

Indian government to accelerate pro-investor "reform" with Congress backing

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Two hundred thousand workers in India's insurance industry staged a one-day strike last Thursday to protest the imminent adoption of legislation that opens the industry to privatisation and foreign investment. "The intention of the government is clear," explained the General Secretary of the All India Life Insurance Corporation Employees Federation. "They first want to open up the sector, privatise the state-run Life Insurance Corp. and General Insurance Corp., and then go in for massive job cuts."

Even as the strike was unfolding, India's largest opposition party, the Congress, was joining hands with the ruling coalition, the National Democratic Alliance (NDA), to pass the Insurance Regulatory and Development Authority (IRDA) bill in the Lok Sabha, the lower house of India's parliament. While the NDA has a comfortable majority in the Lok Sabha, it needs the support of the Congress if the insurance bill is to become law, because it does not have a majority in the upper house of India's Parliament.

Sections of the Congress had argued that the party could make political gains if it ignored its own election commitments to support "reform" of the insurance sector and opposed the IRDA bill. But party leader Sonia Gandhi insisted that in return for a few minor amendments the Congress should support the bill, whose passage has been a longstanding demand of foreign investors and Indian big business.

According to the *Wall Street Journal*, a large number of multinational companies, including Metropolitan Life Insurance, American International Group and Cigna Corp., have been waiting for the abolition of the four-decades-old state monopoly on insurance since it was first proposed by a Congress government six years ago. Many have already lined up prospective Indian partners to take advantage of the IRDA bill's provision

for 26 percent foreign participation in joint insurance industry ventures.

"But," adds the *Journal*, "the bill's importance transcends the billions of dollars in investment that the liberalized insurance industry is expected to trigger." Insurance sector reform "had become a litmus test of India's commitment to free market policies. Though the bill's eventual passage was expected, [the] broad bipartisan support ... confirmed the growing consensus on the economy which is needed to restore momentum to the reform process."

The key component of the NDA, the Hindu-chauvinist Bharatiya Janata Party (BJP), itself did a flip-flop on the issue of insurance sector reform. Although the BJP came to political prominence in the late 1980s in large part because it articulated the demands of Indian big business and sections of the upper middle class for the abandonment of India's traditional national economic strategy, in the mid-1990s, when it was in opposition, it sought to appeal to popular anger over privatisation by blocking a previous attempt to restructure India's insurance sector.

Both the BJP and its arch-rival the Congress have since come under increasing pressure from Indian big business and foreign investors to subordinate their jockeying for political advantage to the need to press ahead with "pro-investor" reforms—specifically, changes to labour legislation, privatisation, and the slashing of price subsidies and social spending so as to boost state expenditure on transport, telecommunications and power generation infrastructure.

In the run-up to the current parliamentary session the top leadership of both the BJP and Congress sought to reassure big business they had gotten the message.

Addressing the annual general meeting of the

Federation of Indian Chambers of Commerce and Industry (FICCI) last month, Prime Minister and BJP leader Atal Behari Vajpayee vowed that his government would implement a “second generation” of economic reforms.

“We have shown our commitment to the reforms process in our previous 17-month stint in office. We will accelerate and expand the process in the next phase of economic, legal and administrative reforms. Financial sector reforms, with the necessary supportive legislative changes, will be an important element of this process.” Vajpayee said his government would soon present legislation to restructure the telecommunications sector and would take action to ensure that infrastructure projects would be subjected to detailed completion targets. He also hinted that investors would be provided greater opportunities to participate in the financing and managing of the projects themselves.

In a question and answer session at the FICCI conference, Finance Minister Yaswanth Sinha said the government would heed the industrialists' call for lower interest rates and for tax cuts. Meanwhile, Minister of State for Labour Munni Lal has vowed that the government will soon amend labour laws so as to make it easier for employers to lay off and fire workers. He said the NDA government is only waiting for the recommendations of the second National Commission on Labour to draft legislation. “There is an urgent and imperative need for bringing about necessary changes in labour laws to make them relevant to emerging new forces and challenges in the labour market.”

In her address to the FICCI, Sonia Gandhi pledged her party's support for the government in implementing its pledge for faster “economic reforms”. Specifying some sectors that need urgent attention, the Congress leader said: “Further reforms in banking, capital market and insurance sectors are necessary to enhance the capability of our financial system.” Gandhi said that the Congress will provide only “constructive and responsible” opposition, but added that the “onus of crafting a consensus lies with the government of the day”. This is clearly a call for the government to drop both its attempts to implicate her dead husband, Rajiv Gandhi, in the Bofors arms purchase scandal, and to abandon its plans to terminate her own political ambitions by legally barring foreign-born Indian

citizens from holding high office.

Gandhi's speech to the FICCI was enthusiastically welcomed by big business. Said one industrialist, “We weren't expecting this from her. This assurance gives us the confidence that pending Bills will get cleared in the next session of parliament with consensus.” Vajpayee was also quick to react. He asked Gandhi to nominate a Congress representative to join the Indian delegation to the World Trade Organization ministerial meeting in Seattle.

In their manifestos for India's recent elections, both the NDA and Congress pledged that they would advance investor-friendly “economic reforms” so as to attract US \$10 billion per year in Foreign Direct Investment (FDI). When more and more sections of big business indicated their support for the BJP-led NDA, the Congress even tried to show that it would be ready to go beyond the BJP in tailoring its policies to the demands of capital.

Indian big business's demands for the BJP and Congress to cooperate are motivated not simply by their concern at securing speedy passage of economic “reform” bills. In the absence of such a “national consensus”, capital fears the government may be unable to withstand popular opposition. In an editorial praising Vajpayee's speech to the FICCI, including his failure to give specific time commitments for the passage of various “reforms”, the *Hindu* commented, “The Prime Minister has only gently reminded the leaders of Indian industry that if reforms are pushed too fast, there is a danger that social tensions may be generated through growing unemployment and economic disparities and that the reforms may themselves be jeopardised.”



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