

# India throws door open to international capital

Kranti Kumara  
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Two days after international investors were rattled by the unexpected announcement from Raghuram Rajan that he would not be seeking a second term as head of India's central bank, the Hindu-supremacist Bharatiya Janata Party (BJP) government announced with much fanfare that it is opening up nine previously restricted sectors of the Indian economy to 100 percent foreign direct investment (FDI) and ownership.

The most prominent include civil aviation, single-brand retail stores such as Apple and IKEA, pharmaceuticals and military production. This decision, which will have far-reaching social and political impact by tightening the integration of India with a world capitalist system riven by contradictions and imbalances, was made without even a pretense of a public debate.

In a flight of hyperbole, Prime Minister Narendra Modi boasted that the moves will make India "the most open economy in the world for FDI."

As recently as a decade ago, there would have been a howl of protest from a sizeable section of the domestic media at any dilution of legal barriers to FDI in these sectors. Now, however, there is virtually unanimous support. For example, *The Hindu*, an ostensible left-liberal daily that claims to be implacably opposed to the BJP government, declared that the removal of the FDI cap was precisely what the country needs because India's economy can only grow by wooing foreign investors.

Although the BJP government has been determined to ram through pro-big business reforms since the day it came to office two years ago, the timing of Monday's FDI "liberalization" announcement was clearly aimed at blunting concerns in the international and domestic corporate media that further "economic reforms"—a euphemism for measures aimed at swelling investor profits—might be hampered by Rajan's departure.

The BJP's FDI announcement also comes in the wake of Modi's recent visit to the US, where he was feted by the Washington establishment as the leader of a "major defense partner" of US imperialism. The Obama administration has long been pressing India's government to dismantle what regulatory and legal barriers remain to the unimpeded exploitation of the country's vast reserves of cheap labor and natural resources by US big business.

Rajan, who was formerly the chief economist at the IMF, announced last Saturday that he will be stepping down when his three-year term as governor of the Reserve Bank of India (RBI) expires in early September and will be returning to the University of Chicago where he was on a leave from his post as a professor of

finance at the Booth School of Business.

Rajan is a darling of international capital, who has been given "rock star" treatment by mouthpieces of international finance like the *Financial Times* of London and the *Wall Street Journal*. This is because they consider him a reliable advocate of the interests of big business, including the push to fully open India's economy to international capital.

In an indication of the fears his departure provoked in business and financial circles, it was immediately dubbed by the media as "Rexit," in a reference to the economic turbulence that would surround a British vote to exit the European Union.

While Rajan's resignation announcement was a surprise, there had been a running battle for most of the preceding two years between him and the BJP government due to the latter's relentless pressure on the RBI to reduce its benchmark interest rates so as to "stimulate" languishing capital investment by Indian businesses.

To the anger of the government and a considerable section of Indian big business, Rajan stuck to his guns, insisting that the focus of monetary policy should be to reduce the endemic double-digit retail inflation rate, stabilize the Indian rupee which had essentially collapsed in 2013, and clean up the balance sheets of India's major banks, which are staggering under the weight of "non-performing" loans.

Rajan's fear was that international investors might suddenly withdraw funds from India, whether due to a new global financial crisis or to take advantage of rising interest rates in the US, provoking a fresh run on the rupee. This would endanger both corporate India and the Indian banking system because of the huge dollar-denominated loans many of India's premier business houses have taken out over the past decade.

There is much to suggest that Rajan was pushed out. In the weeks prior to his resignation, a section of the BJP leadership openly campaigned for him to be sacked, while Modi and Finance Minister Arun Jaitley remained scrupulously silent. BJP Rajya Sabha member Subramanya Swamy, who is frequently employed as a BJP political attack dog, repeatedly denounced Rajan. In a letter to Modi urging his immediate dismissal, Swamy charged that Rajan is not fully "Indian at heart."

According to news reports, the final straw for Rajan was when he was told that if he wanted to be appointed to a second term he would have to formally enter a competition with other candidates, although the norm at the RBI has been that second terms for governors are quasi-automatic.

Undoubtedly, part of the BJP's animus toward Rajan is due to his longstanding connections to its principal electoral rival, the Congress Party. But the economic policy differences were real and deep.

The bitterness of these differences put the lie to the government's claims that India is an economic star, experiencing 7 percent-plus annual growth even as all other major economies are either mired in crisis or experiencing anemic growth.

To the government's consternation, Rajan himself publicly questioned the accuracy of the growth rates. But one hardly needed to be an economics professor to note the incongruity between Modi's hype about India's booming economy and a rash of statistics over the past 18 months showing huge declines in exports and slow growth across major sectors of the economy, including manufacturing and agriculture.

In so far as there has been economic growth, and in some sectors potentially rapid growth during the past two years, it has been "jobless growth."

According to official statistics, only 139,000 jobs were created in 2015 in eight key and especially labor intensive economic sectors. Even if this report is incorrect by a factor of 10 or 25, it still constitutes a massive crisis for Indian capitalism, since the annual number of new entrants to the labor force is in the order of 12 million.

Needless to say, the government is touting the lifting of the FDI caps as a job-creation measure.

In reality, it is a boon to Indian big business, which hopes to benefit from acting as the middlemen and junior partners of international capital, and will lead to consumer price rises, job losses, and social dislocation in many sectors.

In the pharmaceutical sector, "Greenfield" FDI (i.e., building and operating a new production facility) can now be up to 100 percent through the so-called automatic route, meaning no government approval is required. "Brownfield" investments (taking over an existing production facility), on the other hand, can be up to 74 percent through the automatic route and 100 percent with government approval.

It is almost certain that in the pharmaceutical sector the dismantling of FDI restrictions will lead to take-overs by giant foreign drug-makers rather than to new research and manufacturing. India ranks as the fourth largest drug manufacturer in the world, with an estimated 2014 production of \$31 billion, and is a major producer of generic drugs. Already, the owners of the more famous of India's pharmaceutical labs and manufacturers are salivating at the prospect of being taken over by one of their European or North American rivals. There is no doubt that this will result in significant generic drug prices for consumers in India and other Third World countries, even while the giant drug-makers turn to India to produce brand-name pharmaceuticals taking advantage of India's cheaper labor.

In single-brand retail, up to 49 percent of capital investment can now be made through the automatic route and above that with government approval. This move was clearly implemented to benefit the US technology giant Apple, whose CEO Tim Cook traveled to India to personally meet with Prime Minister Modi to lobby for the company to be able to open retail stores.

Since a long-standing law that required single-brand retailers to source 30 percent of the value of their annual operations from local suppliers, preferably artisans and small producers, stood in the way, the Modi government essentially got rid of it by fiat. Apple and other such companies will be exempt from this law for eight years. This will likely prove to be in perpetuity, since in the interim the government will no doubt move to get rid of the eight-year limit.

Investment in military production will henceforth be permitted by automatic route for up to 49 percent of the project and up to 100 percent with government approval. New Delhi has also waived a requirement tying such investments to the transfer of advanced technology.

The Modi government has placed military production at the very center of its campaign to attract international investment under the "Make India" banner. Already, US-based Boeing has started to build a joint manufacturing facility with the Indian transnational Tata near the south Indian city of Hyderabad to produce fuselage and other aero structures such as rotors for Apache attack helicopters. This facility is reportedly slated to become the sole global manufacturing facility for Apache fuselage.

Other major US military manufacturers, including General Dynamics, are considering siting production in India.

Over the past 15 years, under BJP and Congress governments alike, India has pursued a major rearmament drive, as part of the Indian bourgeoisie's drive to secure global power status.

The opening of India's military production sector to foreign investment has major strategic consequences and has long been advocated by Washington as a further means of harnessing New Delhi to its predatory strategic agenda. As former Defense Minister A.K. Antony noted, "Allowing 100% FDI in the defense sector means India's defense sector is thrown mostly into the hands of NATO and American defense manufacturers."

Already, the Modi government has integrated India into US imperialism's anti-China "pivot to Asia," supporting Washington's provocative intervention in the South China Sea and agreeing to allow the Pentagon to use Indian military bases for rest, resupply, and the forward positioning of materials.



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