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From New Delhi by Susan Maitra

Economic blackmail and the Gulf war

The quest for an IMF loan is behind India's endorsement of the Anglo-American gameplan in West Asia.

India's growing economic crisis, and particularly the worsening balance of payments problem and acute foreign exchange bind, have been the subject of much discussion since December, when the ultra-minority government of Prime Minister Chandra Shekhar took over after several months of social chaos as the V.P. Singh government crumbled. At that time, it was discovered that foreign exchange reserves had plunged to a scant $1.5 billion, barely two weeks' worth of imports. The new government launched a worldwide canvassing drive for funds.

Now, as the curious fact that India has fallen into line behind the Anglo-American gameplan in West Asia has come in for close scrutiny here, the smell of financial blackmail is inescapable.

On Jan. 23, for instance, it was reported from Bombay that two Indian commercial banks with branches in West Asia had successfully negotiated an unprecedented $3 billion deposit from "certain individuals, including members of the Saudi royal family." The Reserve Bank of India gave its permission to the unusual deposit, to be held as a long-term certificate of deposit bearing "a mutually acceptable special interest rate."

Days earlier, on Jan. 19, the International Monetary Fund (IMF) finally gave its approval to a $1.8 billion loan package. The package consists of two credits: $777 million as a first credit tranche standby arrangement for three months from Jan. 18; and $1.09 billion under the oil import section of the Compensatory and Contingency Financing Facility (CCFF). Both loans are repayable in five years and bear an interest rate of 9%.

But, as Finance Ministry officials admit, $1.8 billion will only provide a "breather." A larger loan was in fact sought, but the IMF refused to consider it unless the 1991-92 budget, due to be unveiled in the "budget session" of Parliament in the third week of February, contains specific provisions for cutting the deficit, reducing subsidies and restoring fiscal balance. Now the plan is to make formal application for a "structural adjustment" loan of some $3-5 billion (depending on the course of the war) in March or April.

According to the *Economic Times,* India's leading economic daily, Ministry of Foreign Affairs officials acknowledge that the quest for an IMF loan was behind India's stand on the Gulf. American officials are no less candid, claims the daily, and have readily admitted that the IMF loan might prove more effective than any diplomatic channel in silencing India on the Gulf issue. The high-profile refueling stops in Bombay of American military transport planes shuttling between the Philippines and the Gulf war theater since the beginning of January—even though there is no military reason for them to need to do so—are an advertisement for the success of the muscling operation.

In approving the first loan package, IMF officials emphasized the need for strong measures to correct the budget deficit and boost exports. Indeed, between Christmas and New Year's Eve, Finance Minister Yashwant Sinha had already pushed additional taxes for the current fiscal year, amounting to $670 million through Parliament, and announced that the 25% oil price surcharge imposed in October would be continued through 1991-92.

At the meeting of the parliamentary consultative committee to the Finance Ministry Jan. 28, Sinha vowed that the Union Budget for 1991-92 will reduce the fiscal deficit to 6.5% of Gross Domestic Product (GDP), from 8.3% at present. How this will be done will be revealed over the coming weeks, as the budget is given final shape. The parameters of the problem, hang largely on the price of oil.

India's annual budget is now about $50 billion-plus. It is estimated that some $5.6-6.1 billion will have to be found through increased revenues or expenditure cuts or both, to bring the deficit down to 6.5% of GDP. If the price of oil stays in the $15-16 range, the oil price surcharge (designed to recover the full burden of a $25 oil price), will automatically produce a kitty of more than $2.8 billion for the government, assuming that consumption stays high. But, should the oil price move above $25, the full $6.1 billion will have to come from fresh taxes and drastic (and politically explosive budget cuts).

Any faltering in the country's tenuous export drive could also prove disastrous. As the foreign exchange crunch of recent months indicates, India's external debt has jumped to $70 billion, and debt servicing was already eating up over 30% of the export earnings as of 1989-90. The depression-driven downturn in world trade, sent into a new ratchet by the Gulf war, has already shut the door on India's export prospects for the near term. It is estimated that exports for 1990-91 will end up at about $16 billion, just about three-fourths of the $22.3 billion target, and representing zero growth from the previous year.

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