

East Asian financial crisis rocking India

Future of BJP-led government again in doubt

Keith Jones
27 June 1998

India's financial markets have been caught in the vortex of the east Asian economic meltdown. Earlier this week the Indian rupee fell to all-time lows against the US dollar and the British pound. At the same time, a downward slide over several weeks in Indian stock values turned into a rout. India's most important stock index, the Bombay Stock Exchange's Sensitive Index, lost more than 9 percent of its value in a week and a half of trading, before rebounding 3.5 percent on June 24.

Two factors combined to accelerate the financial crisis. On June 18 US trade sanctions imposed in response to Indian nuclear tests took effect, and the international credit rating agency Moody's downgraded Indian bonds to the status of speculative, or "junk," bonds.

Hitherto, India had felt little fallout from the east Asian crisis because it is less dependent on foreign trade and foreign investment and has yet to introduce full convertibility of its currency. The potential long-term consequences of the crisis are devastating, however. The Indian bourgeoisie has banked its future on imitating the east Asian model of capitalist development, but the Asian meltdown threatens to drastically curtail international investment, while the devaluation of the east Asian currencies is placing pressure on Indian exporters of textiles and other labor-intensive manufactures.

Many analysts say that the decline in the value of the east Asian currencies made a depreciation of the rupee inevitable. But while cheapening the cost of Indian exports, devaluation increases the cost of retooling India's antiquated industry and infrastructure and of raising desperately needed foreign capital.

The darkening economic picture is intensifying the crisis of India's three-month-old government. A coalition of more than a dozen parties under the leadership of the Bharatiya Janata Party (Indian People's Party), the government of Atal Vajpayee has only a paper-thin majority in India's Parliament.

Shaken by the financial crisis, Indian industrialists this

week urged the BJP-led government to immediately come out with some "big bang" policy announcement to reassure investors. They want the government to press ahead with privatization, the slashing of price subsidies and cuts in social spending, so that taxes can be lowered and state funds used to finance infrastructure projects that facilitate commercial development. Such steps can only intensify popular discontent and increase frictions within the ruling coalition.

The Hindu-chauvinist BJP has tried to strengthen its hold on power by stoking up chauvinism through its nuclear tests, denunciations of Pakistan and support for the erection of a Hindu temple on the site of a mosque in Ayodhya that BJP supporters razed in 1992. Meanwhile, Home Minister L.K. Advani has seized on the June 19 massacre of 26 Hindu villagers by Kashmir separatists to once again threaten the dispatch of Indian troops to the Pakistani-held part of the former princely-state of Jammu and Kashmir--an action Pakistan has indicated it would consider a declaration of war.

It is in the very nature of an extreme right-wing petty-bourgeois political formation like the BJP that its politics are characterized by adventurism and recklessness. While the BJP did to a certain extent succeed in using the nuclear tests to whip up nationalism, its statements on Ayodhya have caused considerable tension within the ruling coalition. Moreover, its attempts to appease its communal followers and at the same time retain the support of its coalition partners have led to the government and the BJP at times making contradictory statements, thus undermining the authority of Prime Minister Vajpayee.

Moody's justified its decision to downgrade India's credit rating by citing its chronic political instability. This instability is the expression within the political system of a profound social crisis. The Indian bourgeoisie's national strategy of development has ended in failure. Its attempts to strengthen its economic position by opening India to

imperialist exploitation can only mean an intensification of the exploitation and suffering of the Indian masses.

The ruling class's concern over the BJP-led government's capacity to press ahead with the restructuring of India's economy is reflected in a shift in the attitude of the Congress Party, its oldest political formation, toward the Vajpayee government. After the recent general election, the Congress indicated it would not stand in the way of the BJP forming the government.

But following a meeting of the Congress Working Committee last weekend, the Congress leadership signaled it is now prepared to forge an alternative coalition. Thereafter, one of the key components of the United Front--the coalition of regional and Stalinist parties that ruled India from 1996 until last March--quit to form a new, "pro-secular" front with a Congress Party ally.

With departure of the Samajwadi (Socialist) Party, the United Front has effectively been marginalized. Of its remaining constituents, only the two Stalinist parties, the Communist Party of India and the Communist Party of India (Marxist), and two regional parties from the state of Tamilnad have a significant following and legislative clout.

The Stalinists have repeatedly indicated their readiness to support a right-wing, Congress-led coalition. Although the Congress has often exploited communal and caste tensions--a key Congress spokesman reiterated this week that his party is not opposed to erecting a Hindu temple on the contested Ayodhya site--the Stalinists laud the Congress as a defender of India's "secular state." Meanwhile, of all the parties in the recent elections, the Congress presented the program most closely tailored to the needs of international capital.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact