# Growing Concerns About Economic Policy Direction in India

by Ramtanu Maitra

While "growth" is the key word for overall stability in Beijing, the Indian government of Prime Minister Atal Behari Vajpayee is finding it difficult to convince citizens that India has the wherewithal to achieve, and maintain, as China did for years, a double-digit growth rate for any extended period of time. What makes the ruling Baharatija Janata Party-led coalition government even more worried, is that a section of the population, many of whom are its political supporters, have begun to question whether the government is fully aware of what "growth" really means.

The economic debate on the growth issue, however, is yet to reach a dimension which can threaten the political stability of the Vajpayee government. It may not be an issue in the short term, but the government, and the Finance Ministry in particular, has earned little credibility by claiming that growth is what the government is after.

In this, too, they have bungled. After insisting for months that the growth in the present fiscal year (April 2000-March 2001) will be more than 7%, and then, scaling down the growth rate to a lower figure, which Delhi may have to abandon in the coming couple of months, the Vajpayee government has given the impression that all it wants is to put forward a rosy economic picture. What is evident, however, is that with the exception of the mining sector, all sectors have shown a drop in growth.

As the global economy has begun to slow down, some observers point out that Delhi will have to forego its mantra of "growth" and deliver real development. Even if the world economy does not shrink significantly in the present fiscal year, the Indian economy, which is not overtly dependent on the health of any single nation's economy, will find it difficult to attain 5% growth. Meanwhile, the government is trying to fend off queries about how bad inflation will be by the end of this fiscal year. If the indicators turn out to be relatively accurate, India will be facing a 6% inflation rate by the time the present fiscal year comes to an end.

Echoing such concerns, a spokesman for India's leading chamber of commerce, the Confederation of Indian Industries (CII), said at a press conference in Delhi on Dec. 4, that the "slowdown in industry is becoming more ominous" and is going to take its toll on the overall growth of the nation's economy.

### What Is Wrong?

It is not very difficult to find the things that are wrong with the Indian economy. It is yet another matter, however, to make them right. More important, perhaps, is the issue of priority. In other words, what things are to be set right first in order to achieve real development. It is in prioritizing what things should be made right first, that the Vajpayee government has perhaps faltered. What Delhi fails to realize—and there are many economists, Indians and foreigners, who are ready to delude the politicians—is that while growth can be eked out, development needs greater focus and a clearer vision. By emphasizing the strengths of the economy entirely on the basis of India's foreign exchange reserves, its ability to attract foreign direct investment, to achieve greater exports and imports, to ensure liquidity flow to India's stock markets, and then, identifying them as the main indicators of development, the Vajpayee government got itself out of the development track and into the treacherous and slippery "growth" path.

A clear indicator is the domestic economic outcome for the first half of this fiscal year. The electricity sector in India, a power-starved nation, has attained only a 3.4% rate of growth in the first half of this fiscal year. The figure for the equivalent period last year was 7.7%–not adequate, but much more respectable than what the government could deliver this year. Across the board, sectors are registering drops in growth. If the Finance Ministry's figure of 6% growth is to be attained, both manufacturing and industry have to attain double-digit growth in the second half. How that would be possible with the electricity sector lagging so far behind, is anybody's guess.

The problem is that it is not only the Vajpayee government which is suffering from such lack of focus. Economic managers have dictated policy to all the governments that came to power in the 1990s. None had the vision or the courage to respond, not only to the immediate situation, but also to the future.

In some ways, this government has some focus, but it has not succeeded in translating that into a real gain. For instance, last year Prime Minister Vajpayee had correctly identified that India's progress, which means pulling 300 million Indians out of unspeakable misery and providing them with some economic dignity and freedom, depends heavily on the huge small-scale sector. Outside of agriculture, India's small-scale sector provides employment for the largest number of people. It also accounts for about 65% of India's manufactured goods, and contributes generously to India's exports as well.

But the state of India's small-scale sector is for one to see. The Prime Minister did see it and recognized it, but did not act upon it adequately. Some financial sops were offered to the small-scale sector, but no concerted effort was made to institute a long-term mechanism whereby small-scale firms can receive first-rate technologies. As a result, India's small-scale sector has remained vulnerable to global manufacturers. Some Chinese companies have already identified the weakness of many Indian small-scale manufacturers, such as those for glass, bicycles, plastics, and toys, among others. The Indian market is getting swamped with illegal Chinese products, and foreign manufacturers are now slaughtering the small-scale manufacturers who should have been strengthened years before. While the Indian reformers, since 1991 in particular, were assuring the consumers and manufacturers that globalization will usher in "competition," which will beget "efficiency," which will beget "productivity," and which will provide the investible surplus, what happened in reality is that India's manufacturers were weakened. So far, Delhi has not responded seriously to this problem.

## Lack of National Capital

The other failure of Delhi, is its increasing dependence on foreign direct investment (FDI). Most of the foreign direct investment has come in the form of speculative investments in India's stock market, where select scrips have seen a steep rise in their stock prices, while stocks of some of major Indian manufacturers have continued to languish at very low valuations. These investments could leave just as easily as they came, leading to a greater financial instability in India's financial markets.

India's efforts to bring in FDI in major infrastructure sectors, such as power, ports, highways, and communications, have not met with significant success. In the power and telecommunications sectors, some FDI has come in, but India had to pay a heavy price for it. The highly controversial Enron Power project has weakened the Maharashtra State Electricty Board significantly, because it is selling power to consumers at less than half the price that it is buying power from Enron. In essence, the state is subsidizing Enron.

The government is also feeling pressure on infrastructural weaknesses from the captains of Indian industries. In an action plan submitted to the government in late November, the Associate Chambers of Commerce and Industry (ASSOCHAM) has called for immediate steps to upgrade technology, improve maintenance, extend use of information technology, and bring in fresh investments in Indian Railways. Stressing the need for railways to embark on a high-growth trajectory, the reports deplored that no fresh technology has been injected into the Indian railway network in recent years. "The technology of the 1990s is far more efficient and cost-effective," the report added.

## Some Positive Developments

In the power sector, the Prime Minister's Office (PMO) has finally intervened. Recently, the PMO has given the mandate to the finance and power ministries to firm up the proposal and arrive at the payment security mechanism for three large projects—Hirma, Ennore, and Pipavav—by Dec. 10, so that the proposal can be put for approval in the Cabinet in the third week of December.

This is a significant move, as growth in the power sector is crucial for overall development of India's economy. The 3,960 megawatt Hirma project is promoted by Reliance-SEAP, the 1,000 MW Ennore project by the Aditya Birla Group, and the 2,000 MW Pipavav project is promoted jointly by GSIDC and some overseas companies.

A major thrust has been given by the Vajpayee Administration to make liquid natural gas (LNG) a major energy source of India in the future. Four large foreign-financed projects are on stream now. A consortium headed by British Gas, which includes India's National Thermal Power Corporation (NTPC), is planning an import terminal at Pipavav, which will handle energy imports from Yemen. Enron is also building a terminal to import gas for power generation in Maharashtra. The LNG will come in from Oman and Abu Dhabi. Enron's MetGas unit would distribute gas to other consumers in southern India via a pipeline grid. Another consortium, headed by Siemens, Woodside Petroleum, and Unocal, is planning to build an import terminal at Ennore to supply gas for power generation. TotalFina of France, in a joint venture with Tata Electric Company and the Gas Authority of India Limited (GAIL), is planning a facility at Trombay, which will supply gas to a power station and other users in Maharashtra. Petronet, a joint venture of India's public sector companies, plans two import terminals, one at Dahej and the other at Cochin. Qatar's RasGas has signed an agreement for LNG supplies beginning in mid-2003.

Similar developments have also occurred in various highway projects that are now being undertaken. India is in the process of building a four-lane north-south and a four-lane east-west highway corridor. These highways are scheduled to be completed by the year 2005.

The other area of growth is in India's Information Technology (IT) sector, which has grown phenomenally in recent years. However, the contribution of the IT sector, while still minimal in the context of India's overall economy, is now producing 1% of India's GDP.

Despite the fast growth registered by the IT sector, much of the hardware and equipment used in India comes from abroad. India's hardware manufacturing is less than that of China, Taiwan, Korea, Malaysia, Singapore, Thailand, and the Philippines. The fast growth of the IT sector has ushered in yet another problem. The huge increase in salaries of senior managers and the professionals in the IT sector have created what the Prime Minister described as a "digital divide" within the Indian workforce. Expressing concern over such disparity in income, Prime Minister Vajpayee has urged caution to those who are pushing faster development of the sector.

Inaugurating a conference on "Globalization and Democracy" in Delhi on Dec.5, Vajpayee warned that the continued deprivation of the poor of the benefits of globalization could pose a threat to world peace, stability, and orderly progress. "Why has globalization not met with enthusiastic acceptance by all the people all over the world? The answer . . . lies in our failure to cast globalization in a democratic mold," he said.

Delhi has taken some important new initiatives, which may in the future bring economic benefits. India's recent oil-for-food barter agreement with Iraq is going to benefit both nations. India has shown serious intent not to remain dependent on a single source for oil and gas. In this context, India's bilateral agreement with Malaysia and Nigeria is of great import. Baghdad has reported that India will be developing Iraq's Tuba oil field in order to further strengthen its bilateral relations with Iraq and solve some of India's huge energy problems.

# Ugandan Ebola Fever Outbreak Is Not Under Control

by Linda de Hoyos

The death on Dec. 5 by Ebola fever of the doctor in northern Uganda who first issued the alert that the fever that was presenting could be Ebola and forced its testing, has refocussed attention to the fact that the epidemic of Ebola fever is not under control. Dr. Matthew Lukwiya, Medical Superintendent of St. Mary's Hospital in Lacor, Uganda, died of the Ebola fever after working double shifts for days caring for nurses who had contracted the disease. The epidemic of the deadly hemorrhagic fever broke out in late September. Since he first forced the testing and diagnosis of the Ebola fever, Dr. Lukwiya had led a staff of nurses and doctors, working with Ebola specialists from the Atlanta Centers for Disease Control and the World Health Organization (WHO), in efforts to halt the epidemic.

Ebola swiftly kills its victim by the beginning of the second week of the appearance of the symptoms. The virus causes a disintegration of the walls of blood vessels, thus causing a breakdown of organs and hemorrhaging. Very little is known about the virus, and researchers are in as grave a danger working with it as health workers are in treating people.

In this latest outbreak of Ebola, 359 people have come down with the disease and 151 have died. Thanks to the work of Dr. Lukwiya and others, the death rate for Ebola, which was 85-90% during the last major outbreak in the Congo in 1995, was brought to the 40% range.

There is no known treatment for Ebola fever at this time. The Centers for Disease Control assured inquirers that "Dr. Lukwiya received the best support we know how to give. His death, along with all the others, shows us how terrible this disease is and that we still have a long way to go to find effective therapies."

Dr. Lukwiya's death is a terrible shock to the Acholi community of northern Uganda, which has borne the brunt of the Ebola outbreak, and also to the international community. News of his death circulated around the world in newspapers from Japan to India to Brazil to the United States.

## New Cases Are Continuing To Present

The news of the latest outbreak has now given the lie to the report issued by WHO on Nov. 29, the day before Dr.