UNIT 6 DEVELOPMENT PLANNING: RETROSPECT AND PROSPECT

Structure

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6.0 OBJECTIVES

After going through this unit, you will be able to:

- Explain the state of economy of South Asian countries at the time of independence;
- Highlight their major development strategies; and
- Assess the impact of development planning on these economies.

6.1 INTRODUCTION

The South Asian economies, at the time of attaining independence, were underdeveloped and in an acute state of poverty. They had to strive hard to achieve economic self-sufficiency and poverty. Elimination of poverty had become an economic goal as well as a prime necessity for the political leadership. But the economic policies, that were prevalent during that period, though politically popular, created a control system. India's control system was "micro economically inefficient and macro economically perverse". The situation was similar in other South Asian Countries also. In most South Asian Countries, planning has always been an important instrument in promoting economic and social development

South Asian economies at the time of independence were predominantly agricultural. Only India had some manufacturing base. In those periods, agriculture was traditional and underdeveloped. A small number of food and cash crops were cultivated for both home consumption and export. The population density was high in most parts of South Asia and by the early 1950s population started to increase at the rate of about 2 per cent per annum. More than 90 per cent people were in rural areas and dependent upon agriculture for their livelihood. Their economic and social well being were linked with both agricultural output and prices. The condition of landless wage labourers was unsafe in the rural areas. Agricultural wages were very low. Even most wage labourers did not earn enough to survive. Government participation in economic and social activities was almost negligible. Educational facilities and health care opportunities were non-existent. Tropical diseases were common and there were regular outbreaks of epidemics of one kind or the other. Child mortality was unusually high. Consequently, the average life expectancy for the rural population was around forty years. For details see Table 6.1

Table 6.1
South Asia: Initial Economic Conditions (as of early 1950s)

Indicators	Bangladesh	India	Pakistan	Sri Lanka
Area (Sq. Kms.)	144.0	3288.0	796.0	66.0
Population (millions)	42.0	361.0	34.0	7.7
Growth rate (%) (1951-61)	2.3	2.0	2.4	2.7
Per-Capita GNP[a]	644.0	247.0	n.a.	n.a.
Sectoral output share (%)				
Agricultural	65.3	55.1	54.6	46.6
Manufacturing	3.8	16.7	7.9	10.9
Others	30.9	28.2	37.5	42.5
Sectoral share in employment (%)				
Agriculture	79.2	n.a.	67.1	59.5
Manufacturing	4.3	n.a.	8.9	7.7
Others	16.5	n.a.	24.0	32.8
Life expectancy (years)	n.a.	32.0	n.a.	47.o[b]
Urbanisation (%)	n.a.	17.3	n.a.	18.0[c]

Source: Sri Lanka: (Athukorala and Huyah, 1987); (Bruton, 1992); and (Robinson, 1989) Bangladesh and Pakistan: (Khan, 1970); (Rahman, 1970); and (Robinson, 1989); India: (Dubey, 1994); (Robinson, 1989); and (Rudra, 1970)

Notes:

a. For Bangladesh, per-capita GNP is in Takka at 1972/73 prices (Khan and Hossain, 1989). For India, per-capita GNP is in rupees at 1949 prices (Mongia, 1985).

b. Male life expectancy at pre-independence

c. 1950-1960

n.a. = not available

For better results, prominent Western economists came forward to work with the development institutes and planning commissions established in South Asian regions. These regions had a great potential of growth due to their established bureaucracies, political parties, transport and communication network, large domestic markets, and considerable natural resources. Strategically also, they were situated at the proximities of the (former) Soviet Union and China – two super-power communist states, which posed a threat to Western capitalism. Western governments did not want South Asia to be influenced by either the Soviet Union or China. Western economists were also sanguine about their ability to lead South Asian countries to economic affluence by giving aid and loans on the lines of a guided capitalist model of development. Many economists considered the South Asian development work as a challenge and a source of high reward in South Asia.

6.2 DEVELOPMENT PLANNING STRATEGIES IN SOUTH ASIA: A RETROSPECT

South Asian political leaders did not give much attention to agriculture. Little efforts were made to adopt the Japanese way of agricultural development. During this period, industrialisation was equated with economic development. It was also considered as an important measure of elimination of poverty. The prevailing intellectuals' views were also against agriculture as the basis of development. Agriculture was viewed as an exploitable source of development. The neglect of agriculture by South Asian leaders was thus consistent with the prevailing misunderstanding of the role of agriculture in economic development. According to Timmer,

> It is easy to see why agriculture was neglected as a source of growth in early strategies of economic development. The historical record shows that it always declines in relative importance in growing economies. It is the home of traditional people, ways, and living standards --- antithesis of what nation builders in developing countries envisioned for their societies. Moreover, agriculture was thought to provide the only source of productivity that could be tapped to fuel the drive for modernisation. Surplus labour, surplus savings, and surplus expenditure to buy the products of urban industry, and even surplus foreign exchange to buy the machines to make them, could be had from an uncomplaining agricultural sector. Nothing more was needed to generate these resources than the promise of jobs in the cities and a shared nationalistic pride in the growing power of the state.

The Indian nationalist leaders were sympathetic towards British Fabians socialism. A socialist strategy of development through industrialisation was adopted which had the support of intellectuals, business community, political leaders. Industrialisation through state participation was considered a necessary condition for rapid and equitable economic growth. Nehru's distrust for free markets and contempt for businesses left little room for development of the private sector.

The strategy of planned industrialisation served the interests of India's so-called "steel-frame" bureaucracy. Despite limited exposure to economic management during pre-independence days, the bureaucracy was confident in its ability to implement national plans for development. The West did not favour India's socialist strategy of economic development. But it accepted the realities and supported India's planned development through foreign aid and loans. The major premises of India's socialist development strategy were:

- Capital accumulation is necessary to achieve a high rate of economic growth. Increased capital accumulation requires an increase in domestic savings. To increase savings, government action is needed to break the low-income, low saving-low investment nexus;
- Industrialisation is essential for achieving rapid growth of both income and employment. Emphasis should be given to the development of heavy and

basic industry that would produce the machines and intermediate inputs required to sustain economic growth;
- An import substitution strategy is to be followed to achieve self-sufficiency in both capital and consumer goods, as there are no bright prospects for a rapid growth of exports;
- The private sector and the market motive are to be viewed with suspicion. The market mechanism cannot be relied upon for industrialisation because it would channel savings into the most profitable industries, which may not necessarily be those with the highest priority (such as heavy industry) and it would lead to high income and consumption by the rich, which would retard the growth of savings;
- The public sector should play the leading role in industrialisation. National development objectives, such as rapid economic growth, full employment and the reduction of economic inequalities, have to be achieved through the public sector; and
- National development objectives are to be achieved within a democratic framework and without recourse to violence by the state.

With time, especially since nineties, the main focus of planning has been on fostering human development, economic space for private sector, agriculture and rural development, with a view to generating productive employment and eradication of poverty.

Pakistan also followed a strategy of economic development through planned industrialisation. However, it was not based on a socialist philosophy. Priority was given for investment in physical infrastructure. Pakistan inherited very little large-scale industry at independence. The availability of domestic raw materials such as jute, cotton, sugar cane, hides and skins, and wool and its demand in the international market were recognised. Policies were geared to give additional stimulus to this pattern of import substitution. Economic growth was the main focus of the development strategy with the belief that the benefits of economic growth would trickle down to the common people.

Pakistan's development strategy was, however, not an undiluted, but a guided capitalism. Market forces were not allowed to operate without the intervention of civil servants. The latter played a key role in economic management, particularly during crises. The Ayub government (1958-1969) used the bureaucracy as a primary organisational weapon to achieve economic and social goals. Unlike India, the government initially allowed a greater role for the private sector, as it did not have an industrial/business class. So, the government provided economic and political support for the creation of industrial entrepreneurs. The feudal landlord class, which dominated the Muslim League during the pre-independence period, did not participate in business activities. However, they joined the army and the bureaucracy. The military and bureaucracy dominated policy-making organs. Patron-client relationship was developed between businessmen and the bureaucracy. This relationship continued until an interlocking system of interests was established among businessmen, landed aristocrats, and the bureaucracy. One of the consequences of bureaucratic controls on the private enterprise system, and the way in which licensing system and controls worked in Pakistan, was the creation of greater inequities in income and wealth.

Sri Lanka opted for export-oriented economy because of the heavy export oriented production activities. And thus strong functional dependence of all the important macro magnitudes of the monetised sector helped in enhancing the fortune from export-oriented trade.

The Sri Lankan government designed economic policies with an explicit concern for equity and social justice. One particular emphasis was the welfare of native Singhalese poor, that was achieved by taxing the relatively modern and highly profitable plantations owned by Europeans. In fact, Sri Lanka has a unique history of commitment to income equality and poverty alleviation. Its origin can be traced to the ancient philosophy of Buddhism. A long period of colonialism also encouraged co-operation and community feelings among the people. The creation of a competitive political system since the early 1930s also forced the political parties to respond to the basic needs of the common people.

The United Nationalist Party formed the first government in Independent Sri Lanka. This government maintained its commitment to equity and social justice. It did not design a strategy of development within a socialist framework. The reasons behind this have been the Korean War time (1950-52); export prosperity, and the tea boom (1954-55). These developed a false sense of security about the viability of the existing system.

In 1956 the Sri Lankan Freedom Party, under the leadership of S.W.R.D. Bandaranaike, came to power. Facing rapid population growth, unemployment, and balance of payments problems, the Bandaranaike government embarked upon an industrialisation programme through import substitution. It used tariffs as the main tool for promotion of import substituting industries. Public sector investment in various industries also rapidly increased.

By early 1960s all South Asian countries had adopted the strategy of development through import substitution. Its popularity was based on deceptively simple ideas of self-sufficiency and a sense of national achievement. The import substituting strategy of industrialisation was initially successful in South Asia. Under regulation, control, and protection, the manufacturing sector had an impressive growth. However, over the time, the inherent weaknesses of this strategy appeared on the surface.

In India, the system was based on discretionary administrative decisions on a case-by-case basis, the regulatory regime has been complex, and the procedures for implementation were cumbersome, leading to long delays and wastage. The system became a deterrent to competition and promoted inefficiency by creating innumerable barriers to entry. The policy regime has led to a fragmentation of capacity and operationalising of plants of less than optimal size in many industries. It has resulted in a large growth of rent seeking and directly unproductive activities as well as pervasive bureaucratic and political corruption. The system resulted in excessive centralisation of economic decisions with the central government at the expense of the state and local governments and stifled local and regional initiative and responsibility, adding to inefficiency and wastage of resources.

In Pakistan, the effects of industrial and trade controls of both economic performance and the society and polity were worse. It created administrative inefficiency and inflexibility; generated uncertainty in economic decision-making; discriminated in favour of import substitution vis-à-vis export promotion. It also restricted competition, both foreign and domestic and hence removed the incentives to reduce production costs. It prevented production from being concentrated in the efficient units putting the industries in a disadvantaged position, This aggravated inequalities among sectors and accentuated the unequal income distribution within rural and urban areas, and inhibited the diffusion of wealth and income and contributed to the inequality of income, An authoritarian

government was established in which political power was shared by big landlords, army, and the bureaucracy.
The Sri Lankan manufacturing sector was also beset with problems. Public sector industries that constituted 40 per cent of industrial production, faced problems like built-in weaknesses from inception owing to haphazard planning, unrealistic pricing policies, lack of disciplined and motivated labour force, poor calibre of managerial personnel, and political interference.

In sum, although the manufacturing sector in South Asia grew rapidly during the first phase of import substitution, it never became dynamic, generated invest able resources, or created large employment. It relied heavily on government subsidies and tariff protection and over the time created vested interest groups. Whatever social objectives were behind this development strategy these remained unrealised and they stifled economic growth.

The period of 1950s and 1960s has been a period of sustained economic growth for industrialised countries. Their rates of unemployment and inflation were low. As a result, there was no strong pressure for protectionist trade measures. The intense cold war politics also influenced Western countries to respond favourably to the interests of developing countries through policies linked with foreign aid and investment. Although they received some foreign aid, South Asian countries missed the opportunities of international trade and investment for economic growth as their economies were more or less closed.

6.3 DEVELOPMENT PLANNING AND PERFORMANCE IN SOUTH ASIA

The first development plan of Pakistan government was a six-year plan that came into operation in 1957 and was implemented through annual development programmes. The projected expenditure targets were largely fulfilled except agriculture. The second plan proved to be exceptionally successful. GNP grew at an average annual rate of 5.5 per cent instead of target rate of 4.7 per cent compared with the 1.3 per cent achieved during the first plan period. The manufacturing sector expanded by 40 per cent a year.

The third plan (1965-1970) was introduced as the first five-year stage of 20-year plan. The main thrust of this plan was to quadruple the national product and to increase income per head from about $83 U.S. in 1965 to $200 U.S. in 1985, to achieve parity in income between East and West Pakistan, to eliminate the dependence on foreign aid, to provide full employment, and achieve literacy. But war with India in 1965, fallout in foreign aid, setbacks in agriculture and the socio-political unrest made the third plan phase a period of disappointment. The problems and imbalances that emerged during the third plan determined the guidelines for the fourth plan (1970-75).

The major objective of the government policies during 1950-60 was to promote economic growth without inflation with the understanding that price stability was essential for orderly economic growth. The inflation was relatively low. The agricultural prices fluctuated wildly and manufacturing prices were stable.

Pakistan was facing the problem of balance of payments since the mid 1950s. It originated from domestic and external shocks as well as domestic economic policies. On the domestic front, rapid monetary expansion and food shortage (due to crop failure) and, on the external front, deteriorating terms of trade were the major causes for balance of payments deficits. Persistently overvalued currency and the loss of the Indian raw jute market were also the main factors. The impact of the loss of raw jute export to India was not fully felt in Pakistan until the Korean War boom was over. During the Korean War there was an unprecedented increase in the export earnings of jute, partly due to improvement in the terms of trade, which not only nullified the effects of reduced trade with India but also created a surplus in the balance of payments of Pakistan. With this windfall gain in the external sector, a liberal import policy was adopted. However, the post-Korean war recession substantially reduced Pakistan's export earnings. Both export volume and export prices fell sharply from their peaks and the balance of payments surplus turned into deficit. In order to improve the balance of payments position, instead of exchange rate adjustment, stringent import control measures were undertaken. Several export promotion policies were also adopted.

Despite these measures, the balance of payments situation did not improve significantly. In 1955, the government devalued the currency by 33.5 per cent. This, however, failed to increase export earnings during the second half of the 1950s. One major reason for the lack of response in export earnings was the agricultural stagnation and the increased absorption of agricultural raw materials by domestic industries, which reduced the volume of agricultural exports. Also, manufacturing exports did not increase because not many exportable goods were available due to an excess demand situation in the economy, caused by large-scale monetisation of budget deficits. In the face of lower export earnings and rising imports (mainly due to acute food shortages), the government's response was to introduce wide-ranging controls on imports, foreign exchange, domestic production, and its prices. The Ayub government, which came to power in October 1958, adopted various export promotion policies and also liberalised imports. With the introduction of various liberalisation policies, and as a result of increased food production, the balance of payments position improved and remained in better shape until the mid 1960s. During the second half of the 1960s the economic environment deteriorated on several fronts: the outbreak of the Indo-Pakistan war in 1965; consecutive years of bad harvests in 1966 and 1967; and the slowing down of foreign assistance. The war and its aftermath created a condition of foreign resource stringency, which compelled the government to lower the imports of raw materials for both agricultural and manufacturing production; the development strategy was reoriented and priority was given to agricultural investment and growth.

Mr. Z.A. Bhutto of the Pakistan People's Party came to regime following the break-up of Pakistan in 1971. Bhutto government upturned many of the policies undertaken by the Ayub government during the 1960s. The Ayub government's macroeconomic policies were conservative in nature, whereas the macroeconomic policies of the Bhutto government were populist and had a socialist orientation. It increased social outlays and nationalised industries, banks, and insurance companies. These policies were undertaken at a time when the Pakistan economy suffered from the oil-shock and subsequent world recession. As a result, there was a host of macroeconomic problems viz., fiscal crisis, high inflation, low growth, and balance of payments difficulties.

The Zia government, which came into power in 1977, confronted the fiscal crisis during the 1978-79 budget and approached the IMF for conditional loans. It signed a Trust Fund Loan for 1979-80 and negotiated a three-year Extended Fund Facility in the following year. The IMF offered another structural adjustment loan in 1983-84, but, due to its strict conditionality, the government rejected it and negotiated a series of sectoral loans with the World Bank. Following the death of Zia-ul-Haq in a plane crash in 1988, the Pakistan People's Party under Benazir Bhutto came to power. In another military coup General Musharraf had taken over and pursued IMF-World Bank structural-adjustment programs.

Pakistan's economic growth performance during the 1980s was impressive. However, as the government was unable to reduce fiscal deficits, inflation and current account deficits remained relatively high. The contribution of structural adjustment policies to Pakistan's improved growth is a debatable issue.

A number of other factors, such as large-scale inflows of remittances of overseas workers, foreign aid, and the Afghan crisis, contributed to rapid growth of the Pakistani economy. Along with economic growth, the incidence of rural poverty in Pakistan has fallen sharply. It was the result of three interrelated factors. First, there was large-scale migration of labour from the rural areas of Pakistan to the Gulf countries. Second, there was rapid expansion of non-farm activities due to demand generated by remittances from the Gulf countries. Third, the rural wage rate increased due to the migration of labour from the rural to the urban areas.

Every effort will have to be made to increase earnings from traditional exports, such as cotton. At the same time new exports will have to be developed if the country is to maintain its share of world trade. After export earnings, foreign aid is the most important component of balance of payments.

India

The Planning Commission in India was set up in 1950 to prepare the blueprint of development taking into account the needs and resources of the country. The First Plan (1951-56) having a total outlay of Rs. 2378 crore was a rather haphazard venture because the commission had no reliable statistics to work upon. It emphasised on agriculture, irrigation, power and transport so that a rapid industrial expansion could be given.

The Second Plan (1956-61) was a big leap forward. It gave importance to heavy industries. For this purpose industrial policy resolution was amended. Private sector was left to handle consumer industries. Agriculture and small-scale industries remained sluggish.

The Third Plan (1961-66) aimed at establishing a self-sustaining economy. The Plan had to rely on heavy foreign aid. After the third Plan went awry, the annual plans continued from 1966-1969.

The main objective of the Fourth Plan (1969-74) was `growth with stability'. Agricultural growth was expected to increase at a rate of 5 per cent per annum. The per capita income was also expected to increase at the rate of 3 per cent.

The Fifth Plan (1974-79) attempted to coordinate various sectors of the economy in terms of the new slogan Garibi Hatao (removal of poverty). Meanwhile, this slogan had become obsolete. The new Janata Government reconstituted the Planning Commission and changed the strategy to Growth for Social Justice.

The Sixth Plan (1980-81-1984-85) was formulated after taking into account the achievements and shortcomings of the past three decades of planning. The actual expenditure stood at Rs. 109,291.7 crore (current price) as against the envisaged total public sector outlay of Rs. 97,500 crore.
The Seventh Plan (1985-90) envisaged an aggregate outlay of Rs. 348,148 crore with a public sector outlay of Rs. 180,000 crore. The final year of the Plan saw the growth of national income by 4 per cent largely contributed by the secondary (manufacturing) and services sector.

The focus of Eighth Plan (1992-97) has been on human development. It also emphasised on large economic space for the private sector and physical and social infrastructure development by the public sector, allowing simultaneously for private sector participation. The plan proposes a growth rate of 5.6 Per cent per annum on the average during the plan period.

The Ninth Plan (1997-2002) objectives were to give priority to agriculture and rural development with a view to generating productive employment and eradiation of poverty; ensure food and nutritional security to the vulnerable sections of the society; providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter; contain the growth rate of population; empowerment of women and socially disadvantaged groups; promote and develop Panchayati Raj Institutions, cooperatives; strengthening efforts for self reliance.

The Indian economy grew at the rate of about 4 per cent per annum during the period 1950-1970. This growth of the economy has been mainly from the manufacturing sector; the agricultural growth rate was roughly around 2 per cent per annum. The Indian inflation experience was similar to Pakistan. The rate of inflation was low. The government clamped down whenever inflation threatened to get out of hand. By restricting budget deficits, the growth rate of money supply was kept low.

In the external sector, India experienced balance of payments difficulties throughout the 1950s and 1960s. Indian policymakers were always pessimistic about exports. This pessimism was self-fulfilling; in the sense that high export taxes and low investment in the export sector kept exports low. In 1957, India experienced its first balance of payments crisis. In response, the authorities reactivated and intensified the import controls of the 1940s. They "introduced a comprehensive import licensing system, which was based on the notorious indigenous clearance rule that effectively imposed an automatic quota to any imports for which there were domestic substitutes" Stringent controls were also imposed on private capital movements. The exchange rate regime though was adjustable in theory, in practice it operated as a fixed exchange rate system. As a consequence of relatively high inflation in the 1960s, the real exchange rate of the Indian rupee appreciated, which lowered exports. In response," the import control system was tightened to a point where the domestic industry was starved of essential inputs"

Following the introduction of a number of anti-inflationary measures, inflation halted abruptly by the end of 1974. It was very low for the period 1975-1977. Current account deficits were financed by increased foreign aid and by withdrawal of IMF unconditional and low conditional facilities. The large-scale remittances of overseas workers and a sharp devaluation of Indian rupee against the pound sterling also eased India's balance of payments difficulties.

In the midst of macroeconomic crisis, the popularity of the Indira Gandhi government nose-dived. Strikes and riots became rampant and a situation of political crisis developed. The government proclaimed a national emergency during June 1975 to March 1977. The emergency rule became unpopular and the government paid a political price for it. The Janata Party government, which was formed in 1977 under the leadership of Morarjee Desai, was unstable and faction-ridden. In 1979, the second oil-shock and a drought hit the Indian economy. This created inflation and balance of payments problems. In the midst of economic problems, Indira Gandhi returned to power in the 1980 general elections.

In 1980 India drew SDR 530 million from the IMF's Trust Fund and SDR 266 million from the Compensatory Financing Facility. It also negotiated with the IMF for a large extended loan under conditionality. In November 1981 a loan of SDR 5 billion was approved. By May 1984, India withdrew SDR 3.9 billion and terminated the programme. Despite these borrowings from the IMF, the government did not make any effort to reduce budget deficits or to improve the current account position through any depreciation of the exchange rate of rupee. With the slowing down of workers' remittances from the Gulf countries, the government resorted to commercial borrowing on a large scale for financing both current account and budget deficits.

The Rajiv Gandhi government, which came to power in 1984, deviated from the past ideology-oriented economic policies. It intended to modernise the Indian economy by dismantling the license-permit raj. However, the initial enthusiasm for deregulation of the economy gradually waned as he encountered political constraints and experienced political setbacks. Nevertheless, a number of deregulatory measures were undertaken during the period 1985-1989. They included industrial deregulation, import deregulation, exchange rate flexibility, financial deregulation, and other tax reform measures.

The turning point for Indian economy was July 1991 when the country faced a crisis. There was a large government debt, spiralling inflation, and international reserves that had dwindled to the value of just a few weeks' imports. The government approached the IMF for assistance, and this was granted subject to the country adopting an austerity program.

The government launched a comprehensive economic stabilisation and reform programme with the objectives of reducing macroeconomic imbalances, transforming the country into an internationally competitive and market-oriented open economy, encouraging private sector development, and increasing efficiency in public enterprises. Industrial sector reforms included reductions in both the number of sectors reserved for public investment and which were opened to private investment, domestic and foreign, that required prior government approval, the facilitation of foreign investment, and the amendment of the anti-trust legislation. In the external sector, costly export subsidy schemes have been eliminated, tariff rates have been significantly lowered, import-licensing restrictions on imports of capital goods have been removed, the exchange rates have been unified, and the restrictions on both current and capital account foreign currency transactions have been removed. In the financial sector, capital and money markets have been liberalised and new money market instruments have been introduced, prudential regulations that meet international standards have been introduced, barriers to private sector entry have been removed, interest rates on deposits and loans have been partially deregulated, nationalised banks have been recapitalised, and decisions have been made not to monetise fiscal deficits. In the fiscal sector, taxes on corporate income have been lowered, excise taxes have been simplified, coverage of value added taxes has been widened, and tax administration has been improved. In the public sector, the government has adopted a three-pronged strategy for reforming public enterprises – the reduction in budgetary support, the elimination of barriers to entry and monopoly privileges by public enterprises, and a reduction in tariff rates – to promote a competitive environment for public enterprises. The response of the economy to structural reforms has been generally positive. The economic growth rate increased from 2 per cent in 1992 to 4 per cent in both 1993 and 1994 and henceforth to more than 5 per cent.

Sri Lanka

The Sri Lankan government liberalised the economy greatly through macro-economic reforms. It decided not to prepare the conventional medium type plans and instead confined itself to the preparation of a Public Investment Programme (PIP), which provided the framework for the government capital budget. This was prepared in the form of a rolling five-year programme, which was formulated annually and presented with the government budget.

The absence of a comprehensive plan framework had an adverse impact on the decision-making processes and choice of investments in the public sector. This has resulted in wasteful expenditure on large-scale investments such as the high cost building construction programme, and other projects.

The policy framework has been carefully elaborated and used for policy formulation and implementation as well as the review of progress. In the later half of the 1980s, detailed policy matrices were evolved in consultation with the international lending institutions. These indicated specific measures and targets for implementation over a three-year period, with an annual revision of the matrix in the line with the rolling PIP. For the period 1988-90 and 1989-92, they covered the simplification and reduction of tax rate structure; abolition or reduction of export taxes, reduction and elimination of consumer and producer subsidies, improvement of Treasury Bill auction and the gradual removal of the Central Bank from tendering; introduction of a four band tariff system and lowering of the maximum rate to 50 per cent etc. They contained a host of other similar policy measures.

This framework subsequently became the basis for negotiating the conditions for continued international support and aid. It is conceived as the policy framework for the medium term management of the economy in order to achieve the needed growth and employment creation.

In the beginning of 1990s, the economy was showing clear signs of recovery to a higher rate of growth. The management of both the balance of payments and government budget were well within the parameters. The liberalisation processes were systematically extended through privatisation, removal of subsidies and the deregulation of the residual areas; the allocation of resources through the market was becoming the norm. The scope for increasing productivity in various sectors of the economy through more sufficient use of land and other existing capacity was substantial.

The military conflict in the North and East showed no sign of abatement. The high level of expenditure on security had to be maintained. The low growth during the second half of the 1980s had raised unemployment to about 18 per cent of the workforce. The economy continued to be heavily dependent on aid and external resource flows, which financed about one, half the investment.

Sri Lanka's economic performance was more or less similar to Pakistan and India. The rapid shift towards a market economy was accompanied by the removal of some of the subsidies provided to low-income households. It introduced and continued with comprehensive social welfare programs by taxing the plantation export sector. Food subsidies were politically popular and the competitive nature of politics did not allow the political parties to withdraw such subsidies without a political backlash. Overtime, the plantation sector stagnated because of high taxation and the overvalued exchange rate.

As a result of stagnation in export earnings, the government failed to raise adequate revenues to finance subsidies. Instead of reducing subsidies, for political reasons, the government resorted to large budget deficits that kept the inflation rate (calculated from open market, rather than controlled prices) high.

The main elements of macroeconomic policy in Sri Lanka during the 1950s and 1960s were an emphasis on import substitution in agriculture and industry with a high degree of protection, the reliance on regulatory mechanisms and controls for economic management, the promotion of a large scale enterprise sector covering industry, trade, transport, banking and insurance, the implementation of social welfare policies which expanded the free state services in health and education and subsequently a free food rationing scheme for the entire population, and pricing policies and state subsidies designed to keep the prices of essential goods at relatively low levels. In a competitive political system, the industrial and social policies of two major political parties became similar.

By the late 1960s, Sri Lanka experienced serious macroeconomic imbalances. The economic growth rate slowed down to less than 3 per cent per annum and the unemployment rate increased to about 20 per cent. A large and inefficient public sector stifled the growth of private enterprises and the comprehensive social welfare program placed a heavy burden on the government budget. As the social welfare program became a permanent political commitment, no political party was willing to make any changes in it.

Over the past decade or so the Sri Lankan economy has been transformed from a highly regulated to moderately open, market-oriented economy without serious structural adjustment costs. The sphere of private sector activities has expanded. The political system has been changing from self-defeating social-welfare oriented politics to the politics of economic growth and stability with social equity and justice. The reform process has however been slow due to civil strife in the country.

To deal with the problems of unemployment, poverty and malnutrition, Sri Lanka should move rapidly to a higher dynamic equilibrium of economic development. The acceptable level of target that is 6 per cent will certainly clear the backlog of unemployed. This is a formidable task, which needs an annual growth of 7-8 per cent. Sri Lanka's economic growth is 7 to 8 per cent. The increase in output to support this high growth must come from agriculture, export oriented manufacturing, and fisheries, which would include, offshore and deep-sea fisheries. There is scope for increasing the productivity of the existing agricultural land both in the plantation and non-plantation sector. The potential for increasing cropping intensity through more efficient use of water and crop in the small holding sector is high. A substantial extent of under-utilised untreatable land in the dry zone can be brought under high yielding free crops. The large plantation sector under coconut has approximately 75 per cent of the land available for intercropping with a wide range of crop including horticulture crops, legumes, tubes, coffee and floriculture. In manufacturing, several growth industries have been identified for export development. These include gems, jewellery, textiles and garments, light engineering products, rubber based industries and agro-based industries. Though Sri Lanka has limited natural base, its industrialisation policy would have to utilise the educated labour force and relatively well developed infrastructure.

Bangladesh

The Planning Commission is responsible for formulating the development strategy through the multi year development plans and for translating this into a public investment programme through Annual Development Programme. It also ensures that public programmes and policies are in conformity with that strategy through its project approval process by the two highest economic-decision making bodies - the National Economic Council (NEC) and its Executive Committee (EC). Since its creation in January 1972, the Planning Commission's positions, functions, organisation structure, and staff composition changed significantly, as the country has moved towards centralised planning.

Throughout the 1980s, Bangladesh obtained structural-adjustment loans under conditionality from the IMF and the World Bank. In December 1980, it obtained a loan from the IMF under the Extended Fund Facility. However, after only six months the loan contract was revoked on the grounds that the Bangladesh government had failed to keep its borrowing from the banking system within a predetermined limit. The adjustment programme was reinstated in 1982-83 and supported by a new stand-by arrangement. In 1985-86 the Bangladesh government adopted a comprehensive programme of economic adjustment (IMF 1989). The programme was supported by a one-year stand-by arrangement from the Fund. As the IMF recognised that structural imbalances in Bangladesh needed to be rectified through medium-term policies, the stand-by arrangement was followed by a three-year arrangement under the IMF's structural-adjustment facility. When in September 1988, severe floods hit Bangladesh; the IMF provided an emergency assistance of SDR 72 million, so that, despite the setback, Bangladesh could continue with structural reforms. After the expiry of structural adjustment facility in June 1989, Bangladesh again contracted another three-year loan under the extended structural-adjustment facility of the IMF. It covered the period between 1990/91 and 1992/93. Bangladesh was thus practically under the IMF structural adjustment programmes throughout the 1980s.

Given the weak condition of the Bangladesh economy, the primary aims and objectives of all structural adjustment programs were to mobilise domestic resources and liberalise the economy with a view to raising economic growth, creating employment, lowering inflation, and containing fiscal and current account deficits. As Bangladesh remains politically divided, there was no broad political consensus on structural adjustment. Therefore, the government was not so committed to undertake such comprehensive structural adjustment measures that might have created a political backlash. In the absence of comprehensive and determined structural adjustment programme, the fundamental structure of the economy has remained unchanged. However, in a broad sense the performance of the economy during structural adjustment was better than it was prior to adjustment.

Two major macroeconomic problems – inflation and trade deficits – have been under control since the early 1990s. Although this control was achieved through restrictive monetary and fiscal policies, the growth rate of the economy did not fall, but remained at a steady level of about 4 per cent per annum during the past decade. This increased the levels of per-capita income and consumption and contributed to the decline in the incidence of poverty in both the rural and urban areas. However, contrary to expectations, structural adjustment did not increase the rates of domestic saving and private investment much. The domestic saving rate has only marginally increased from a low level, while the private investment rate has decreased. Changes in investment and industrial policies of the government could not attract foreign investment. The government has remained dependent on foreign aid and loans for investment. The fiscal sector reforms were a major disappointment. The marginal reduction in fiscal deficits came through a reduction in capital expenditure instead of current expenditure. There has been no major improvement in the performance of public sector enterprises. The nationalised commercial banks and other specialised banks and financial institutions have remained in distress.

With the growth in size and complexity of the public expenditure programme and the continuous need to ensure that economic policies are competent with the expenditure programme, a strong and well-staffed Planning Commission is much needed. More time needs to be given on formulation and monitoring of developed strategies and for broader policy matters. Issues such as constituting Ministry of Planning, broadening the Planning Commission Review and reviewing technical assistance projects, need to be addressed.

6.4 ACTIVITY

1. What, do you think, are the key problems coming in the way of development planning in your country?
2. In the present changing scenario do you observe any diminishing role of the development planning. Give reasons.

6.5 CONCLUSION

South Asia, for the past one decade, is emerging as the second fastest growing region in the world with an annual growth rate of 5.31. Despite this, it remains one of the poorest regions as it contributes to 40% of the world's poor.

The development framework it adopted initially was based on the premise that rapid growth could take place through central planning and control of the economy as a 'top down' process. Also the development planning has been indicative planning in nature. It focused more on achievement of targets with general policy directions. The private sector started playing a key role in many of the South Asian economies. The changing scenario gave way to reduction of tariffs, removal of trade barriers, dismantling restrictions on domestic and foreign private sector investment. This does not in any way imply reduced role for government and development planning. What basically is needed is to bring suitable modifications in the planning process, institutional set up in tune with the changing political, economic developments.

6.6 REFERENCES AND FURTHER READINGS

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