British demand banking Raj in India

by Kathy Wolfe

Four top officers of Citibank's treasury department in Bombay, India's commercial capital, were fired, banking sources said on Jan. 18, after a team from the U.S. Federal Reserve Board flew in the previous week to probe the role of U.S. banks in India's 60-billion rupee ($2.1 billion) bank scandal. A Citibank spokesman admitted that "four people have left the bank," but would not relate this to "the scam," as it is known locally.

Ram Niwas Mirdha, chairman of the Joint Parliamentary Committee (JPC) investigating the scam, accused the foreign banks of initiating the fraud, and there are charges of large-scale drug money-laundering. Forty Indian bankers and brokers, four officials of the central bank, and several drug traffickers have been arrested. Britain's Standard and Chartered Bank was charged Jan. 6 by the JPC with maintaining an illegal *vastro* account in Bombay, against which the bank converted a several million rupee check into pounds, depositing these in the account of a mysterious Mr. Sood in England. This is in direct violation of Indian currency law. So far, no foreigners are charged, but sources said that the exit of the Citibank four will prompt "renewed digging" by India's JPC and central bank.

The scam broke last May, when Standard and Chartered, Citibank, Bank of America, Australia-New Zealand Grindlay's, the State Bank of India, and a dozen other Indian banks were caught by the Reserve Bank of India issuing $2 billion worth of phony "bankers' receipts." These IOUs, in Indian rupees, were based on Indian government bonds which the banks claimed to hold, but which did not exist. The banks loaned IOUs to broker Harshad Mehta, the Ivan Boesky of India, and others, using them to run up a bubble on the stock market, doubling the Bombay Exchange Index to over 3,600.

Mehta, also suspected of drug money links, was found after his arrest to have dubious bank accounts at Crédit Suisse in Geneva, and in Germany and Dubai.

Unfazed, Anglo-American bankers at the Bank of England, Standard and Chartered, and Citibank have arrogantly demanded that India kneel to a new financial version of the British Raj. The scam shows that India needs to junk its old financial laws, they told *EIR*, and open its banks further to "free trade," including bank deregulation and the convertibility of the rupee. This would cause capital flight out of India, just as it did in Ibero-America in the 1980s.

Colonial throwback

The scam should "force them to make the effort to bring Indian banking practices into conformance with international practices," is how Standard and Chartered economist Robert Thomsitt in London put it in an interview. "India having been behind tariff walls, protection, for all those years, their economy is very inefficient, and the banking thing is an extremely important part of the process: They must reform and deregulate the financial sector, otherwise the whole economic reform process won't work. You *cannot* have an efficient economy without a good banking system, which has reasonable judgment about lending to the right sort of enterprises, and providing the right sort of facilities which a modern business requires."

Just what the British consider the "right sort of enterprise," Britain's Standard and Chartered should know. Along with the Hongkong and Shanghai Bank, they have been in India since the 19th century. During the Raj, these banks financed British India's opium plantations, the export of which was imposed upon China in the 1840s Opium Wars.

British banks along with some American newcomers now have dozens of offices taking trillions of deposits in rupees. An Aug. 26, 1992 report by the Reserve Bank of India estimates the foreign banks transacted a whopping $319 *billion* equivalent in Indian rupees in the securities markets during the year to May 1992. Citibank alone did $8.26 billion in stocks and government securities deals.

Now the Anglo-American banks want India to make the rupee fully convertible to the dollar and the pound, and allow foreign banks to take over the domestic banking system. "Given that the state banking system in India is bankrupt, their assets are absolutely worthless," Thomsitt said "The foreign banks clearly have an important role to play, in the sense that foreign banks are at the forefront of banking, they have the modern techniques, they have the marketing, the instruments, they can introduce efficient banking, which the state sector in India cannot provide.

"The Indian government recognizes they've got to mothball, if you like, the state banking sector," which currently holds 90% of the banking assets in India. "The scam has got to die down first, but, in a politically acceptable way, with this deregulation process, they've got to make things attractive for foreign businesses, including the foreign banks, to operate. They will, I expect, liberalize on a gradual basis their licensing of foreign banks." Indian officials close to the Anglo-Americans make no secret that they would like to use the scam to "make the Indian government speed up its reform of the banking system," as Reserve Bank of India Governor S. Venkitaramanan told Reuters on June 15.

The governor was traveling at the time to Basel, Switzerland, to visit the Bank for International Settlements, which issued a memo earlier that month demanding control over national bank regulations in India, China, and other Third World nations that are not BIS members.