US Investors Now Expect Deeds from Mukherjee

FM expected to do more on the pace of reform & address fear that frequent increase in interest rates are making credit more difficult to obtain

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Officially, the mission of Pranab Mukherjee's just-concluded trip was to attend the second annual meeting of the India-US Financial and Economic Partnership. The finance minister brought with him perhaps the most star-studded Indian economic team to visit Washington for a bilateral event.

The delegation included chieftains and key officials of nearly all major economic and regulatory institutions that oversee the $1.5 trillion Indian economy, among them, Reserve Bank of India Governor Duvvuri Subbarao and the country's Chief Economic Adviser Kaushik Basu. Similarly, the US side, led by Treasury Secretary Timothy Geithner, also had heavyweights, including Fed Chairman Ben Bernanke and Securities and Exchange Commission chairwoman Mary L Schapiro.

Their presence made the meeting of the Financial and Economic Partnership, a permanent cabinet-level forum launched last year to discuss bilateral economic and financial regulatory policy, the "highest level economic and financial meeting ever" between India and the United States, as described by a joint statement the two sides issued.

As expected, the policymakers from the two countries discussed a broad spectrum of issues covering all aspects of their economic relations, even though it resulted in no major treaties. That included the challenges both nations are facing during these tough economic times, expansion of bilateral trade and investments, financing of the much needed infrastructure development projects in India, and cooperation in multilateral forums such as G-20 to bring about "sustained, and balanced global growth."

No doubt, at a time when commercial ties have become an important element of their strategic relations, the earnestness both sides showed in gathering such an extraordinary collection of senior policymakers signal how serious they are in taking the ties to the next level. It also reveals the distance India and the United States traveled in advancing their commercial ties since the early 1990s, when New Delhi began implementing market reforms.

As they stated in the join communiqué, in the past decade, "Indian exports to the United States grew by nearly 180% and American exports to India increased over four times" and "combined bilateral US-India foreign direct investment grew by nearly 165% between 2005 and 2009."

But besides attending Financial and Economic Partnership meeting, Mukherjee had another important mission: reassuring US and global investors about the health of India Inc. Complaints about the direction of the economy had been growing both within India and outside over the past few months. Many were even beginning to ask whether the country can fulfill its vast economic potential under its current leadership.

Reading between the lines: FM at a US airport recently

For the first time in several quarters, the growth rate had fallen below the psychologically important 8% mark. Sustained inflation, corruption charges against several high-ranking officials and, above all, the government's decision to go slow on reform had made investors nervous. The international investors' anxiety was reflected in a decrease in investments in the first half of the year.

The general impression overseas is that while certain issues, such as corruption, were beyond the government's and the finance ministry's control, the responsibility for the slow pace of reform rested squarely with them. Even on inflation, the Reserve Bank of India's decision to raise the interest rate has not won many friends among businesses, who fear that the move might make credit more difficult to obtain.

Throughout his three-day stint in Washington, Mukherjee used the unique bully pulpit this city provided to counter critics and make the case that recent setbacks are an aberration, and that the Indian economy is on the right track.

At his first public appearance, a conference jointly hosted by the Confederation of Indian Industry and the Brookings Institution, the finance minister said India's economic reforms are constant and that structural reforms have been completed. "Reforms in the mutual funds market, insurance sector, banking sectors, pension, etc are underway and the necessary legislations have been introduced in the Parliament," he said.

The minister also signaled to the Americans and other international investors that they will get a piece of $1 trillion pie, when India modernizes its infrastructure in the next few years.

Mukherjee also launched a media blitzkrieg, granting exclusive interviews to more than half a dozen influential news outlets from Washington, including the Wall Street Journal, Reuters, Bloomberg and several Indian media organizations.

In interview after interview, the finance minister stressed that while he was concerned about inflation and a slow first quarter growth rate, India's economy is going to pick up steam the rest of the year.

Overall, it was an effective charm offensive by the septuagenarian Mukherjee, whose recent Washington visits have all generated headlines. (In 2008, he signed the historic civil nuclear cooperation agreement on behalf of India.)

But what is going to reassure the investors in the United States and other countries is, more than his words, is his actions back home.

In fact, his host, Geithner, did remind the minister of that, politely and gently. At a joint press conference on Tuesday, the Treasury secretary recalled that American companies that are trying to enter the Indian market are still facing many hurdles "in sectors such as banking, insurance, manufacturing, multi-brand retail and infrastructure."

Reforms in the banking and insurance sectors, in addition to investment in infrastructure, will help both India and the United States, Geithner said, stating the obvious.

(Frank Islam is the co-author of the book Renewing the American Dream: A Citizens Guide. He is also a member of the advisory committee of the US Export-Import Bank and the Department of Commerce Industry Trade Advisory Committee.)