To avert current accounts crisis, India announces new measures to woo foreign investment

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India's Congress Party-led United Progressive Alliance (UPA) government has announced further "pro-investor" reforms in a desperate bid to increase foreign capital inflows.

Absent such inflows, India's current accounts deficit—which at 5 percent is one of the largest in the world—will continue to mount, potentially triggering an economic earthquake.

On July 16, a meeting of Prime Minister Manmohan Singh and senior ministers approved measures to further open the country's economy to foreign capital. Henceforth, 100 percent foreign ownership will be allowed in the telecom industry, up from the current limit of 74 percent. In all, restrictions in a dozen sectors, including insurance and tea growing, are being relaxed or scrapped altogether, although in some cases parliamentary approval is needed for the changes to take effect.

The government is maintaining a 26 percent foreign investment cap in armaments and weapons-system production. But it is giving the Cabinet Committee on Security the power to allow foreign investors to exceed the 26 percent limit and to potentially even have 100 percent ownership when setting up "state of the art" manufacturing facilities.

For reasons of domestic security—the Indian government closely monitors all electronic communications—and international geopolitics, the easing of foreign investment restrictions in the telecommunications and defence sectors has been highly contentious within India's elite, including the UPA cabinet.

The government is also promising to slash energy subsidies to contain the budget deficit and to implement other unpopular "reform" measures demanded by big business. Late last month, the government announced that it would double natural gas prices in April 2014.

Indian big business has enthusiastically welcomed the government's July 16 announcement. "It indicated that reforms are underway," chortled Naina Lal Kidwai, president of the Federation of Indian Chambers of Commerce and Industry. "Large numbers of sectors have either seen an increase in FDI [foreign direct investment] cap or have moved under the automatic [approval] route from [needing] Foreign Investment Promotion Board approval."

The UPA government's latest measures, dubbed "big bang FDI reforms" by the corporate media, were announced just days after the government's two most senior economic ministers had completed a US tour.

Indian Finance Minister Palaniappan Chidambaram and Commerce and Industries Minister Anand Sharma made a four-day visit to the US beginning July 9, during which they met with US corporate leaders and lawmakers.

In his meeting with Senate Finance Committee Chairman Max Baucus, Chidambaram sought to counter US complaints about remaining Indian restrictions on foreign investment. He declared New Delhi to be committed to "a transparent, fair and non-discriminatory investment environment for foreign investors."

In meetings with top executives of Fortune 500 companies, including Microsoft, Lockheed Martin and Boeing, Chidambaram promoted India as an alternative to China as a cheap-labor producer for U.S.-based transnationals. He urged US companies to set up manufacturing bases in India, stressing "the mutual interests of both countries" in India becoming "a large manufacturing economy."

In the keynote address to the 38th Leadership Summit of the US India Business Council (USIBC), Chidambaram made an unveiled reference to India's large pool of cheap labor: "We are building our economy brick by brick, and in that process we seek your help… We have a very young population which is hungry and aspirational. We have a talent pool which is largely untapped."

At the conclusion of their visit, Commerce and Industries Minister Sharma announced India's readiness for talks with the US on a bilateral investment treaty.

In the past 18 months India's economic situation has deteriorated sharply, with exports stagnant or falling, overall growth slumping to 5 percent—its lowest level in a decade—and capital inflows declining. Earlier this month the Indian rupee fell to an all-time record low of 61.21 rupees per U.S. dollar. The depreciation of the rupee is fueling inflation (India imports more than three-quarter of its oil), making it impossible for the Reserve Bank to kick-start growth by lowering interest rates.

Within Indian and international financial circles there is increasing apprehension that India could soon face a current accounts crisis akin to 1991, when it had to seek an IMF bailout, scrap its strategy of national economic regulation and initiate "free market" reforms.

The government and big-business economists are insisting that the only way India can finance its current accounts deficit in the short and medium term is by securing greater foreign investment.

A *Times of India* report published at the beginning of Chidambaram's and Sharma's US visit gives an indication of just how urgent the situation is: "The swagger and self-importance that characterized Indian economic engagements with American business over the past few years has evaporated," declared the *Times* article. "In its place, there is despair at the nose-diving rupee and the drying up of foreign investment, leaving the Indian projection of becoming an economic powerhouse distinctly wobbly."

The Indian economic ministers' visit was meant to dampen mounting dissatisfaction within the US ruling elite over India's economic policies. In the lead-up to their visit, more than 250 Congressmen had written to Secretary of State John Kerry and President Obama to complain that Indian policies are discriminatory to US companies. Similar complaints were voiced by lawmakers and corporate representatives at two recent Congressional committee hearings.

So as to facilitate the Indian ministers' attempts to drum up US investment, the UPA government rolled back some of the measures US business has been complaining about—such as the mandatory buying of telecom equipment from domestic manufacturers—shortly before their departure for Washington. USIBC President Ron Somers hailed New Delhi's actions as "a strong and welcome signal that India is listening to investors and that channels of communication through organizations such as the US-India Business Council are working."

The UPA government's attempts to woo foreign investment, especially US investment, have major implications for India's geopolitics and class relations.

Over the past decade India has forged a strategic partnership with US imperialism, which is anxious to use India as a geopolitical and military counterweight to a rising China. Toward that end, the US has negotiated a special status for India within the world nuclear regulatory regime—effectively recognizing India as a nuclear weapons state—and encouraged India in its ambition to become an Indian Ocean power.

India has repeatedly bowed to US demands that it support Washington's bullying of Iran, staged numerous military exercises with the Pentagon, and begun significant US arms purchases. But the US is determined to bind New Delhi even more tightly to its plans to contain and militarily encircle China. On a trip to India last year, US Defence Secretary Leon Panetta declared India a "linchpin" of Washington's anti-China war preparations, which the Obama administration has euphemistically called the US "pivot to Asia."

The US will now seek to exploit India's economic vulnerability to press it to fall even more fully into line with its predatory military-geopolitical strategy.

Significantly, the other country the UPA government is especially targeting for increased foreign investment inflows—Japan—is the US's most important Asian ally, a pillar of its anti-China strategy, and a state with its own long history of rivalry with China, including ongoing territorial disputes.

India's pushing ahead with the pro-market reforms demanded by domestic and foreign big business will also lead to a rapid intensification of class struggle, as the working class and rural toilers resist the ruling-class drive to make them pay for the world capitalist crisis through privatization, deregulation and social-spending and subsidy cuts. In September 2012 and February of this year, tens of millions of workers throughout India joined general strikes to protest against price rises, the spread of contract labor and the "big bang" economic reforms the UPA government announced last September. These included the opening of the country's retail sector to foreign multi-brand corporations and cuts in the subsidy for cooking gas.