India: Modi announces new wave of pro-investor reforms

Kranti Kumara
27 November 2015

Narendra Modi's Bharatiya Janata Party (BJP) government has announced a fresh wave of pro-investor economic "reforms" in an attempt to attract desperately needed foreign capital and kick-start India's languishing economy.

These include raising and in some cases eliminating altogether the caps on foreign investment in fifteen separate economic sectors and further "disinvestment" (partial privatization) of important central government-owned companies.

Modi has been touring the world, promoting India as the new go-to destination for investors and hyping India's return to "high" rates of growth. The reality, however, is very different. India is being battered by the world economic crisis.

The most significant of the new pro-investor measures were announced Nov. 10, two days after the BJP had taken a drubbing in state elections in Bihar, India's fourth most populous state. The elections were widely seen as a popular repudiation of Modi, who had been the party's major campaigner in Bihar, appearing at some 30 campaign rallies.

The Nov. 10 announcement was meant to reassure domestic and international big business that despite its recent electoral reversals in Delhi and Bihar, the Hindu supremacist BJP remains determined to push through unpopular neo-liberal reforms, including through the use of autocratic methods such as ordinances.

The hurried character of the announcement is underscored by the fact that it was made without prior consultation with or approval from cabinet.

The sectors being thrown open to increased foreign ownership include banking, single-brand retail, plantations, animal husbandry, agriculture, weapons and weapons systems manufacture, military research and development, civil aviation and broadcasting.

Depending on the economic sector, foreign investors will now be able to purchase up to 100 percent of companies without obtaining prior approval from the Indian government. In the construction sector, consisting of housing, roads, ports, water supply, rail transport and airport construction, investors will now, for whatever reason, be able to withdraw and repatriate their funds before a project is completed or rapidly cash out afterwards.

Moreover, in sectors where caps on foreign investment remain, the Finance Ministry's FIPB (Foreign Investment Promotion Board) will now be permitted to approve FDI up to Rs. 50 billion ($760 million), a significant increase from the previous limit of Rs. 30 billion ($455 million). Investment proposals beyond that amount will, as before, have to be approved by the Cabinet Committee on Economic Affairs.

The government has also announced that it will soon sell off a further 10 percent share of Coal India Ltd., the world's largest coal producer. Last January the government divested 10 percent of Coal India. Private investors are also going to be invited to take a stake in the Cochin Shipyard, India's largest shipyard.

These moves represent a qualitative leap in the dismantling of FDI regulations, a process launched in 1991 when the Indian bourgeoisie discarded the nationalist, state-led economic development strategy it had adopted at independence in favor of making India a cheap-labor producer for world capitalism.

Modi himself termed the Nov. 10 announcement a "Diwali gift" to investors, a reference to a major Indian holiday.

Modi, who came to power 18 months ago, has been touring the world in the hopes of attracting investors, especially manufacturers. But his "Make in India" campaign has been undercut by anemic growth in Europe and North America and jittery investors.

India's merchandise exports have declined for 11 months consecutively. So dire is the situation on the export front that according to the director-general of the Federation of Indian Export Organisations, Ajay Sahai, "the decline in exports is worse than even that during the [2008-9] global slowdown." India's exports totaled $310 billion in the 2014-15 fiscal year and $314 billion the year before that. Yet, says Sahai, "reaching even $300 billion of exports this year looks

© World Socialist Web Site

difficult."

According to the government "This (FDI liberalization) was not a one-off measure. There are more steps in the pipeline... Work is on in many areas."

These "steps" include the gutting of an already unenforced workplace, labor and environmental regulations and imposing a regressive nationwide GST (General Sales Tax) of about 20 percent on consumers.

In most of the 15 sectors subject to the "liberalized" rules announced November 10, foreign investment through the automatic route is now allowed up to 49 percent. And in some sectors 100 percent foreign ownership can be taken without need of prior government approval. Single-brand retailers (companies like Starbucks and Ikea, as opposed to supermarkets and department stores) will now be able to set up wholly-owned subsidiaries. 100 percent foreign ownership is also henceforth permitted in non-news broadcasting and plantations, including coffee, rubber, cardamom, palm oil and olive oil.

Foreign ownership in the military sector can in practice exceed 49 percent, as the FIPB, essentially a rubber-stamp body, has the right to approve investments up to Rs. 50 billion ($760 million).

This change has already drawn warnings from the opposition Congress Party that the Modi government is endangering India's security by bypassing the previously mandatory approval of the cabinet committee on security (CCS) for all military-related investment.

The Congress Party, in partnership with other opposition parties including the Stalinist CPM [Communist Party of India (Marxist)], has promised to challenge the opening of the military sector without CCS approval in the winter session of parliament that began yesterday.

Apart from this, the Congress Party, which undertook similar "reforms" when in power, is essentially in agreement with the Modi regime.

Opening India up to foreign investment by no means guarantees that sufficient investment will flow into the investment-starved economy. Although the cap on the military sector was raised to 49 percent in August 2014, the FDI flow into this sector so far has been zero.

While the BJP government's Nov. 10 announcement received a ringing endorsement from the two domestic industry associations, the FICCI (Federation of Indian Chamber of Commerce and Industries) and the CII (Confederation of Indian Industries), the reaction from overseas mouthpieces of big businesses was decidedly mixed.

An article in the London-based *Financial Times* scathingly noted that "while Mr Modi talks frequently about easing India's business climate, foreign companies often point to formidable obstacles even in sectors that are theoretically already open to investment, ranging from convoluted regulations to run-ins with India's tax authorities." In other words, Modi should get on with the job of dismantling the labor, tax and environmental regulations that big business deems a hindrance to profit-making.

According to the Indian Commerce Ministry, "The crux" of the recent "reforms is to further ease, rationalize and simplify the process of foreign investments in the country and to put more and more FDI proposals on automatic route instead of government route where time and energy of the investors is wasted."

In other words, their intent is to further tightly integrate India with the crisis-ridden world capitalist economy, making the country even more vulnerable to the shock waves sure to emanate as the global economic crisis intensifies.

The BJP government's latest "reforms" are driven by a desperate lack of domestic investment capital and this under conditions where India desperately needs to improve its physical and human infrastructure to attract investment.

The country's central bank, the Reserve Bank of India, recently released a report that revealed that corporate investment underwent a steep 27 percent decline in the last fiscal year 2014-15 (April to March). This massive decline essentially coincided the with Modi government's first full year in office.

Capital investments by Indian businesses have continuously plunged since 2011-12 financial year when it was Rs. 3.7 trillion ($73 billion). Subsequently it was Rs. 3.1 trillion ($58.7 billion) in 2012-13, Rs. 2.7 trillion ($45.7 billion) in 2013-14, and Rs 1.9 trillion ($30 billion) in the most recent full fiscal year.

The reasons for this massive decline are two-fold. Indian corporations are saddled with huge debts, much of it in dollar-denominated loans, making them highly vulnerable to the depreciation in the value of the rupee. Second, their financial position is being undermined by the weak demand for their products both domestically and internationally.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site