

## From New Delhi by Ramtanu Maitra

### Currency collapse looms over India

*Despite repeated assurances from the Finance Ministry and the Reserve Bank of India, the rupee continues to fall.*

**T**he Indian economy is in shambles, and the rupee is heading the way of the Southeast Asian currencies. Repeated statements issued daily, to the effect that "the Indian economy's fundamentals are strong," by the Finance Ministry and the Reserve Bank of India (RBI, the Central Bank), intended to reassure investors, have had no effect whatsoever.

On Nov. 24, the day the Yamaichi brokerage house in Japan went down, panic set in on the Bombay Stock Exchange, the premier bourse in the country. The rupee fell to a historic low of 38.50 to the dollar. It recovered somewhat after the RBI pumped some \$500 million into the market.

There is no doubt that the rupee is in for some real trouble. After the RBI had assured investors that it would keep the rupee at 37.80 to the dollar, it spent some \$200 million on Nov. 21 in an effort to maintain parity. But, on the very next day of trading, the RBI allowed the rupee to slide further. Exporters are hoping that the rupee becomes as cheap as 40 to the dollar. It is likely that they will get their wish in no time.

The man who holds the reins of the RBI is Dr. Bimal Jalan, a favorite of the International Monetary Fund-World Bank crowd who was fired from his job as finance secretary by then-Prime Minister C.S. Chandrasekar for peddling the IMF line. It is obvious that Jalan, who began his career working for the World Bank, has godfathers. It must also be said that Jalan is not the worst of the lot aspiring to be RBI governor. But, surely, Jalan belongs to the club that controls India's

economic policies now.

Jalan was appointed governor by Finance Minister Palaniappan Chidambaram, India's whiz kid whose close association with Jeffrey Sachs, the wrecker of the Russian economy, is key to understanding the IMF-World Bank vise-like grip on India's economic policies today. It is a certainty that the current 13-party coalition government is near collapse, and Chidambaram will lose his job. The bad news is that he may continue as finance minister in a caretaker cabinet till the country goes to the polls early next year.

During his seven-month tenure, Chidambaram has campaigned for closer integration of the Indian economy with the global economy. That India does not have the institutional mechanism or capability to fend for itself against the cannibalistic currency speculators, had never been much of his concern. His repeated assertion that the health of the economy is good because the inflation rate is low, forex reserves are "high," the fiscal deficit is being reduced, and GNP growth is significant, has, almost like a chanting mantra, played over again and again mindlessly.

The most serious problem that haunts the Indian economy is the stagnation of the industrial sector and continuous deterioration of infrastructure. India's agricultural and mining sectors have done well in recent years in preventing a catastrophe. A recent study by R. Nagraj of the Indira Gandhi Institute of Development Research shows that in the post-reform period, beginning in 1991, much of the IMF-

directed structural adjustment has resulted in investment in tertiary sectors, taking investment away from manufacturing. It also noted that the "profits" generated in the capital market, and which show up in the GNP growth calculations, went into inter-corporate investment and real estate.

Nagraj points out that during the reform process, the growth in physical investment, which is cited by the Finance Ministry as a sign of success, had changed composition, away from infrastructure and manufacturing. As a result, industrial output has slowed rapidly and export has become more dependent on the cheap rupee. The promotion of the private sector by the IMF and its backers has resulted in a growing negative trade balance, because the corporate sector is a net importer.

However, what is devastating, is that the annual growth rate of the manufacturing sector, measured by the index of industrial production, during the six years since the reforms, is, in fact, lower (6.4%) than during 1986-91 (8.9%). The biggest loser has been the capital goods sector, whose annual growth rate fell nearly 60%, to 6.4%.

But, it is likely that Chidambaram does not correlate these data with what is happening in the economy. In a keynote address to a recent seminar on "Emerging Asia," he did not caution duly about the poor state of economic affairs, which is of concern to most Indians, but harped on his pet theme of the currency market. He said that the short-term depreciation of currencies below their intrinsic value is "an unavoidable price that developing countries have to be prepared to pay to stem sudden outflows."

Chidambaram is wrong here, too. Recently, both Thailand and Malaysia have experienced depreciation of their currencies and sudden outflows almost simultaneously.