Indian government bungling aggravates religious disorder, economic turmoil

by Ramtanu Maitra and Susan Maitra

The unstable minority government of the Janata Dal and its National Front coalition partners in New Delhi has a monumental crisis on its hands that is largely of its own making. Following the government's adoption of an affirmative action program to alleviate the conditions of the backward castes, virtually the entirety of northern India has been up in flames.

The Janata Dal government already had a tough challenge before it in guiding the Indian economy through a minefield of ballooning deficits, a foreign exchange shortage, and resource and infrastructure constraints, not to mention the impact of the Persian Gulf crisis. Now, analysts fear, hasty embrace by the government of Prime Minister V.P. Singh of the affirmative action—or "reservation"—policy has placed India on the path for a prolonged period of instability, in which the dreadful prospect of full-fledged caste war cannot be ruled out.

Though it is now a foregone conclusion that the country is headed for a mid-term poll, maybe as soon as next year, the more basic question is how to contain the forces of divisiveness that have been unleashed, and to put the country back on the right track again.

Political and communal powder keg

From the outset, the Janata Dal government was confronted with problems of secession in the states of Kashmir and Punjab in the northwest, and Assam in the northeast.

Religious tensions, which centered on the movement to construct a Hindu temple at Ayodhya where a Muslim mosque already exists, were stoking Hindu-Muslim tensions in eastern Uttar Pradesh, the most populous Indian state. In each instance, the constant, internal leadership jockeying and factionalizing within the Janata Dal made a firm and coherent approach to the problem impossible. The Ayodhya affair is a case in point.

While Prime Minister V.P. Singh has shown little ability to defuse the tension, one of the minority government partners, the Bharatiya Janata Party, which promotes Hindu chauvinism, has given a clarion call to all Hindus asking them to do everything to get the temple built. A chariot procession from Gujarat to Ayodhya has begun under the leadership of the Bharatiya Janata Party chief L.K. Advani. The purpose is to whip up a Hindu fundamentalist frenzy during the journey, which will traverse 750 kilometers over a one-month period. The chariot is due to arrive at Ayodhya on Oct. 30, the day temple construction is to begin.

But if Prime Minister Singh has been less than decisive on the temple issue, it is perhaps because he has his own agenda. On Aug. 7, apparently to stave off a challenge to his leadership and to win over a huge vote bank, the prime minister announced implementation of a plan that would reserve 27% of the central government jobs for the socially backward castes—a majority of the Hindu population (see *EIR*, Sept. 14, 1990, p. 48). Although socially backward castes vary from state to state (for example, one caste is considered backward in Uttar Pradesh but forward in Haryana), and the issue is not as clear-cut as it is made out to be, the prime minister did not discuss the matter with the electorate before taking such a monumental decision.

The result has been catastrophic. Those who oppose the decision are asking for Singh's resignation, but the issue has become ripe for exploitation by one and all. Meanwhile, northern India has been plunged into violence. The Army has been called in to patrol areas in the states of Haryana and Himachal Pradesh, both of which border the already-disturbed Punjab, and not far from the other troubled state that abuts Pakistan, Kashmir. In the capital of Delhi, where reactions were severe, life has been partially paralyzed, with very little business transacted. In about six weeks of protest, some 100 people have been killed, including nearly 20 attempted self-immolations.

All this and more has apparently not shaken the prime minister's total commitment to the "reservation" route of social reform. Singh made it clear in a recent interview with the *Times of India* that as far as he is concerned, the policy has come to stay. Issuing a veiled threat to his detractors who are involved in violence and disruption, the prime minister said, "No. We have not lost our large support. Only we have advised our supporters to be restrained so that conflict does not flare up."

There is no telling how long such restraint will hold good.

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If it does not, a large part of India will be immersed in a bloody caste war. There are indications that such restraints have already broken down, at least in the state of Himachal Pradesh.

Economic situation is grim

The explosive social dynamics unleashed by the Janata Dal government are like sparks to the tinder of an overall economic situation that is perhaps grimmer than ever before. The country is staggering under internal and foreign debt to the point that it is not in a position to push ahead with vital developmental programs. The much vaunted Five Year Plan, scheduled to begin in 1990, is now set for an indefinite delay.

Already there is talk of a "plan holiday," necessitated by the growing revenue deficit that has begun to squeeze out investment. The $340 billion plan will face a $17 billion deficit, it is now reckoned. Against an average $3.5 billion annual deficit projected by the Planning Commission, the main body behind formulation of the Five Year Plans, the federal deficit for 1990-91 now stands at $5.2 billion.

The effect of the squeeze on investment is already visible. The government is not going to clear several pending projects for six months to one year, to cut down on expenditure not in the Five Year Plan. Steel and petrochemical plants are among the projects put on hold, Deputy Finance Minister Anil Shastri told reporters recently. At the same time, production targets for coal, power, steel, and railways are to be decreased in the current fiscal year.

Already, according to the *Economic Times,* first-quarter performance in these sectors has been signficantly below target. What is worse, officials predict that the trend will continue through at least the next quarter. The key bottleneck seems to be coal production. Lack of adequate supply of coal has affected both the steel and power sectors, and the reduction of coal deliveries has cut into rail freight earnings. In the first quarter alone, the railways lost about 3 million tons of traffic.

As analysts in New Delhi point out, the coal, steel, power, and rail transport sectors account for some 26% of total economic activity in the country, and have massive downstream effects on every other industry. Unless their production is on target, there is no hope of reaching the 5.5% growth target proposed for the Eighth Plan.

In addition, a foreign exchange crunch which saw foreign exchange reserves dwindle to little more than a month's worth of imports, has led the government to attempt to cut back capital goods imports.

If this policy is pushed through, it will have a telling effect on both the export and domestic front. Downstream industries which depend on the production facilitated by imported capital goods will soon be facing underutilization of their capacity. At the same time, a large amount of the manufactured goods exported by Indian industry depends on imported capital goods.

Underutilization of manufacturing capacity can also be counted on to further fuel inflationary pressures. Already indications are that India will experience double-digit inflation this year. In many states, the major cause of dissension is the rising price of various basic commodities. Finance Minister Madhu Dandavate has already warned that gasoline price will be hiked further. The oil price rise will, in its turn, further fuel inflation, an issue which by itself can bring the government in Delhi down.

Gulf oil, Gulf refugees

In this difficult economic bind, the Persian Gulf crisis comes as a severe blow. The direct additional cost of importing oil alone for India will come close to $2.4 billion, according to an estimate made by the Ministry of Finance. The study assumes an average crude oil price in the next 12-month period of about $25 per barrel. In reality, however, the oil price has already exceeded the stated estimate and, if a war breaks out in the Persian Gulf, the oil price may go as high as $65 per barrel.

But that is not the only consideration for India.

The Indian government has had to evacuate some 200,000 Indian migrant workers from Kuwait and Iraq. With the going cost of about $1,000 per person, India will be spending another $200 million bringing these people home. Moreover, some $1 billion in foreign remittances will evaporate from India's balance of payments with the repatriation of the migrant workers.

All in all, India will be some $4 billion poorer in the coming year as a result of the crisis in the Persian Gulf. These foreign exchange shortfalls, coupled with an estimated $7.0 billion or so in the balance of trade deficit during the fiscal year, will put India in a hole. The country has already accrued a foreign debt of about $60 billion.

Seeking credit to tide over

It was thus little consolation for India that, after much haggling, the International Monetary Fund agreed to provide assistance of $1 billion under the Compensatory and Contingency Financing Facility (CCFF) to tide India over. It is evident that India will have to seek loans elswhere too, most likely from the commercial banks at a higher interest rate to make up the ensuring shortfall.

The growing foreign debt and damaging impact of the Gulf crisis on India's economic health will in turn provide an opportunity to commercial banks to hike up interest rates for any money it parts with. Already, Standard & Poors, in its latest report on the economic status of borrowing countries, has downgraded India to the "BBB" category. Another leading credit agency in the United States, Moody's Investors Service, downgraded India's rating to the A-2 category. Significantly, in its report Standard & Poors cited India's political instability as one of the reasons why the country's credit rating was downgraded.