From New Delhi by Susan Maitra

India and 'the Brady Plan'

With increasing debt service, New Delhi prefers not to bite the hand that may offer it feed.

If India's role in the present round of International Monetary Fund-World Bank meetings on international financial matters is any indication, meaningful initiatives are not to be expected from the nation that was the former head of the Non-Aligned Movement.

India's Finance Minister Mr. S.B. Chavan told the Interim Committee meeting April 4 that the so-called Brady Plan smacked of a bailout for the commercial banks and diversion of resources for development.

But Mr. Chavan's protests in the same meeting that India did not oppose assisting the most indebted nations of Ibero-America, and only wanted assistance spread evenly around the world, point to the contradictions in India's stance.

Earlier, according to Indian news agency reports from Washington, Chavan had told the Group of 24 developing nations that while India welcomed the U.S. inclination to provide relief to developing countries, as envisioned in the "Brady Plan," the strategy would only benefit countries not prudent enough to manage their economies, putting at a disadvantage countries like India who had done comparatively well. According to the same report, Pakistan, Communist China, and other Asian countries "where debt is not a problem" shared India's concern.

Who is kidding whom? The P.R.C. is heading fast into the "debt trap," and Pakistan is already deep in the clutches of the debt dilemma, with extensive and intrusive IMF involvement in its economy. Less well known is that India also has one leg in the "Latin American syndrome."

While Indian officials may choose to chide others' "irresponsibility," India's foreign debt is soaring, producing a debt service ratio that already qualifies India as a "problem case." The burgeoning balance of payments crisis shows no sign of reversal, and a declining rate of savings and a non-performing public sector have added pressure on the development budget.

With external debt at an official $40 billion or so, debt servicing has jumped from 8.5% of total external receipts in 1979-80 to 24% in 1988-89—well within the IMF's "danger zone"—according to the government economic survey for 1988-89. But the official debt statistics have been widely questioned. The latest estimates from private sources put the actual debt as high as $60-85 billion—which means that the debt service ratio is more likely in the range of 35% (or 60% of export earnings).

The balance of payments picture as a whole is no less bleak. According to the latest Commerce Ministry report, provisional data for April 1988 to January 1989 show that the trade deficit has increased by about $1 billion in the past year. During this period import growth at 27.5% outpaced exports at 26.9%.

The top two import categories, capital goods and petroleum, will be difficult to reduce. The failure to tap major new oil reserves will keep petroleum at the top of India's import list for the foreseeable future, at $2.7 billion in 1987-88. The rise in oil prices and threat of a new oil crisis could suddenly make this a devastating liability.

Import liberalization measures over the past four years have led to a doubling of capital goods imports to about $4 billion in 1987-88. In the prevailing economic policy regime this cannot be reversed, since improved technology to produce internationally competitive products is a necessary (if not sufficient) condition for expanding exports—the magic formula that both the World Bank-IMF crowd and the Rajiv Gandhi government officials say is the key to India's economic future.

In the last five years, despite declarations of an expanded export policy, exports haven't made a dent on the annual trade deficit. According to the Commerce Ministry, the trade deficit has increased from about $3.6 billion in April-January 1987-88 to some $4.7 billion in April-January 1988-89.

Government denials concerning rumors that India is negotiating for another big IMF loan are not to be taken seriously. Analysts here point out that already, foreign exchange reserves are back to the low level following the 1979 "oil shock" that prompted India's taking the $5.6 billion IMF loan in 1981, and that the question of a new IMF loan is not "if," but "when."

There is virtually no flexibility on current account, given the present policy path, these analysts stress. Diversion of funds from capital account, in light of a mushrooming internal budget deficit and increasing difficulty in raising domestic capital, would imperil development plans and poverty alleviation schemes. In fact, the government is trying to get World Bank permission to siphon off unused project funds for general use, and has been lobbying for more untied funds from aid givers and the financial institutions alike.