What big business expects of India's new government

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During the recent election campaign, both the contenders for power—the victorious National Democratic Alliance (NDA) and the Congress (I)—pledged to initiate a "second wave of economic reforms". These pledges came in response to complaints from both domestic and foreign big business that the adoption of "investor" friendly policies has slowed since the mid-1990s. A second wave of reforms is necessary, they argue, if India is to complete the process, initiated under the 1991 "new economic policy", of dismantling India's nationally protected economy and making export-led growth the pivot of economic development.

The National Council of the Confederation of Indian Industry is to meet Friday to finalise its "wish list" for the incoming NDA government. However, Indian and foreign business leaders and newspaper editorialists have already outlined demands for numerous legislative, regulatory and policy changes and many of these found their way into the election manifestos of the NDA and Congress (I). State expenditure must be reduced and redirected from price subsidies and social programs to infrastructure. The sell-off of public sector enterprises must be greatly accelerated and virtually all barriers to private and foreign ownership of key sectors of the economy, including restrictions on agribusiness and land ownership, removed.

On September 23, the Confederation of Indian Industry (CII) issued a seven-point agenda, stipulating what the next government must do to more than double annual Foreign Direct Investment (FDI) and fulfil the $10 billion per year FDI target set in both the NDA and Congress (I) election manifestos.

The CII called for the Foreign Investment Implementation Authority to be given executive powers, noting that less than a third of federally-approved inflows are actually realised, because of post-approval clearance hurdles and the lack of co-ordination among the various federal regulatory agencies and with the states.

Another major CII demand is for reform of India's labour laws to promote "flexibility of employment practices", a code phrase for the abolition of restrictions on plant closures and the firing and layoff of workers.

Privatisation is promoted by big business as a means of both reducing the government's burgeoning budget deficit and inducing foreign investments and the transfer of technology to India.

The proposed changes to the labour laws and the wholesale sell-off of public sector units will mean massive job cuts. Fearing a confrontation with the working class, previous governments have failed to heed the demands of the CII and other employer groups for action in these areas. In December 1998, some 20 million Indian workers participated in a one-day general strike against privatisation. But the incoming NDA government has promised action on both fronts.

No less politically explosive is the demand for the scrapping of price subsidies. This too has been a long-standing demand of big business, but increasingly it is being termed the most important test of the government's willingness to implement major changes in the face of popular opposition.

The *Hindu* recently carried an article entitled "Who will grasp the nettle?" that argued that neither the government's fiscal crisis nor big business's demand for increased state expenditure on transport, telecommunications and energy projects can be addressed unless subsidies are dramatically slashed. For two decades, complained *Hindu* commentator Prem Shankar Jha, "India's bureaucracy has been shirking" this "challenge", thus engendering "a fatalistic acceptance of the status quo".

Jha urged that "the present system of subsidised pricing [for food and fertilisers] and cross-subsidisation for electricity and kerosene" be replaced "with a single market price that is charged from all users". To counter the argument that such a change will place tremendous pressure on the 350 million Indians living below the poverty level (which is defined as the income needed to obtain sufficient food to properly support a full day's labour), Jha pointed to the corruption and gross inequalities in the current system. Food, said Jha, is "regularly siphoned off" from the Public Distribution System into "the free market" and food grains and kerosene are "smuggled across the border" into Bangladesh and Nepal.

These facts are known to many Indians. Not only is the price subsidy program rife with corruption; its benefits flow largely to the better-off, to the employed city dwellers and to farmers having the means to buy fertiliser and agricultural machinery and to electrify their homes.

But the past decade of market "reforms" in India has provided no proof any benefits will trickle down to the poor. On the contrary, a recent World Bank study found "the rate of poverty reduction has slowed dramatically in the Nineties, particularly in rural areas".

Indian big business's push for a "second wave of reforms" is driven by concerns over the relatively small amount of FDI attracted to India. During the 1990s, China, a county of commensurate size, has annually attracted about 10 times more FDI than India. According to the *World Investment Report 1999*, India was just the sixth largest Asian recipient of FDI in 1998. Moreover, India's 1998 FDI total of $2.25 billion represented a 40 percent decline from its 1997 total of $3.73 billion.

Political instability has apparently caused the situation to worsen during the current year. Whereas in March the monthly FDI inflow was $804 million, in June, after the fall of the BJP-led coalition government and at a time when India was engaged in a military confrontation with Pakistan in Kashmir, the FDI inflow was just $198 million.

India's tiny share of world trade—0.7 percent—is a further indication of its marginal role in the world economy.

Fearing that it is losing out in the struggle for markets and profits, Indian big business is emphatic that the new government must press forward with fundamental, "pro-investor" economic change.

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