Commerce Secretary Ron Brown keeps Indians in good humor

by Ramtanu Maitra and Susan Maitra

A week-long trip by U.S. Commerce Secretary Ron Brown to India ended on Jan. 20 with a flourish of promises of fresh American investments. The trip, which had been the subject of much expectation, has no doubt strengthened the hands of the pro-economic reforms lobby in India. Beyond that, concrete achievements are difficult to gauge. It is doubtful whether the investments promised will really materialize, or even if they do, how quickly they would materialize and what impact they would have on an Indian economy which is crying out for large-scale, tangible, and quality assets and enhanced productivity.

Secretary Brown's trip was built up carefully over the last few months, with the help of media and press conferences held both in Washington and New Delhi. The mid-November visit by U.S. Undersecretary for International Trade Jeffrey Garten, a well-connected academic *cum* bureaucrat, was billed as a visit to prime the pump for Brown's visit. At that time, Garten's emphatic reference to India's "poor infrastructure" made it clear that Secretary Brown would include a few infrastructure proposals in his bag when he appeared in New Delhi.

Wrong timing

Despite all these preparations, which included a successful trip by U.S. Defense Secretary William Perry to India just prior to Commerce Secretary Brown's arrival, it turned out that Brown's timing was not "auspicious," as they say here. The ruling Congress Party, under the leadership of Prime Minister P.V. Narasimha Rao, was reeling from crushing electoral defeats inflicted in two major southern states, Andhra Pradesh and Karnataka. The defeats have taken the wind out of the tattered sail of the more-than-100-year-old Congress Party, whose leaders are looking for every available excuse to blame each other for the resounding losses. With another five states going to the polls in March, the leadership of the Congress Party is at a loss to figure out how to stem the tide and shift it in its favor for the all-important 1996 general elections.

Added to this bubbling political cauldron was the bad financial news from around the world, including India. The Mexican financial crisis, which took away the hot money and put Mexico's economic assets up for grabs, made many in India sit up. Although Reserve Bank of India Governor Dr. C. Rangarajan and Finance Minister Dr. Manmohan Singh, the architect of India's economic reforms, went to the media to express their conviction that the Indian situation is not similar to that of Mexico's, the statements did not deter others from pointing out certain uncomfortable facts.

For instance: Like Mexico, India's economic liberalization has attracted more hot money than real, tangible foreign direct investments, and this money can leave Indian shores at the touch of a button, as it did Mexico. India's trade imbalance is growing, and the across-the-board lowering of import tariffs is expected to widen India's trade imbalance further in the coming days. Inflation, now at more than 10% nationwide, continues to rise. However, in rural India, where some 80% of all Indians live, the figure is close to 20%. The trade imbalance and high inflation rate are jointly putting pressure on the rupee, and this pressure has been increased by exporters who, because of India's poor productivity and low technology, are demanding a lower-priced rupee, hoping to sell their wares cheap. In fact, some months back, U.S. Ambassador Frank Wisner mused out loud that the Indian rupee would require a further devaluation.

Secretary Brown also came at a time when the Rao government, besieged by political exigencies, was issuing statements, once too often, that the economic liberalization is irreversible, a phrase which had also been used by Ambassador Wisner to reassure the cautious American investors prior to Secretary Brown's visit. Amidst such reassuring statements, which came from the highest level of the Indian government, were some discordant notes. There were reports in the media that the Congress Party, which, according to present political trends, is expected to lose in four of the five states in the coming March elections, may go for a "soft budget" in order to appease the majority of the electorate in the style of the pre-reform days. This means padding the budget with pork-barrel programs to literally buy the votes of the poor and minorities, who are now in the process of breaking their traditional electoral alliance with the Congress Party. If such a budget is passed, most definitely the budget deficit will overshoot the International Monetary Fund (IMF)-prescribed magic number, and inflation, in effect, may take off at a faster pace, a situation which no American, or any other investor, would like to see. It could also force a further devaluation of the rupee.

In the United States, where India's identification as one of the 10 "big emerging markets" in the world has generated reported investor enthusiasm, statements affirming India's economic success were coming out a dime-a-dozen. In fact, the London *Economist* is planning a travelling show in major U.S. cities to project India's economic potential in light of the continuing reforms.

Clinton administration strategy

Surprisingly, though, one day before Secretary Brown left the United States for India, U.S. Trade Representative Mickey Kantor told the U.S. Information Agency in an interview that in the wake of the electoral reverses experienced by the Rao government, there is no guarantee that the Indian economic reforms will continue. It is difficult to say whether Kantor's observation was based upon his own evaluation of the Indian situation—which also is important, even if it is only an educated guess—or on inside information from India or from IMF officials or others dealing with the Indian economy.

There is no doubt that Kantor was right on whatever else he talked about that day. He said the Clinton administration's policy "has quietly aimed to support Rao's reforms," mentioning as an example removal of India from the U.S. Super 301 list of priority countries that fail to adequately protect U.S. patents, copyrights, and other intellectual property. He also pointed out that while India has "begun" widespread economic reform, its program still lags far behind more vigorous ones in East Asia and the Pacific.

These two statements of Kantor were on the mark vis-à-vis the Clinton administration's strategy expressed through the Brown visit. Secretary Brown kept all matters of contention between the world's two largest democracies at bay, and called his mission to India a "watershed" in bilateral relations. At the same time, Secretary Brown, author of the American "big emerging markets" economic strategy, was categorical in demanding that reforms be speeded up. He praised Prime Minister Rao for his continued commitment to bring about the economic changes, but said that the "trouble spots are all related to the speed with which the reforms take place."

On the economic liberalization itself, Secretary Brown told reporters on the plane on his way back to Washington that the privatization is absolutely essential, and that the political leadership of India "obviously has some means of determining how fast they can proceed with the process." He also pointed out that while poverty is a "blight on the Indian landscape, it seems clear that the most likely strategy for eliminating poverty is sustained economic growth." He added, "We want to do everything that we can to encourage and foster that kind of economic growth."

Strengthening Indo-U.S. relations

Secretary Brown's trip will be regarded as a major milestone in the Clinton administration's efforts to strengthen Indo-U.S. relations. Throughout the trip, Brown described the great strides in business ties as "commercial engagement" or "commercial diplomacy," the starting point for a much larger goal of expanding joint relations. "Clearly the Clinton administration is acting as rapidly and as effectively as we know how to shape the recent thaw into a warm and lasting friendship," Brown said. He was also categorical in expressing his and his government's support for the Rao government: "President Clinton and I commend his leadership and support his efforts."

But more than the verbal support, the Rao government also received a number of project deals, which, when translated into real projects, would mean more than $5 billion worth of tangible U.S. investment. From the way the deals have been structured, it is evident that Washington is paying heed to what Undersecretary Garten had said about India's infrastructural requirements. In fact, while speaking at the luncheon organized by the captains of Indian industry in New Delhi, Secretary Brown said that he saw potential for large-scale U.S. participation in what he estimated could be a $100 billion infrastructure development program in India.

Brown would probably be happy to know that the Center for Monitoring the Indian Economy (CMIE), a Bombay-based private group of economic analysts, recently published a report which suggests that within the next decade, India will have to invest the equivalent of about $260 billion in infrastructure development, and of that, the lion's share—about $115 billion—must be invested in the power sector. In the present context, however, the CMIE projection is merely academic. Neither the Rao government nor foreign investors have shown any intention to work out a plan to mobilize such massive resources.

Privatization bias

Underlying the talks on development and developmental cooperation was the emphasis on private capital and private investment. One interesting development was Brown's behind-the-scenes involvement in working out a deal for the telecommunications group USWest, formerly one of the "Baby Bells" after the AT&T breakup, to accept a project. USWest was bidding for telephone services in the states of Tamil Nadu and Karnataka. But its application had run into heavy weather from those in the government who oppose foreign companies taking over telephone services in India. Only 48 hours before Brown arrived, the cabinet committee on foreign investment in India quickly announced approval of the project, which includes some contiguous areas of Karnataka and Tamil Nadu, but not the entire states. USWest was reluctant to accept the offer, and made it clear through the media that it would bid for the entire Karnataka circle. However, Secretary Brown's intervention changed the scene, and the project that USWest finally accepted included four telephone areas of Tamil Nadu and nothing of Karnataka. Reports indicate that Brown pushed USWest to accept the truncated project, which is of a far smaller size than the one the Indian government had earlier suggested but would have found politically difficult to deliver.

Brown saw clear mutualities in the economic reform India is carrying out and U.S. interests. He pointed out that one of the deals that was signed, to set up the Karaikal Refinery, would dramatically increase U.S. sales of petroleum exploration and refining equipment and services which could add up to $100 million annually.

Financial sector reforms

However, Brown made it clear that the United States would like to see capital market reforms in India so that the banks of the two countries could have closer interaction. "More progress is required in the banking sector, which needs to be a less regulated and more open," Brown said. U.S. banks can make a major contribution to the banking system by helping Indian banks attract greater foreign investment. He pointed out that U.S. brokerage firms were already playing a significant role in Indian markets, and so were asset management companies. "But, we hope that the government will allow U.S. firms to trade on their own account," he said. In this context, he noted that India's stock market capitalization, at $140 billion, is one of the largest in Asia.

In fact, Brown was pushing hard on behalf of American investors to open up certain still-unopened areas of the Indian market. He has asked the government-controlled insurance sector in India to be privatized, enabling American and other insurance companies to come in. Reports indicate that he has received tacit approval from the Indian prime minister on the subject.

Within days after Brown had left, the Indian stock market lost heavily on selected shares following some large withdrawals of foreign exchange by the foreign investment institutions. The institutions' move is most likely related to the Mexican crisis and the U.S. Federal Reserve's decision to hike U.S. interest rates by 0.5%. In addition, news from the World Bank that India's external debt reached a record high of $92 billion in 1993, marking an increase of $71 billion over 1980, and that foreign direct investment to India remains sluggish, may have begun to worry the foreign investors. However, neither Secretary Brown's efforts to project the stronger side of Indo-U.S. relations nor Washington's growing support to India can be faulted for the recent reverses, whether they prove temporary or permanent.

Mt. Pelerin wages war on French dirigism

by Mark Burdman

As *EIR* has reported, the conceptual command center for the present "Conservative Revolution" offensive, spearheaded by the group in the United States whose chief advocates are House Speaker Newt Gingrich (R-Ga.) and Sen. Phil Gramm (R-Tex.), is the Mont Pelerin Society. This is the umbrella grouping for "radical free market" ideologues, such as Nobel Prize economist Milton Friedman. It was launched in the late 1940s, with the backing of Winston Churchill, on the basis of the ideas of Austria's Friedrich von Hayek. Von Hayek, who in his later years lived in Great Britain, was a strong admirer of the ideas of such British East India free trade ideologues as Adam Smith and John Stuart Mill, and sought to synthesize their ideas with a "liberal" philosophical-economic policy tradition from the European continent.

According to a senior Mont Pelerin source in Europe who spoke freely "on background," one of von Hayek's chief obsessions during his lifetime was to undermine the tradition of state-directed credit for productive investment that had been promoted in France, beginning in the 17th century with Jean-Baptiste Colbert. That policy is known as "dirigism." It was reinvigorated and pursued aggressively in modern times by President Charles de Gaulle. Support for such state intervention is deeply rooted in the French population. Von Hayek's view, shared by his epigones today, is that their global objective of a fully "liberal free trade" regime and untrammelled financial speculation, could not be achieved, unless dirigism *à la française* would be discredited, beginning in France itself and then in other countries where dirigism is seen as an attractive policy approach.

The source noted that, even with the past years' increasingly liberal policies of Socialist President François Mitterrand and the various governments that have ruled under his presidency, whether socialist or "Gaullist," the support for a dirigist policy has not been weakened significantly in the population. Hence, Prime Minister Edouard Balladur (who will likely be France's next President following May 1995 elections) may have high popularity ratings in the polls, but this apparent popularity is seen to exist despite his measures to "privatize" key sectors of formerly state-owned French industry and his cozy relations with top figures in private banking and high finance.

Part of the upgraded offensive against French dirigism is