Indian budget contains huge increase in military spending

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The Indian budget handed down on February 29 by Finance Minister Yaswant Sinha boosted military spending by a massive 28 percent—the largest ever increase—setting the stage for further tensions with rival Pakistan and an accelerated arms buildup on the Indian subcontinent between the two nuclear-armed countries.

On behalf of the Bharatiya Janatha Party (BJP)-led coalition government, Sinha also announced measures to open the financial sector for foreign and local capital and substantial cuts to food and agricultural subsidies.

Sinha claimed that the rise in the defence budget was necessary following protracted fighting last year in the Indian state of Jammu and Kashmir when Pakistani-backed Kashmiri separatists occupied key strategic positions in the Kargil area.

The BJP is no doubt sensitive to criticisms by the opposition—the Congress party and the Stalinist Communist Party of India-Marxist (CPI-M)—who seized on the Kargil issue during last year's national elections. The major opposition parties sought to outdo the rightwing BJP in its nationalist sabre-rattling by berating the government for failing to detect and respond to the entry of the separatist fighters.

The opposition declared the increased military budget to be “inadequate”. Samajavadi (Socialist) Party leader Mulayam Singh Yadav told the Indian parliament that the defence allocation should have been increased further from $US13.44 billion to $18.82 billion. He was the defence minister in the United Front government in the mid-1990s, which was supported both by the CPI (M) and the Communist Party of India (CPI).

The increased military spending is a clear challenge to Pakistan. Unlike India, which has experienced growth rates of around 6 percent in the 1990s, Pakistan has been teetering on the brink of bankruptcy and is in a poor position to engage in an arms race. A Pakistani official condemned the defence increase saying it was a sign that India had “hegemonic designs” of controlling South Asia.

George Perkovich, author of the book “India's New Bomb” commented in the *New York Times*: “India is sending a message with the new budget. It's saying to Pakistan, ‘O.K., you may want to use a bellicose strategy against us, but you're broke and we're not. We're going to spend 28 percent more. Can you match that?”

The US administration's response was muted. US Secretary of State Madeleine Albright speaking last week prior to President Bill Clinton's visit to the Indian subcontinent called for “prudence and clarity in India's plans and doctrines... For a pattern of steeply rising defence budgets in Asia would serve neither the continent's security interests nor its development needs.” But she noted only that the US would seek to “reconcile our [nuclear] nonproliferation concerns with India's appreciation of its security requirements”.

The central focus of the Clinton trip has been to establish closer economic and strategic ties with India at the expense of the US Cold War ally Pakistan. The increased Indian defence budget is just one indication that a closer US-India relationship will encourage the BJP government to take a more aggressive stance towards Pakistan and throughout the region.

The *Hindu* newspaper indicated the areas of the military most likely to receive the extra money: “The thrust of the modernisation of the Army and the IAF [Indian Air Force] is only natural. The Army, following the Kargil conflict is keen on acquiring ‘force multipliers' to beef up its surveillance and night fighting capability. The purchases of this hardware, including advanced listening devices, have also been recommended by the Kargil review committee report. Besides, the Army is looking for upgrading its capability of desert warfare by upgrading its tank fleet. The Army is looking for the purchase of around 300 T-90 tanks from Russia. Besides it has long demanded the induction of self-propelled guns which usually accompany moving tank columns for depth attacks.”

The BJP government is also intent on boosting India's police and internal security forces, not only against Kashmiri separatist and other guerilla groups but also against the working class and oppressed masses who have been hard hit by its economic restructuring programs. The budget for the Border Security Forces (BSF) was increased by 10 percent and for the Central Reserve Police Force (CRPF) by 15.7 percent. Funds for the modernisation of police forces were doubled. The allocation for the Central Industrial Security Force (CISF)—used in January against striking port workers—was increased by nearly 15 percent.

Sinha announced a number of concessions to international investors including some opening up of the Indian financial sector. The government's holding in state banks will be reduced to 33 percent from the present 51 percent, allowing private capital to have majority equity. G.P. Gupta and D.K. Mukerjee—respectively chairman and managing director of Industrial Development Bank of India—immediately welcomed the move as “a step in right direction”.

The budget also raised the limit for foreign investors in Indian listed companies from 30 percent to 40 percent of equity. To boost venture capital funds, Sinha ended the taxes on the income made by those funds and their investors. The government will reduce custom duties on computers and critical components to encourage the country's burgeoning computer software and technology industry.

Sinha outlined steps towards the further privatisation of state-owned enterprises, including a reduction of government equity in all “non-strategic” companies to 26 percent. He plans to raise $US2.29 billion through the sale of government shares to foreign and local investors. Other Public Sector Undertakings would be “restructured” if “potentially viable” or closed down altogether if unviable. Sinha promised a “road map” for the additional downsizing of government and thus more cutbacks to jobs and workers' conditions.

In line with big business demands for a reduction in the budget deficit, it contains substantial cuts in subsidies for food and fertiliser. The price of urea was pushed up by 15 percent and prices for other types of fertilizer by 7 percent, imposing hardships on millions of Indian farmers.

The supply of sugar through Public Distribution System (PDS), which provides food at subsidised prices, was ended for anyone with an income tax assessment. The poor will still be able to obtain sugar through the PDS but the price will rise from 11.80 to 13 rupees a kilogram. Other food items will be supplied to those below the poverty line at 50 per cent of cost. In India, the poverty line is the income necessary to purchase enough food to survive and leaves out the cost of clothing, shelter and other essentials.

Sections of big business and the Indian media have complained that the budget did not go far enough in slashing government spending, particularly on subsidies, privatisation and the opening up of the Indian economy. The Bombay stock market plunged by 5.12 percent or 293 points on budget day and recovered somewhat on the following day.

Rahul Bajaj, president of the Confederation of Indian Industry (CII) and the chairman of Bajaj Auto, a major car and motorcycle manufacturer, commented that in its totality the budget was a disappointment. Even though Sinha had tried to “bite the bullet”, he had not been able to bite hard enough. Associated Chambers of Commerce and Industry of India (Assocham) president also lamented that the Finance Minister did not “bite the bullet” as expected but praised the budget proposals as “investment friendly”.

An editorial in the *Times of India* on March 1 noted: “In the event, Mr. Sinha has rewritten not the economy but the lexical definition of harshness with a Budget that bites the bullet but only with toothless gums. Instead of taking stern measures to rein in the fiscal deficit—which last year hit 5.6 per cent of GDP compared to the 4 per cent that was originally budgeted—the finance minister has essentially tinkered with the nuts and bolts of public finance, raising a tax rate here, trimming an allocation there, but avoiding the hard measures that so urgently need to be taken.”

These sentiments were echoed in an editorial entitled “Waiting for the new India” in the British-based *Economist* magazine: “Historically, one of India's biggest problems has been that recurring episodes of fiscal duress have been dealt with by cutting public spending that is needed, while shelling out more and more on programs that are wasteful, and worse. Sadly, this budget marks no great departure from that pattern. Mr. Sinha spoke of the need to cut subsidies, but his proposals will make barely a dent in their total cost, which runs at well over 10 percent of GDP. India is a country where large quantities of food, water, power and other resources are given away or sold at less than cost—not, it is important to understand, to help the poor, who are known to gain little from these programs, but to benefit people who could afford to pay.”

The targeting of price subsidies on food and other basic items mirrors the sustained attack on welfare in the advanced industrial countries. In the name of preventing money going to those who can afford to pay, the mouthpieces of big business advocate the abolition of or severe cutbacks to subsidies which in the case of India may make the difference between whether people live or die.

Congress finance spokesman Manamohan Singh joined big business in criticising Sinha for his failure to control the fiscal deficit. “The budget does not deal with the management of fiscal deficit within sustainable limits,” he said. Singh, a finance minister in previous Congress governments, is known as the architect of the “economic reforms” which opened up the Indian economy in line with IMF demands.

The failure of the BJP-led government to impose more extensive “market reforms” is due in part to the fact that a number of its coalition allies are concerned at the potential for social unrest. Four of the parties have presented a memorandum to the Prime Minister urging him to reverse cuts in food and fertiliser subsidies, saying that the measures would hit farmers and the poor. With nearly two dozen regionally-based coalition partners, the BJP-led government is vulnerable to political pressures.

As a result, Sinha was forced to try to boost government revenue through measures that have drawn criticism from big business. He increased a surcharge on income imposed in last year's budget from 10 percent to 15 percent and maintained the surcharge on corporate taxes. He had promised to scrap them both. He also imposed taxes on software exports.

An article in the *Times of India* on March 6 commented: “In the end, the finance minister pleased neither the industry nor the people at large presenting the face of a government, which was working with its hands tied.” Sinha was clearly concerned over the dissatisfaction of big business. Just two days later he indicated his willingness to bend to its demands. “The budget is not the end of policy making and many more policy announcement will follow,” he told a meeting organised by the Confederation of Indian Industries.