

Bush's visit: economic implications for

By M. Sharif

On the eve of president Bush's visit to New Delhi for three days and for one day to Islamabad during the week ending 4th March 2006, economic scenario and expectations in both the countries were upbeat. Their public and leaders were looking forward to developing profound understanding with Washington on bilateral economic relations ranging from access to US market by inking favourable agreements and treaties that were to focus on investment and transfer of technology from the US. The benchmarks of the two economies were at wide variance and US global interests dictated the terms of president Bush's visit. This obviously led to evolving different strategies and responses by the US for New Delhi and Islamabad. President Bush's visit has left behind too many expectations and promises particularly for New Delhi.

Outcome of his visit to Pakistan did not measure up to expectations. But, more pertinent than this, is the point: how would the two countries gear up their economies in the context of neo-liberal economic regime and democratic values to which Washington stands committed, at least on the face of it, and fulfil US strategic demands?

Indian economy

A cursory look at the Indian economy is essential particularly with reference to adopting neo-liberal or free market economic regime in the past for over a decade. The Indian economy is out of the deep hole of the 'Hindu economic growth' rate of 4 per cent of GDP. It was its characteristic till the Indian government opted in 1990 to liberalise the economy. Its architect was the then finance minister Dr. Manmohan Singh, now the prime minister. Liberalisation was an arduous task in the democratic, pluralistic society and in an economy dominated by public sector. The reforms have ultimately paid-off. During past three financial years (from 2004 to 2006 ending in March each year), the economy has grown 8.5 per cent, 7.5 per cent and 8.1 per cent of GDP respectively. It made a "self-correction" through a popular vote in 2004 against BJP led government, which pursued urban-specific economic growth.

Throwing BJP government out of power gave a clear message to the Congress-led coalition government that economic growth is not to centre around macroeconomic indicators and that economic interest of 400 million Indians living below poverty line have to be taken into consideration. Last-year and this year's budget reflected this state. That is how intrinsic link between democracy and economic growth to serve the people stands validated in a developing/emerging economy. President Bush's also highlighted this point.

On 28th February 2006, the Indian finance minister unveiled a populist budget. He projected economic growth of 10 per cent of GDP, against 8.1 per cent growth for current fiscal year. Fiscal deficit is projected at 3.8 per cent of GDP against 4.1 for current fiscal year, instead of 4.3 per cent as initially forecasted. Inflation runs 4.02 per cent at present are to be contained further. Total outlay of budget is Rs5639.91 billion or \$126.8 billion. Total revenue is estimated at Rs4034.65 billion against revenue expenditure of Rs4881.92 billion with a net revenue

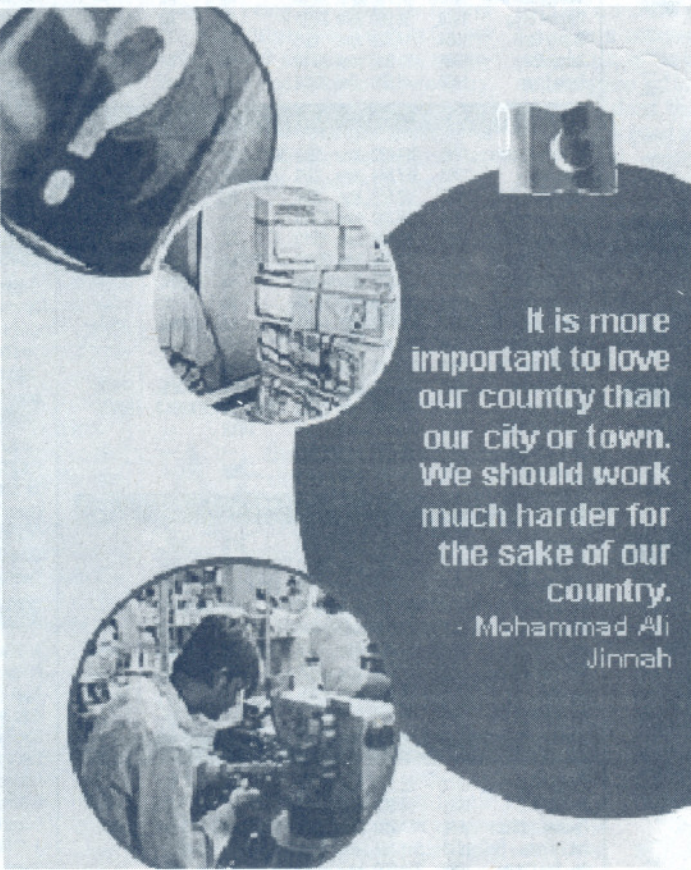
deficit of Rs847.27 billion. It is 2.1 per cent of GDP. Fiscal deficit is estimated at Rs1486.86 billion, 3.8 per cent of GDP. The budget shows a visible shift towards improving agriculture sector (32 per cent hike in term credit), health and family care (22 per cent increase) and infrastructure development (54 per cent increase) with a view to bring amenities to rural India. Tax revenue has shown upward growth of 20 per cent during past three years. Tax rate on services sector that contributes to 54 per cent of GDP has been increased from 10 per cent to 12 per cent. Two-digit economic growth, which the finance minister wants to sustain, is said to be the "best anti-dote to poverty". He looks up to creating second green revolution that is neces-

plement and consolidate reforms, which impact the lives of rural poor". This is the real challenge of executing budget proposals.

US connection

New Delhi-Washington strategic partnership has economic, political and military dimensions and objectives. They are inter-connected and cannot be realised in isolation. Washington eyes India's growing middle class of 300 million people for its corporate sector. They are getting gradually addicted to consumerism of western style. It would tremendously benefit US investors and commercial organisations. The Indian finance minister was candid to highlight this point to US

business leaders who accompanied president Bush's to India. He said, "this is very different India — Asia's third largest economy can sustain 8 per cent growth — I want your money, technology, good management policies, good governance norms". He was of the view that bilateral trade could be doubled to more than \$40 billion in next 2-3 years from existing level of \$26 billion and FDI could be increased substantially from mere \$5 billion in the past five years, in a total FDI of \$37 billion that India attracted from different countries. India has opted to be economic (and military) counter-weight to China in next two decades. It has for this purpose reversed non-alignment foreign policy and is inclined to open its market selectively. It aspires to become a middle-income country during next fifteen years and raise its share in global market to 1.5 per cent by the end of fiscal year 2008-09. The Indian psyche of becoming a regional military players and a counter-weight to China, a rising military power of \$35 billion defence budget, which Washington is determined to contain with Indian's help, is well articulated by 7.2 per cent increase in defence budget. It will be \$20 billion in a total outlay to 126.8 billion.



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sary to get the target of economic growth rate. President Bush's contributed \$130 million as a first step towards green revelation.

India's shining side of economy is not without its dull side. Foremost factor is the coalition status of the Congress-led government supported by 63 votes of left parties in the parliament which inhibits government to loosen rigid labour laws, open up India to foreign insurance, retail investment and say goodbye to subsidy culture and also to privatise public sector commercial entities.

Economist and analysts are of the view that obstruction such as, "lack of proper delivery system and very slow implementation of budget proposals... inability to make large investment in agriculture to improve rural connectivity need to be addressed squarely because there is no room for rhetoric. It is time to im-

Pakistan economy

Seen in the regional context, national economy has strong micro-economic indicators. The national economic council (NEC) meeting held on 28 Feb 2006 was informed that economy is poised to grow between 6.5 per cent and 7 per cent of GDP during current fiscal year. Overall, poverty has declined from 32.1 per cent in 2001 to 25 per cent in 2005. Manufacturing and services are maintaining momentum despite tragic earthquake in October 2005 and increase in international oil prices to more than \$60 per barrel. The economic vision 2030, a first major step in futuristic planning focuses on water and food security, improvement and upgradation of infrastructure, adoption of new technology to improve productivity and sustain growth and

South Asia

South Asia - Eco.

competitiveness. These are welcome ideas with laudable goals. But, at present the state of economy with reference to inflation, decreasing forex reserves, and balance of payment (BoP) need to be scrutinised to avert crises like hike in sugar price due to low production and profiteering and the wheat crises in the making, mostly because of high production and un-utilised stocks. Notwithstanding concern about selected macroeconomic indicators, the economy is well poised to sustain growth momentum, attract investment through privatisation, portfolio and direct investment.

It was expected that president Bush's visit to Pakistan would give further impetus to economy but this has not happened. Signing of Free Trade Agreement, bilateral investment treaty and access to US market, has not taken place. Much faith has been placed in future talks concerning these vital economic issues that concern Pakistan. It hardly augurs well for the economy.

South Asian economic scenario

Bush's visit to South Asia ended on an explicit economic roadmap that favours New Delhi and hardly in favour of Islamabad. The former fits well in US global strategy of containing China, the rising global economic and military power that must be counterbalanced by an economically and militarily mighty India. Washington has been wooing New Delhi since the cold war. Islamabad hardly fits in Washington's new equation; given the history of Islamabad-Beijing close economic and military relations on one-hand and Islamabad-New Delhi tense relations on the other.

President Bush's went ahead to sign nuclear cooperation treaty with New Delhi despite reservations by some of the US Congress members and in direct violation of NPT, with the dual purpose of meeting India's burgeoning energy needs with closed eyes to nuclear non-proliferation. Pakistan too, faces energy crises like India but has been given could-shoulder for the reasons of "different histories and different needs" as stated by president Bush's. US's "balancing act" that favours New Delhi would be a big boost for the Indian economy and 'friendly sidelining' of trade treaties and investment agreement with Pakistan would have dampening effect on economy unless some progress was made in the proposed talks that will take sometime to conclude. Our managers of national economy will have to work hard to correct economic fundamentals at home; put economy on road to competitiveness and shun dependence on easy inflows from donors and Washington. There is hard road ahead to achieve economic self-reliance.

Conclusion

The visit of president Bush has given green signal to lifting the Indian economy to new heights by easing the constraints she would have otherwise faced on account of lacklustre foreign investment, shortage of energy, old technology, poor management skills and access to US market. Pakistan has not been treated in a similar way despite President Musharraf's 'close' relations with President Bush. Only promises to this effect have been made; hopefully, they will materialise. When wishes would be translated into ground realities, Islamabad's task to maintain regional economic (and military) balance will become more demanding than ever before. It will be a case of "survival of the fittest".