TERROR AND ECONOMY

Bharat Jhunjhunwala writes:

Dr Manmohan Singh is a worried man. Speaking at a conference in Delhi he expressed concern that terror attacks may cut investment and growth in the country. In truth nothing like that is likely to happen. Instead these attacks will act as a bitter tonic that will revitalize the economy. However, much depends on whether Dr Singh succeeds in his commitment to integrate economy with that of the world in these times of crisis.

The United States had imposed economic sanctions after the Pokhran explosions. The World Bank, following US diktats had put some loans on hold. America's Secretary of State Madeline Albright had loftily proclaimed that India had dug a grave for herself. Indian expatriates condemned Vajpayee saying that Indian Government should focus on removing poverty instead of making bombs. But the impact was altogether different. Very soon thereafter India led the world in solving the Y2K glitch which heralded coming on the global stage in the Information technology sector. And foreign exchange reserves continued to grow. The economy was able to bear through the disastrous impact of the Fifth Pay Commission.

The United States prohibited the export of cryogenic space engines for space and supercomputers for meteo-rological applications. That did not work. India soon developed these technologies itself. Imposition of sanctions, therefore, had two opposite effects on the economy.

The impact of the 9/11 attack on World Trade Centre in New York also does not appear to be negative. The US continued to be the centre of the world economy before—as well as after the attacks. Countries of the world, including India, continued to buy US Government securities to hold their foreign exchange reserves. The US continued to play the role of 'importer of last resort' for the whole world. Countries unable to sell their wares elsewhere would dump their goods in the US at howsoever low prices. US companies continued to make foreign investments in other countries. The rise in India's sensex to 21K was made possible, in part, by inflow of capital from the Wall Street after 9/11. The queue in front of the US Consulates for securing US visa has not become shorter after 9/11. In other words, 9/11 was followed by an all-round prosperity in the US.

Indeed, the US economy is facing a recession at present. But this cannot be blamed on terror. On the contrary, the present recession indicates that terror has failed. The US would probably have escaped this recession if 9/11 had been successful. The failure of 9/11 to dislocate the US economy resulted in that country continuing to borrow huge amounts from countries across the world through the sale of US securities. This easy supply of money enabled the Federal Reserve Board to give out housing loans at low rates of interest. In turn, this led to the making of the housing bubble which has now burst. The Fed would not have succeeded in giving out easy loans had 9/11 been successful; and the US economy would have been saved from the present recession. These instances indicate that the impact of terror attacks on investment in the Indian economy will be minimal.

The terror attacks may weaken links with the global economy. Trade and investment may suffer. However, this will be beneficial for the country in the long run. The negative impact on foreign tourism will also be offset by higher self-esteem among Indian people. In the result, these attacks will have impact such as that of acupuncture and revitalize the economy. $\Box\Box\Box$