release funds for investment in the public sector. The total yearly economies envisaged in Central and State government expenditure amount to only about 10% of the present defense budget of about Rs. 1,700 million to Rs. 1,800 million.

Without additional information on the sources of the expected increases in government revenues and on the assumed earnings of the State-owned enterprises, it is very difficult to predict the development of public finance over a six-year period or to arrive at a conclusion as to whether or not India will be able to mobilize the amount of internal finance envisaged in the program. In addition to the sources mentioned above, India might increase its internal finance for development by reducing defense expenditure more than is envisaged in the program. Furthermore, India may draw on Rs. 600-800 million of the Rs. 1,400-1,500 million Central government deposits with the Reserve Bank of India. Inflationary effect of using these deposits might be offset by a corresponding balance of payments deficit. Finally, if the capital market in India recovers, the Government may be able to fill a gap of moderate size by issuing government bonds. In this regard, the report on the Indian Plan states that, "although the present rate of saving in India is low and the propensity to consume is also prominent, it may be assumed that real incomes will increase and the rate of savings will rise."

External Financing. The amount of external financing of $1,699 million (Rs. 8,090 million) represents "a 'gap' between resources likely to

be available for development and the resources required for a consistent and economical plan of development during the six years." Of this amount, $664 million (Rs. 3,170 million) is estimated to be the deficit in external finance (actual import requirements of the projects, i.e. capital goods). The report on the Indian six-year plan states: "The maximum resources which could be raised within the country fall short of the required resources by that amount ($1,699 million). ..... Any plan of assistance from abroad, therefore, would have to provide not only external balance to cover the expected deficit in balance of payments (arrived at after taking into account estimated export earnings and the probable sterling releases) caused by import of plant and machinery for the development projects but also external finance for the importation of commodities and services, through the sale of which the public authorities would be able to raise internal finance to cover the budgetary deficit caused by increased development expenditure. The importation of these commodities therefore will assist the economy in two ways: First, it provides for the carrying out of the development program and, secondly, it counters the inflationary pressure of development expenditure." (Indian Plan p. 10)

This statement supplies a good evidence of how India arrived at the amount of the needed external finance. She could have demonstrated that the development program will generate new income which will increase the demand for various consumer goods, especially for food and textiles which are in short supply in India. As a result, imports would be increased and exports reduced, thus causing an increase in the balance of payments deficit. The report does not use this argument and does not supply any quantitative analysis to indicate the expected indirect impact of the program on the balance of payments. The external assistance is related to the potential availability of internal resources. In other words, the country does not have enough resources to carry out the intended development; the basic weakness, lack of capital (= lack of both capital and consumer goods), can be removed only by import of capital.

The amount of external assistance to cover the internal financing is higher than needed to offset the effect of the development on the balance of payments. An attempt is being made here to calculate the induced imports and to find out what may be considered as other additional imports, additional resources which are needed for the execution of the program. The proportion of local expenditure on the program financed externally is expected to be

In the first year	38.7%	in the fourth year	25%
" " second "	34.5%	" " fifth "	17.9%
" " third "	32.2%	" " sixth "	14.9%

It is assumed that the program would generate additional income of Rs.1500 1/ million yearly (= $314 million). Imports represent about 7% of national income in India. For the amount of the newly generated income a higher ratio of 20% is assumed which would require additional imports yearly of RS.300 million ($61 million). However, compared to this requirement the balance of external finance other than the payments of capital goods for development would amount to RS. 1,210 million in the first year, Rs. 1,080 million in the second year, Rs. 950 million in the third year, and Rs. 480 million in the sixth year. Even if the ratio of induced imports were raised to 30% the local expenditure financed externally would still be higher especially in the first years and the balance representing supplementary imports would be Rs. 760 million in the first, Rs. 630 million in the second and Rs. 500 million in the third year.

Once more the Indian report provides the explanation in saying that in the balance of payments estimate for the next two years "an effort has been made to give relief in respect of certain categories of consumer goods where supply has been tight in the past". The planned imports of consumer goods envisaged for 1951/52 and 1952/53 over and above the normal imports on the existing levels are of the order of $260 million and $238 million as compared with $253 million and $229 million of local expenditure to be financed externally. The report explains further that imports of commodities like wheat,

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1/ This would amount to Rs. 9000 million over the six year period compared with the expected increase in national income of only Rs. 7000 million. This calculation confirms what has been said previously, namely, that the estimate of the increase of national income in India appears to be too conservative.

sugar, cotton, etc. at the levels contemplated for the two years 1951-53 are of such magnitude as would enable internal finance to be raised by the sale of these commodities if they were made available as part of an assistance program.

Clearly the concept of the Indian plan may be compared with that of the Marshall plan. As in the case of the Marshall Plan, India would import not only goods directly related to the development program but also consumer goods to maintain the standard of living, to relieve various shortages of consumer goods, to eliminate the existing inflationary pressure; and it would use the local currency counterpart of such imports to defray a part of the cost of the program. Such use of these funds would not be inflationary because a balance of payments deficit higher than the amounts to be collected and spent is envisaged.

Thus it appears that the amount of external finance necessary for the program ($1,699 million not including the released sterling balances) is required to pay for:

(a) Equipment and materiel imported in connection with development projects. (Capital goods)

(b) Increased imports of consumer goods to counteract inflationary pressure induced by the development program (indirect foreign exchange impact) and finally

(c) Substantial imports necessary to eliminate inflationary pressure and acute shortage of various consumer goods which has its origin in the war and postwar difficulties.

The last category of imports will be needed particularly in the first years of the program. External financing of the program is thus supposed to facilitate the postwar rehabilitation of the Indian economy which is still suffering from the effects of war and postwar difficulties and distortions. The war and postwar dislocations of the Indian economy were greater than is generally realized. During the war India was cut off from its traditional rice supplies from Burma; and in order to increase the production of food, about half of the cotton acreage was converted to grain. Partition meant the loss of important food and raw material producing areas to India. In spite of substantial imports, shortage of food and other consumer goods remained, making rationing of grain and cotton cloth necessary. Inflationary forces inherited from the war period continued to work. "The persistently low average standards of living, the high prices of foodstuffs and raw materials, the shift in the distribution of income during the war period, the general state of stagnation in the capital market have all tended to obstruct the flow of investment into fields of production which badly need to be developed." The vicious circle of lack of savings and lack of development can be broken only by injections of foreign capital which at this stage will have to provide also for an increased flow of food and agricultural raw materials. As the proposed development has the objective to increase production of food and other consumer goods, it is assumed that large imports of these commodities will not be necessary after the present acute shortage is

overcome, the maladjustments in the economy corrected, and a higher degree of development reached. As a matter of fact imports of consumer goods are expected to taper off after the first 3 years of the program.

While the arguments on which the Indian estimates of foreign needs are based are therefore consistent and reasonable, one question remains unanswered. Foreign financing of an increase in consumption is only justified provided the increase in productive capacity of the country during the period is sufficient to support consumption at its new level at the end of the period, otherwise further assistance will have to be resorted to again to prevent a decline in the standard of living which socially speaking may be worse than no increase now. The assumption is implicit that production will increase sufficiently, but the demonstration is not presented in the plan.

2. Pakistan

The total balance of payments deficit for Pakistan of $406 million amounts to 51.8% of the development program. Internal financing of $423 million is supposed to cover 54% of the program while 46% or $361 million is expected from external finance. In addition, sterling balances equivalent to $45 million will be released to meet the balance of payments deficit.

Imports of the materials and capital goods which are needed to carry out the development program represent 89.2% of the external finance and 79.3% of the balance of payments deficit. The internal financial expenditure

involved in the program, according to the report, is believed to be within the financial capacity of the country. Thus, Pakistan does not expect to have to combat serious inflationary pressure by devoting a large part of the external finance to the imports of goods not required under the program. Pakistan expects its balance of payments deficit to grow during the earlier years on account of the import of capital goods reaching a peak of $92.4 million in the second year. After that, the balance of payments will improve.

The report does not contain such detailed data on financing of the program as in the case of India. It estimates total internal financial resources for the whole period at P. Rs. 1,700 million ($510 million) or $1.04 per head yearly, which should meet local financing of the program of Rs. 2600 million ($780 million), as well as of private investment outside the program amounting to Rs. 450 million ($135 million). Of this amount, Rs. 500 million are expected from public funds as a result of some increase in public revenue from existing taxes and some economies in public expenditure. It is assumed that Rs. 1,200 million could be obtained from private savings, taking into account the expectation that the annual rate of saving will slowly increase as incomes rise.

Internal financial resources will gradually rise from Rs. 220 million ($66 million) in the first year of the program to Rs. 350 million ($105 million) in the last year of the program when internal financing will cover about 80% of the program as against about 45 per cent in the first two years.

The internal financing is, of course, greatly dependent on the Government budget. The expected contribution from public funds presupposes a budget

surplus on ordinary plus military expenditures. This may be achieved if the present favorable conditions continue. It is doubtful whether Pakistan will be able to raise from private saving the expected amount of Rs. 200 million ($60 million) yearly. For the first years perhaps only half of this amount is considered as probable. The country could, however, use about Rs. 300-400 million from the Rs. 600 million government deposits with the Central Bank which would cover 20% of the estimated internal requirements. Finally, a 10% reduction in the defense expenditure would release more than Rs. 70 million yearly to be used for development.

As a whole, internal financing should not be considered a major obstacle to development in Pakistan, providing a prudent fiscal policy is pursued.

According to the program, Pakistan is supposed to require a total of $406 million of external finance, including the sterling balances, which is $84 million more than is needed for imports of capital goods for the program. This would leave yearly an amount of $14 million (Rs. 42 million) for additional imports induced by the program. Assuming that the program would generate yearly a new income of Rs. 150 million of which Rs. 22.5 million (15%) would be spent on imports, the amount provided for in the plan seems to cover the indirect foreign exchange impact of the program. This amount would be enough to pay for imports equivalent to 28% of the estimated new purchasing power. The direct foreign exchange impact of development will be less in Pakistan than in India, chiefly because of the good and increasing food supply which should make it possible to meet without difficulties an increased demand resulting from the newly created income.

3. Ceylon

Of the total investment costs of Rs. 1,360 million (equivalent to $285 million), the Government expects to provide internally Rs. 810 million (about $171 million) so that external financing is needed for the balance of $115 million or 40.4% of the total. Of this $115 million, $109 million (38% of total) represents the cost of capital goods imported for development. The remainder of $6 million would allow some slight increase in imports of consumer goods and ease the task of the Government in raising internal finance.

Internal Financing. The Government would need yearly an amount of Rs. 135 million equivalent to $28.5 million, or $3.98 per capita. This is not substantially more than has been spent on development expenditure in recent years. The Government has estimated that it will be able to provide Rs. 75 million ($16 million) yearly from borrowing and Rs. 60 million ($12.5 million) from surpluses on ordinary budget. Both the income from taxation as well as the possibility of raising money from borrowing will depend upon the prices of the leading export commodities.

The programmed figures should be compared with the actual figures in the recent years. The budget estimate for 1950/51 indicates a surplus on ordinary account of Rs. 36 million as compared to a surplus of Rs. 29 million in 1949/50. Taking into account the prevailing high prices, it might be reasonable to assume the rise in the ordinary budget surplus from about Rs. 36 million to about Rs. 50 million. And if the present favorable export

situation continues, it should not be difficult to achieve a surplus of Rs. 60 million.

Because of the higher incomes, it is conceivable that the Government might be able to borrow annually an amount approaching the goal of Rs. 75 million, as has been demonstrated by a successful issue of government bonds totalling Rs. 90 million in November 1950. On the whole it appears that under favorable circumstances (i.e. the continuation or only a slight decline at the prevailing high prices) the Government may be in a position to raise perhaps Rs. 110 million to Rs. 120 million per year for development purposes which would not be much below the target of the 135 million mentioned in the program.

External Financing. As mentioned above, $109 million of external financing is considered necessary to pay for imported capital goods for the program, to which an amount of $6 million has been added for the payments of other imports.

However, the indirect foreign exchange impact of investment in Ceylon is higher than in Pakistan or India because the country must import nearly half of its food requirements and most of the consumer goods. While, at the present favorable terms of trade, enough foreign exchange could probably be earned to pay for the additional imports, the Government believes that Ceylon is likely to have a balance of payments deficit during the next few years.

Assuming that prices of the three principal export commodities--tea, coconut, rubber--will be somewhat lower than those now prevailing, a total balance of payments deficit of Rs. 800 million ($168 million) is estimated during the whole period of the program which is Rs. 250 million ($52.5 million)

more than the previously mentioned deficit calculated in connection with the financing of the program. The Government is prepared to cover this deficit by drawing £ 19 million on the sterling balances of Ceylon.

Altogether, about $10 million (Rs. 47.7 million) yearly would be available to meet the indirect foreign exchange impact. This would be equal to about one third of the newly created income of Rs. 150 million yearly. Under these assumptions, the development program could be carried out without generating strong inflationary forces.

V. External Financing and the Creditworthiness of the Individual Countries

The report is vague on the sources of the $2,345 million of external financing required for the program, which is in addition to the $689 million of sterling balances to be released during this period. It is not expected that any contribution will be forthcoming from private foreign investment for the projects included in the plans. (Exceptions are the industrial projects in the program for Pakistan amounting to $120 million for which the Pakistan Government would welcome a participation of private foreign investment.) Government borrowing in London, Canada, Australia and other capital markets may be a possible source of financing. With regard to the Bank, it is said that "The IBRD is of great importance and Commonwealth Governments are considering how best they would be able to facilitate its use. .... Much will depend upon the presentation of carefully prepared plans of general development from which elements may be selected as offering particularly suitable openings for substantial assistance from the Bank." (p.62) The report stresses that it is very unlikely, in view of the magnitude involved, that the required external finance can be obtained without a substantial element of government-to-government financing. The UK Government does not, however, intend to seek finance from other governments in respect of the UK colonies.

Although not explicitly stated, it seems to be inferred that a substantial part of the external finance could not be handled on a normal loan basis and would have to be obtained in the form of special assistance from various sources.[1/] The Government of

1/ "It is .... desirable that the flow of capital should not be arranged in a manner which involved such burdens of future repayment as would frustrate the purpose of stimulating an expansion of trade." (p.62)

Australia has already announced that it will contribute £ 25 million to South-east Asian countries under the Colombo Plan. The need for special assistance is justified especially in cases where the low rate of saving and the lack of resources needed for investment create a major obstacle to the rate of development which is required to maintain at least the present low standard of living in view of steadily increasing population, and still more in cases where even the present low rate of development could not be continued without external assistance. A major improvement can be achieved only by development on a large scale. If, with the help of such assistance, countries are enabled to develop their economies faster and better than would otherwise be the case, their creditworthiness will undoubtedly increase. Special assistance would allow a country to invest more (without inflationary consequences) and thus increase its incomes more and at a quicker rate. Since production (income) would be increased by a larger investment, in part made possible by special assistance, part of this increased production (income) might be used when it accrues for the servicing of loans without lowering the pre-existing standard of living. In most undeveloped countries, the first immediate necessities for development consist largely of not directly productive investments. It is only when large investment funds are available that the growing proportion of directly productive investment can be made. And it is only out of the increased output of those directly productive investments that servicing of loans is made possible.

Up to a certain level, therefore, it may be said that the higher the special assistance, the higher the creditworthiness. Therefore, the total amount of loans which the countries could service would depend on the size of special assistance which the individual countries would receive and also on their use.

India

If the total external finance required for the six-year plan of India, i.e. an equivalent of $1,699 million, were received in the form of loans, it may be calculated that the servicing of this amount would require annually an equivalent of $125 million to $150 million.

India's present capacity for foreign debt service is far short of this figure. This capacity will improve substantially if the most important elements of the six-year program, which provides for a substantial part of local financing from external assistance, are carried out. In that case foreign exchange expenditure on food supplies should decrease, and perhaps imports of raw cotton, iron and steel, and fertilizers will decline. Also, substantial increases might be expected in exports of short staple cotton, oilseeds, cotton textiles, jute products, and other consumer goods. Furthermore, the "Plan for India" assumes that the Indo-Pakistan trade would return to normal.

Nevertheless, even with these improvements India's creditworthiness cannot be expected to approach the external finance requirements of the six-year plan. It appears, therefore, that in order to carry out the most important parts of the six-year program, a substantial part of the external assistance would have to be received as special assistance, especially in the first years of the plan.

Sizable special assistance would enable the country to carry out a large investment program, and some proportion of it would be of directly productive investment. As was indicated in a discussion on the financing of the program, India needs substantial additional resources to rehabilitate its economy. The proportion of special assistance used for directly productive investment is assumed by us to be about one third. Assuming that

the yield of directly productive investment after 5 years be from 12-15% and the favorable effect on the balance of payments be slightly below the same magnitude, it may be estimated that each $100 million of special assistance, of which about one third would be for directly productive investment, would increase India's annual ability to service foreign loans by an equivalent of $3.5-4 million.

Pakistan

Servicing of the total external finance, an equivalent of $361 million, needed for Pakistan's program would require annually an equivalent of $27-35 million. Recent price increases of some of Pakistan's major exports have improved Pakistan's balance of payments position. If a major part of the six-year program is executed, Pakistan's external position will be greatly strengthened. In spite of this, a service burden of $27-35 million a year may well remain above the country's capacity. Although Pakistan's dependence on special assistance is considerably less than that of India, the country probably expects that a part of the external finance required will be obtained in the form of special assistance if the whole six-year plan is to be implemented.

Ceylon

The annual service of the $115 million of external finance required for the six-year plan of Ceylon would amount to an equivalent of $8-10 million. If the program is carried out, Ceylon's external financial position will further improve. In 1950 Ceylon is expected to have a balance of payments surplus on current account of about $20 million. Under present circumstances Ceylon would appear not to need any special assistance for

carrying out the six-year program. It could service a loan of $115 million, and the increased national income and government revenue, both resulting from high export prices, could provide the funds needed for the contemplated investment. A certain amount of special assistance might be justified under the assumption of a substantial decline in world market prices of Ceylon's three main exports (tea, rubber, coconut) and a worsening of the terms of trade.

Malaya

No assessment of Malaya's position was attempted here for lack of sufficient information at the time of writing.