IMF, World Bank test case: India must buckle under

by Mary M. Burdman

India, the world's largest democracy, and likely by the end of the century to be the world's most populous nation, is under heavy assault by the Anglo-American establishment. The attack is being led by the International Monetary Fund and World Bank, which, while arrogantly denying they are pressuring India and claiming that India is voluntarily implementing austerity measures, are turning the screws harder to force India, vulnerable as it has not been in years due to the vast costs of the Gulf crisis, months of internal political strife culminating in the assassination of prime minister candidate Rajiv Gandhi, and the international economic crisis, to buckle under.

The IMF campaign against India has been backed by a barrage from the British press demanding the surrender of the Indian economy. A united India was the achievement of the British Raj, and, having lost the British colonial administration, the attempts of the successors of Jawaharlal Nehru are doomed, all manner of Western publications have asserted. The City of London bankers, and their friends in New York, Geneva, and Basel, are using the internal crisis in India to go for broke.

But what they are doing in reality, is creating the danger of a monumental crisis in one of the most sensitive strategic areas of the world. It was the IMF's policies which pushed Yugoslavia over the brink toward civil war and chaos. What will be the effects if the same bankers get their way on the vast Indian subcontinent, at the same time that they are threatening the Soviet Union and Eastern Europe with total economic breakdown and chaos? The "Great Game" of the 19th century—the vast British-Russian struggle over Central Asia, with India the great prize—is still being waged, this time by the IMF.

The London *Sunday Times* greeted the death of Rajiv Gandhi with a vicious editorial May 26. "The way forward for India, as for the Soviet Union, will be to say a great prize can go to any states and sub-states that maintain order without murders and riots. They should be allowed to disregard Delhi's corrupt licensing restrictions, run their own economic policies and bring in as much foreign investment and as many free-market principles as they like. Maybe India's richest course from the beginning would have been to split into 100 Hong Kongs."

The new government was barely in place before the press demanded it yield. In its June 22 editorial, the *Economist* wrote: "Bring on the IMF. . . . In one sense, the management of the economy is about to pass into safe hands: those of the IMF. India has, in several respects, not been governed since last August, when an ill-considered quota plan for jobs set off caste riots. The toll taken on India's external financial position by 10 months' neglect of a deteriorating economy has been so severe that even the most nationalistic politicians are now meekly waiting to submit to the IMF's terms."

The IMF itself made clear that it was going to play hardball with India, hit by at least $3 billion in costs from the Gulf crisis, at the Washington meeting at the beginning of May. With India governed by a weak caretaker government and facing the possibility of foreign debt default for the first time since Independence, both the IMF and World Bank and the "rich donor nations conveyed in unequivocal terms" that India will have to agree to major adjustments, including defense cuts, to get the $5-7 billion loan it requested, the *Hindustan Times* reported May 3. India has $72 billion in external debt, and is facing debt and interest payments of $2.1-$2.3 billion before July. Hard currency reserves are reportedly down to $1.1 billion, enough for two weeks of imports. Commercial banks have "virtually stopped lending to India," the *International Herald Tribune* quoted a Finance Ministry official May 4. There were indications that the IMF was "not at all satisfied" with the present government's steps to dilute financial control of certain public sector undertakings.

Then Finance Minister Y. Sinha and senior ministry officials were "quite surprised" at the IMF's "now or never . . . tough tone" in demanding full-scale privatization while analyzing India's current balance of payments crisis. The collapse of the command economies of Eastern Europe and the crisis in the U.S.S.R. have "imparted a new jingoism" to the IMF and World Bank when dealing with developing sector nations like India, the *Hindustan Times* wrote. "Indian officials got the signal . . . that foreign and economic policies of the recipient countries would have an important bearing" on decisions on large-scale assistance and debt writeoffs.

Conditionality: defense

The IMF campaign against India is a test case for its campaign to force developing sector nations to slash their defense spending. IMF Managing Director Michel Camdessus pushed this policy, first announced last December as the Gulf crisis came to a head, twice in one week in statements in Paris and Geneva. In Paris, where the Big Five are negotiating arms controls, the IMF called on the industrialized nations to back the proposed curbs on arms exports by tightening controls on developing countries' use of financial aid for "unproductive" military spending, the *Guardian* reported July 5.

Camdessus took the same occasion to announce that the "Fund stands ready to support India's adjustment policy." Developments, he said, "were proceeding very satisfactorily." Four days later in Geneva, in a speech to the U.N. Economic and Social Council, Camdessus called on governments to cut military spending and agriculture subsidies as the alternative to interest rate increases which would have a "severe impact" on developing nations. "Unproductive" public spending must be cut, he said. A 20% cut in military spending would "save" about $100 billion a year; elimination of subsidies, especially to agriculture, would "save" $300 billion a year.

India is being hit by an IMF demand that it cut its defense spending by 10%, the *Hindustan Times* reported June 27, using political blackmail to do so. The IMF will not insist on a politically explosive cut in the food subsidy—provided the government releases "substantial funds" through cutting arms spending and public sector holdings. Military outlays above the basic threshold of security can be designated an "unproductive expenditure," the IMF's latest study contends, and calls for a coordinated reduction in military expenditure to increase "well-being" without changing the strategic balance.

Under immense pressure, the new Congress government, only in office a few weeks, devalued the rupee by almost 20% in just three days, over July 1 and 3. The rupee, which had already lost about 30% against the dollar since 1988 in gradual "adjustments," was cut another 18.74% against the dollar and 17.38% against the pound. India also raised bank interest rates by 1% to a record 11%. Although the new Finance Minister Dr. Manmohan Singh, asserted that the decision to devalue the rupee (euphemistically called a "realistic adjustment") was "a national decision," the succession of events makes reality painfully clear.

The second devaluation was taken as an IMF mission set out for New Delhi. This was only the second time India had made such a major devaluation. The first was in 1966, when, after famine, war with China, a severe foreign exchange crisis, and sustained IMF pressure, India was forced to devalue by 66%. All governments until now have avoided repeating this mistake, a commentary July 7 in the *Hindustan Times* said. The "inescapable conclusion must be that this time around also, it was necessary not just to depreciate slowly . . . but be seen to devalue by a sizable amount on a single day." A December 1990 confidential World Bank report cited frequently in both the Indian press and by the political opposition, called for India to devalue the rupee either gradually, beginning at 13%, or all at once by 22%.

Dr. Singh, who had asserted at the time of the first devaluation that its effects would not be so great, because India has a much stronger industrial base than it had in the 1960s and surplus grain stocks of 20 million tons, admitted at an economic seminar in Delhi July 5 that the situation, which he called "an unprecedented crisis," could go out of control if there were not utmost fiscal and economic discipline over the next two years. India is reported to be negotiating for a loan of $5-7 billion from the IMF, which will only become available in September, after the new government's budget is presented and approved.

Also, the State Bank of India cannot raise the $70 million due to foreign suppliers for fertilizers, newsprint and other items, due to lack of short-term credit.

India is also to make what are called "major structural reforms" in its trade policy to reduce its $5.9 billion trade deficit for 1990-91. In real terms for India, this is nonsense. The devaluation will have only two effects: It will make India's foreign debt, which shot up from about $20 billion in 1980 to about $72 billion now, 20% more expensive; and it will cause big price rises for India's two major imports, oil and edible oil. Nor will the devaluation boost exports. In fact, despite the losses sustained by the rupee since 1988, exports only went up 15%.

On June 5, India was reduced to selling about 20 tons of confiscated smuggled gold in order to raise $200 million to tide over its foreign exchange crisis. But although the government said this move will not mean any depletion of gold stocks on a permanent basis, worse was to follow. On July 8, the BBC reported, India had sent 25 tons of gold from its reserves to the Bank of England. Reserve Bank of India Governor S. Venkitaraman said the shipment was made to ensure India did not default on repayment of short-term foreign debt.