

KROLL INFORMATION SERVICES

Opportunities and Risks in India

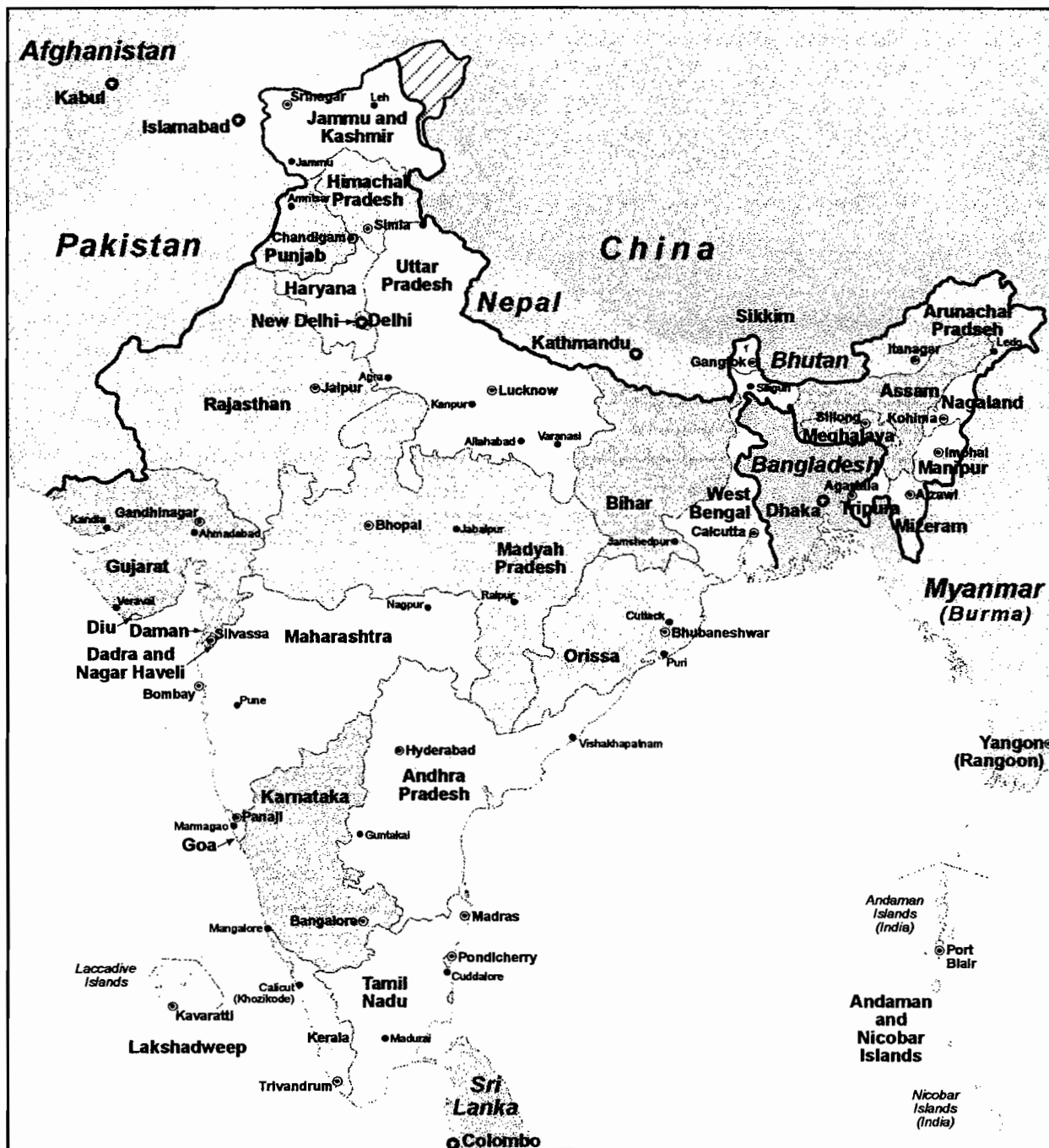
by

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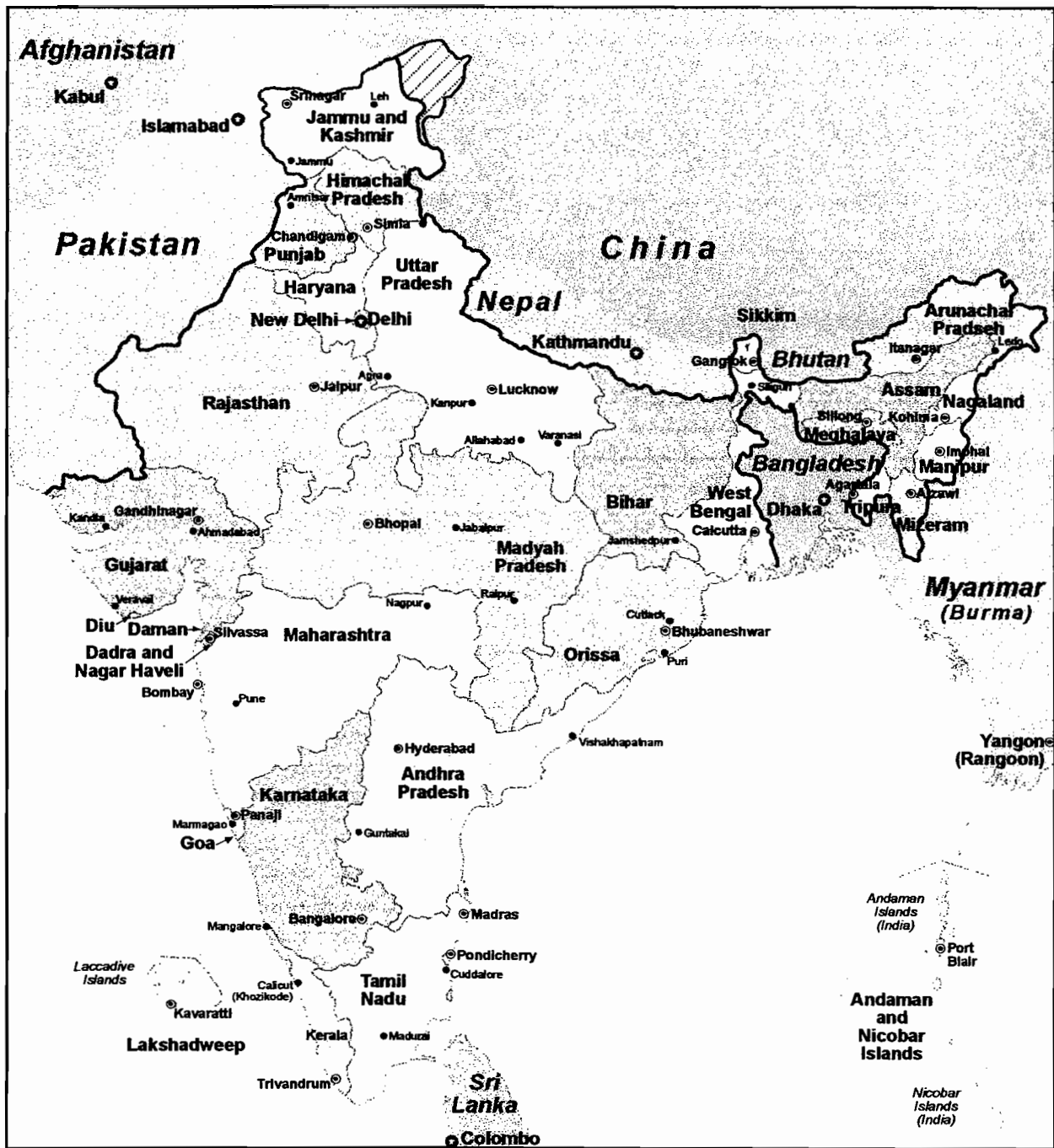
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INTRODUCTION

This year, India will mark its 50th anniversary as a Republic. Modern India is undergoing a mid-life crisis. With the end of the Cold War, India abandoned its non-aligned position, which successfully allowed it to play off the two superpowers for over 40 years, and has moved in the direction of economic liberalization and a free market. At the same time, the centers of political power in the country have shifted and a political equilibrium has not yet been achieved.

India is comprised of 25 states and 6 Union Territories.¹ With an estimated 934 million people, India is the second most populous nation in the world, and the world's largest democracy. While it has 19 official languages, over 200 different languages and dialects are spoken. Despite three major political assassinations and a brief stint of rule by martial law, the country has always held generally free and fair elections.

Although the land mass of India is a third of the United States, its population is more than triple. Because of its sheer size, viewing India purely through statistics can often be misleading in making a business decision. For example, while the nominal per household income is \$1,876 (on a purchasing power basis, that translates to \$7,755), it is India's middle class population, estimated at 250-300 million with an average income more than twice the national average, which constitutes the majority of the consumer base.

¹ Andaman and Nicobar Islands (union territory), Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chandigarh (union territory), Dadra and Nagar Haveli (union territory), Daman and Diu (union territory), Delhi (union territory), Goa, Gujarat, Haryana, Himachal Pradesh, Jammu-Kashmir, Karnataka, Kerala, Lakshadweep (union territory), Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Pondicherry (union territory), Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal.

India has been ruled democratically for half a century primarily by the Congress Party, the country's major nationalist party and leader of the successful struggle against British colonial rule. The eleventh general election held in May 1996 failed to produce a majority government. The Congress (I) Party², was voted out of power and is now competing with two other parties for political control: on the left, a loose coalition of 13 parties that have formed the present minority government, and on the right a religious nationalist party, the Bharatiya Janata Party (BJP).

As the 1996 elections took place, efforts at economic liberalization were underway. In 1991, India began the partial dismantlement of the Nehruvian Socialist strategy of state-led industrialization based on high protectionism, planning and detailed domestic regulation of the economy it adopted after independence. Considerable progress has been made in certain areas of reform, yet questions about the future of economic liberalization remain. Political parties, including new regional and caste-based political movements, trade unions and non-governmental activists have expressed opposition to structural reform of the economy.

This report will analyze prospects for economic liberalization in the wake of the 1996 elections and highlight the main political, economic and security concerns and opportunities likely to affect a foreign company or individual trying to do business in India. At Kroll, we believe that an understanding of the Indian operating environment coupled with careful strategic planning and in-country intelligence can minimize exposure to a variety of risks. We have chosen a number of corporate experiences to serve as examples of some of the problems one might encounter, as well as to offer some creative solutions from which further ideas can be explored, by the reader alone and/or with the help of Kroll Associates.

² Prime Minister Indira Gandhi reassembled the Congress Party in her own image in the 1960s and 1970s; the "I" in "Congress (I)" is for "Indira."

POLITICS

For only the third time in its modern history, India is being governed by a coalition government.³ Known as the United Front, it is made up of 13 leftist, regional and minority parties. The Congress (I) Party, which had ruled India almost continuously since the country's independence in 1947, came in second in last May's general election with only 140 seats compared with 232 it held in the previous parliament. The biggest winner in the general election was a group of Hindu nationalists led by the Bharatiya Janata Party (BJP) who took 195 out of 545 seats in the *Lok Sabha*, or lower house of parliament. Two weeks of intense maneuvering characteristic of Indian politics followed before BJP leader Atal Bihari Vajpayee opted not to submit his government to a vote of confidence. Accordingly, it was left to 13 other parties with 178 seats between them to cobble together a government. The members of the United Front, unified by their shared determination to keep the BJP out, selected H.D. Deve Gowda, a politician from the state of Karnataka, as their prime minister.

The United Front describes itself as a national coalition of regional parties that already run governments in eight states of the Union. Each of these parties is led by a strong leader whose principal concern is not so much setting a national agenda as enhancing or protecting the interests of his state. The situation in India today is not too dissimilar to the situation in the United States, where the President is of one party and Congress is of another. Neither has a mandate to govern and leadership is more often than not defined as the ability not to lead but to counter.

³ The other two occasions were in 1977-80 when Mrs. Indira Gandhi and her Congress (I) Party were voted out of office following a period of Martial Law, and in 1989-90 following the tenure of Rajiv Gandhi. Both coalitions were led by the Janata Dal party and were succeeded by Congress (I).

The four left wing parties, which are the most fractious, have only 52 seats and none of the regional parties in the coalition have more than 20 seats. The Congress (I) Party has agreed to support the United Front, but from outside the coalition. The government could survive defections from the leftists or the regional groups, so long as Congress (I) continues to vote with it.

The United Front coalition's broad program is based on three major themes: secularism, federalism and social justice. The coalition's policy framework seeks to temper the rapid economic growth seen in other Asian countries with concern for the poor, a more equitable distribution of resources between the national government and the states, and protection of minority rights.

Officially, these themes are incorporated in a United Front declaration called the "Common Minimum Program" (CMP), which they claim will be the "common approach to major policy measures and a minimum program acceptable to all parties forming the government." The core of the declaration is for "a strong center, strong states, and viable local bodies." They propose to give greater autonomy to states in determining their priorities for development; to give more freedom to states to draw up their plans within the broad framework of the national five year plans; to transfer a majority of centrally sponsored programs to the control of the states; and to grant prompt assent to bills passed by state legislatures. Significantly, the CMP stresses the devolution of financial powers to the states, and makes significant pledges on the social justice front -- such as reserving one-third of all elected posts in state legislatures and Parliament for women. The United Front government has emphasized providing better facilities and greater financial assistance to the so-called "Backwards" castes, including craftsmen, artisans, weavers and fisherfolk.

The CMP is not without its critics. The program is short on details, such as the source of funding for the centrally sponsored plans to be transferred to the control of the states, and to what extent the national government will subsidize them. The program has had to take into consideration the entire range of support -- from within and outside -- for the United Front. Indeed, while setting out an independent agenda, the document ensures that no United Front constituent -- or Congress (I) -- will perceive that its stand on major policy issues has been compromised. On national issues, the document suggests that the new government will avoid major controversy and will follow long-standing policies on crucial issues such as foreign policy, security and defense.

For the government, all this is proving paralyzing. The difficulties inherent in governing India are highlighted by internal disagreements between the 13-member coalition on matters related to the CMP. Quarrels have divided the United Front government from day one. These quarrels, though noisy, are unlikely in themselves to cause the government's collapse.

What then is likely to be the political picture for the next year? There are three scenarios: First and most likely is that the United Front muddles along with support of the Congress (I) Party without any dramatic changes to the current economic liberalization plans but with no major initiatives of its own. Dependent for parliamentary survival on support from the Congress (I) Party and united only by a common opposition to the BJP, the United Front seems likely to adhere to a minimalist agenda: no quick movement on the privatization of government enterprises, no moves to ease India's strict labor laws -- an impediment to new business start-ups -- and no moves to change long-standing foreign policy positions.

The second scenario is that Congress (I) Party's new chief, Sitaram Kesri is able to reunite all the splinter groups of his party to become the largest single party in Parliament and

then seek a mandate from the president of the country to govern. The Congress (I) Party, under the leadership of Kesri, continues its efforts at internal restructuring while at the same time putting pressure on the United Front Government. For this strategy to succeed, Kesri would have to bring back to the Congress-fold several factions who broke away from the party as a result of differences with former prime minister Narasimha Rao.

The third scenario is that constant fighting between the United Front and the Congress Party over corruption charges in the previous administration leads to political stalemate and the government has no choice but to request a dissolution of parliament and call fresh elections. This is unlikely for several reasons, not the least of which is the inability of political parties to finance another election. Moreover, most analysts believe that if elections were to occur, the main beneficiary would be the BJP. Given the animosity between the secular parties and the Hindu nationalists, both the United Front and Congress can be expected to reach almost any compromise in order to avoid giving the BJP another shot at power.

Even if the BJP was to come to power, it is likely to be constrained to a pragmatic consensual approach. Thus it will probably not choose to (or be able to) implement campaign promises to apply a uniform civil code to the country's 120 million Muslims and will not carry out its other outlandish threats. Moreover, the BJP's strong merchant-caste support base also makes it likely that in spite of small traders' fear of foreign competition in domestic retailing, rule by the BJP could have the effect of accelerating the elimination of bureaucratic impediments to doing business. Ultimately, regardless of the party that governs India, a combination of economic necessity, pragmatism, and the strength of the democratic system will ensure that successor governments move more or less in the direction of economic liberalization.

ECONOMY

At independence in 1947, Prime Minister Jawaharlal Nehru chose the economic strategy of state-led industrialization characterized by economic planning, high protectionism, and extensive state regulation of the economy. Not only did state-led industrialization fail to deliver the goods in pure economic terms, but it also contributed to the spread of corruption throughout the political and economic system.

From the 1960s through the 1980s, India's growth remained static, well below that of Latin America and the rest of Asia. Its inefficient public sector required huge infusions of capital and led to similarly large budget deficits. License-imposed product quotas inhibited domestic production and investment. Extremely complex government regulations bred corruption and effectively discouraged, reduced or eliminated foreign investment. A highly protected market restricted competition. There were no incentives to produce quality goods because manufacturers had a captive economy reinforced by high import tariffs that often reached 300 percent. By 1991, India was near bankruptcy. Foreign exchange reserves had dwindled to \$1 billion, insufficient to pay for a month's worth of imports. Inflation had reached double digit levels. India had to resort to drastic measures.

Under the direction of Prime Minister P.V. Narasimha Rao and his Finance Minister Manmohhan Singh, market liberalization began in 1991. Singh introduced stringent economic reforms to meet conditions for a loan from the International Monetary Fund and other international assistance. To encourage an open and competitive economy, he began dismantling Nehru's trade and industrial licensing system. To encourage foreign investment, he devalued the rupee, liberalized imports, reduced tariffs, simplified and strengthened the tax system, and eased

restrictions on direct foreign investment. In the next two years India's growth rate exceeded 5 percent, industrial production increased by nearly 10 percent, exports went up 20 percent, and foreign exchange reserves topped \$20 billion.

Economic liberalization is not easily achieved. Powerful vested interests fight within the political system for the preservation of state benefits and protection. Although the majority is likely to benefit from liberalization, the potential winners tend to be the least able to mobilize effective political support. Considerable progress has been made in certain areas of reform, yet key political parties continue to resist foreign investment along nationalist lines. Similarly, trade unions -- which provide contributions to the major political parties -- continue to express opposition to economic reform. Many of the new regional and caste-based political movements support populist reforms demanding large increases in government spending. The 1996-97 budget will reflect this and further strain the United Front. It will inevitably reflect a balance between the interests of the pro-investment economic reformists and the socially conscious leftist and regional parties.

In 1996, after five years of economic reforms, the fiscal deficit still stood at 5.5 percent of GDP. Cumulatively, internal debt reached more than 52 percent of GDP in 1995-96, with almost 39 percent of revenue expenditures earmarked for interest payments, according to the *Economic Survey* produced by the Ministry of Finance. Capital expenditure could not be increased and total expenditure has declined over the past five years. As the central government increased its share of market borrowings, it also drove up the prime lending rate and created a "credit crunch" for the corporate sector.

Foreign investors saw a new country with an enormous middle class, estimated at two hundred million -- the second-largest untapped market for consumer goods in the world, after

China -- with vast infrastructure needs. Between 1991 and 1995, the rate of foreign direct investment grew from less than \$359 million a year to \$2.7 billion -- small by international standards, but large in the context of a previously closed economy.

INVESTMENT OPPORTUNITIES

When the Indian government began to liberalize the economy, local businesses were exposed to market forces for the first time since independence in 1947. At first, this favored the big empires, since it was they whom foreign companies sought as joint-venture partners. But these empires are now feeling vulnerable, and new opportunities are being created for cash rich foreign investors. For foreign companies seeking full control of their Indian operations, allowing them to impose their own standards, now is the time to consider making such a move. Where it was once easy for Indian businesses to borrow money from public-sector institutions, in a free market they are suddenly facing a cash flow problem. With profits harder to make, credit harder to come by, and a relatively small equity market (the total market capitalization of the country's 22 stock markets is \$117 billion dollars⁴), many family firms are being forced to weed their portfolios, retiring from investments they rushed into in easier times, to concentrate on their core industries. The Mahindra family has withdrawn from oil drilling and instrumentation to concentrate on cars. The Thapars have scaled down Ballapur Industries to focus on their paper and chemical activities.

⁴ This ranks below Hong Kong (\$381b.), Kuala Lumpur (\$291b.), Taipei (\$263b.), Sydney (\$260b.), Singapore (\$170b.), Seoul (\$160b.) and Bangkok (\$124b.) but above China (\$83b.), Jakarta (\$83b.), Manila (\$79b.) and Karachi (\$11b.). There are nearly 7,000 firms listed on the Indian exchanges. Source: Asiaweek Magazine.

For foreign business, the long awaited breakthrough into the Indian market could come in 1997 as the Securities and Exchange Board of India (SEBI) is due to institute a new takeover code which will make hostile bids much easier. The new code will go a long way towards ensuring greater transparency in corporate ownership with a net effect of increasing the rights of minority shareholders by requiring any investor who takes a 10 percent stake in a company, to then make an offer for a further 20 percent. After that, any substantial increase must be by an open offer to all shareholders.

The new code provides a way to replace the families that control Indian businesses by more widely held companies or even by corporate raiders. Under the proposed rules, for example, an outsider could buy 10 percent of a Tata operating company, then make a bid for a further 20 percent. The Tatas would then be forced to either cede control or make an expensive counter offer.

The Indian Government now allows foreign firms to set up wholly-owned investment companies that can buy Indian firms. So far Coca-Cola and GE Capital, among others, have gone this route. General Electric, for example, which now has sales of nearly \$500 million in India, recently bought out its partner in a three year old lighting venture. Daewoo of South Korea recently raised its stake in its car joint venture from 51 percent to 75 percent by buying extra shares from its partner, DCM, a Shriram family business, which could not raise \$70 million needed for expansion.

Investors should note that since the present government took office last summer, the procedure for approving foreign investment in India has become not only quicker, but more

transparent. In an effort to attract \$10 billion in foreign capital a year,⁵ the government abolished a Finance Ministry review committee and now all investments up to \$169 million dollars can be approved by the Industry Ministry, which once again controls the Foreign Investment Promotion Board (FIPB). The advisory body had come under the control of the Prime Minister's office during the Rao administration. Not only has the processing time for new investment application been reduced to two weeks from the six weeks it took in the past, but for the first time, the FIPB must explain why it rejects any proposal. In the first three months of the United Front Government, \$3.1 billion dollars of new investments were approved.

For foreign firms seeking to enter the country, the government will issue automatic approval -- two weeks by the Reserve Bank -- for any firm willing to invest 51 percent in one of 36 priority industries and willing to import new capital equipment, or firms willing to take a 51 percent equity stake in trading companies engaged in export activities.

Other liberalization measures that foreign firms should be aware of include:

- Foreign firms can invest up to 24 percent in the equity of small to medium size enterprises as subsidiary units of their operation.
- The licensing requirement has been abolished for all except for a short list of 16 industries. The restricted list is based on safety and environmental concerns, social considerations, health hazards, strategic and defense related production.
- A foreign company can apply directly for an industrial license in its own name without linking with an Indian company or forming a company prior to making an application.

⁵ Figures for approved foreign direct investment proposals in India show the U.S. in the lead with \$2.16 billion, followed by Israel with \$1.26 billion, Thailand with \$604 million, Mauritius with \$555 million, the UK with \$529.7 million, Japan with \$464.7 million, Australia with \$461.7 million and Germany with \$411.1. Source: Government of India 1995.

- A company in which a foreign equity holding is 26% or more can appoint a full-time expatriate managing director. Where foreign equity is between 15%-26%, foreign investors can appoint an expatriate foreign managing director initially for 10 years.
- Foreign companies are permitted to open branch and liaison offices in India with the prior approval of Reserve Bank of India for carrying out the following activities:
 - I. To represent the parent company or other foreign companies in various matters in India, e.g., acting as buying or selling agents in India.
 - II. To conduct research work in which the parent company is engaged provided the results of the research work are made available to the Indian companies.
 - III. To undertake export and import trading activities.
 - IV. To promote possible technical and financial collaborations between Indian companies and overseas companies.
- In the case where a foreign firm decides to leave India, it may repatriate its share after discharging tax and other obligations. Foreigners are permitted to transfer their shareholdings to other companies in India as well as abroad. They can also disinvest their share to an Indian partner, to another company, or to the public. Government control over divestment of equity by foreign investors has been substantially relaxed. A foreign investor can now divest his equity holding in an Indian company at the market price quoted on stock exchanges or at a price that is linked to this price without requiring Government approval. Divestment from an unlisted company would however continue to require the approval of the Reserve Bank of India for the divestment price of unlisted shares.

India's need for massive foreign investment in infrastructure sectors alone provides confirmation of the opportunities that could open up. By the end of 1997, Indian power

shortages are expected to reach 15 percent of the total installed capacity, with peak levels of shortages as high as 30 percent. This translates into the immediate necessity of installing new projects on the ground to generate an additional 12-24 gigawatts of power, with the long term requirements much higher. The central government cannot mobilize more than about 60 percent of the expenditure needed to bridge this gap. State governments are nearly bankrupt. Their State Electricity Boards (SEBs), which control the transmission and distribution of power, set prices considerably below cost and are unable to meet the modest minimum rates of return, which are fixed by state law at 3 percent. Only private investment in the power sector can provide the additional resources required.

Similarly, the need to build a national network of basic telephone services, as well as to meet global standards in more sophisticated telecommunications -- such as cellular phones, pagers, video conferencing, and commercial data transmission links -- is beyond the capacity of government funding. One estimate by the Confederation of Indian Industries, based on reaching levels of 8 percent growth in GDP per year by 1999, puts the requirement for private sector investment in infrastructure at \$55 billion between 1996 and 2000, and \$171.5 billion in the following five years. In its *1995-1996 Economic Survey*, the Ministry of Finance asserted that India must "be prepared to encourage a rapid increase in foreign direct investment to levels comparable to China's \$30 billion or more per year." Not all that is economically necessary however, may be politically viable.

POLITICAL PROFILES

PRIME MINISTER: *Haradanahalli Doddegowda Deve Gowda*, (*JANATA DAL*) chief of the Karnataka Janata Dal Party, has been a member of the Karnataka state assembly since 1962 and

also leader of the opposition for four years. Notwithstanding his own and his party's ideological opposition to Cargill and the advent of Kentucky Fried Chicken, he protected these multinational ventures in an effort to boost his state's image and economy. Gowda is not articulate, but takes pride in the fact that as a farmer's son he understands the problems of the common man. As chief minister of Karnataka he welcomed foreign investment, including controversial projects by Cogentrix and KFC, and tried to reform the state's land laws. Gowda is likely to favor agriculture, but he says there is no reason all of India cannot become like Bangalore and attract a host of multinationals in high-tech areas such as software and engineering.

Although initially many gave him a favorable rating as an effective bureaucrat -- observers noted decisionmaking was faster than in the previous administration -- Gowda has come under increasing criticism for what members of the United Front consider arbitrary and impulsive decisionmaking. Yet in a coalition government such as his, Gowda must do more balancing than leading. In addition to being Prime Minister, Gowda holds the ministerial portfolios for Agriculture, Home, Science and Technology, Personnel, and Atomic Energy.

FINANCE MINISTER: Palaniappan Chidambaram, (TAMIL MAANILA CONGRESS).

Chidambaram is a Harvard-educated lawyer, and is generally regarded as the most articulate member of the Cabinet. He was Minister of State for Commerce in the previous Rao administration, and Minister of State for Home in the Rajiv Gandhi government. A devoted Congress (I) Party member, Chidambaram left the party on the eve of the national election when the Congress leadership decided to form an alliance with the AIADMK in Tamil Nadu. Chidambaram and others then formed a new regional party called the Tamil Maanila Congress (TMC).

A hardworking, capable and experienced minister, Chidambaram is committed to economic reform, and seemed impatient with the pace of reforms in the previous Congress (I) government. As part of that administration, he was primarily responsible for trade liberalization. He also takes credit for ensuring that Ford, Du Pont and Hyundai chose to invest in Tamil Nadu, his home state. To be successful, Chidambaram will have to moderate his views according to the dictates of the coalition government and its "common minimum program," which outlines a plan balancing economic liberalization with "social responsibility."

MINISTER OF DEFENSE: Mulayam Singh Yadav (SAMAJWADI PARTY). Mulayam Singh is a leader of the Samajwadi Party, which is strong in Uttar Pradesh. He has twice been chief minister of the state. This is his first time in central government. Singh's robust secularism, founded on strong opposition to the Hindu nationalist Bharatiya Janata Party (BJP), has made him a favorite of Muslims and a prime target of the BJP.

MINISTER OF INDUSTRY: Murasoli Maran (DMK). A newspaper editor and publisher, Maran is the senior DMK's representative in the Cabinet. He has served as a minister in previous non-Congress governments.

MINISTER OF EXTERNAL AFFAIRS: I.K. Gujral (JANATA DAL). The most experienced minister in the Cabinet, Gujral has served both Congress (I) and non-Congress governments. He was ambassador to the USSR, Minister of Information and Broadcasting, and Minister of Planning under Indira Gandhi. In the V.P Singh government he was Minister of External Affairs. Gujral also has the Water Resources portfolio.

MINISTER OF COMMERCE AND MINISTER OF FOOD, CIVIL SUPPLIES, CONSUMER AFFAIRS AND THE PUBLIC DISTRIBUTION SYSTEM: Devendra P. Yadav (JANATA DAL). The youngest member of the Cabinet at 41, he is a strong advocate of social justice. He was elected to Parliament in 1989, 1991 and 1996, and was deputy chief whip of the Janata Dal in 1991-96.

MINISTER OF RAILWAYS: Ram Vilas Paswan (JANATA DAL). A so-called "backward caste" leader from Bihar, Paswan has been elected a member of Parliament five times. This is his second Cabinet post. He was Minister of Labor in the V.P. Singh government. Paswan also serves as Minister of Parliamentary Affairs.

MINISTER OF CIVIL AVIATION, MINISTER OF TOURISM: C.M. Ibrahim (JANATA DAL). A colorful character given to speaking his mind, Ibrahim is a close friend and confidant of the prime minister. This is his first time in the central government. Another ex-Congress (I) Party member, Ibrahim was a minister in a Congress (I)-led Karnataka government. He has been linked to several scandals, but his powerful oratory, his minority status as a Muslim and his willingness to switch parties if denied what he regards as his due have stood him in good stead. Ibrahim also has additional charge of Information and Broadcasting.

MINISTER OF SURFACE TRANSPORT: T.G. Venkatraman (DMK). The second representative of the DMK in Cabinet, he had just finished his first term in the *Rajya Sabha* (upper house). This is his first time in government.

MINISTER OF HUMAN RESOURCES DEVELOPMENT: Somappa Rayappa Bommai
(JANATA DAL). At 72, Bommai is the oldest member of the Cabinet. He has been a chief minister of Karnataka and president of the Janata Dal. Bommai has additional charge of Coal.

BUSINESS RISK: INFLUENCE PEDDLING

Recently, a U.S. media client retained Kroll Associates in New Delhi to conduct an investigation into the background of an individual who claimed to have political connections to get a license. Kroll's research indicated that the subject, the son of a deceased Supreme Court judge, had minor contacts but was incapable of assisting the client. In short, the young man with connections was attempting to fleece the client of "consultation fees."

In a country where everything is possible but nothing is inevitable, the success of almost any venture requires, among other things, connections and government lobbying clout. Adhoc decisionmaking is frequently spurred by behind-the-scenes influence peddling. Well-placed individuals willing and able to raise issues with key players are indispensable for the success of a project. Intrigue controls the destiny of Indian industry. In February 1995, Singapore International Airlines and Tata Industries submitted a formal proposal to India's Foreign Investment Promotion Board to create a new domestic airline in India. The plan called for the new airline to initially fly 13 domestic routes. In October 1996, the Civil Aviation Ministry denied permission for the joint venture. Other private airlines, fearing the quality and impact a carrier managed by Singaporeans would have on the industry, reportedly actively lobbied against the joint venture.

It is not sufficient to simply come to India with an Indian partner. The selection of an appropriate partner is crucial. Like the Robber Barons of the early 20th century in America, the Indian economy of today is dominated by a dozen or so families. Of the top 15 companies in the country, 11 are linked to the major families such as Ambani, Bajaj, Birla, Chidambaren, Goenka, Iyengar, Mahindra, Singhania, Tata and Thapar. In India, family businesses account for 70 percent of the total sales and net profits of the biggest 250 private sector companies. The big families have carved up whole industries. In vehicles, for example, the Tatas make trucks, the Birlas make Ambassador cars, the Bajaj family makes two-wheelers and the Mahindras make jeeps. Kroll's work has revealed a number of cases where the formal break-up of these conglomerates has resulted from family in-fighting but individual family members sought alliances with foreign companies without disclosing these changes.

This raises the question of what makes an appropriate partner? Influence at both state and national levels plays a significant role in selecting an appropriate partner. The "connections" of the local partner play a significant role in the smooth running of local operations. Businesses face the administrative burden of industry specific licenses from the relevant government department, as well as the need to acquire government approvals from the Foreign Investment Promotion Board and the Reserve Bank of India.

To minimize the delay in obtaining the above administrative authorization, a well-connected local partner is essential. It should be noted that this is not a reference to the payment of bribes or keeping politicians and civil servants on a cash payroll but rather recognition of the importance that a potential partner command respect, influence and standing with the "party in power." Many businessmen keep multiple relationships within political circles as a contingency for changes in the governing party.

The ability to exert influence in the right place at the right time is crucial. This has been made more difficult because shifts in the Indian body politic have created new power centers and, as a result, difficulties for foreign investors. Strategies must adapt to the dynamism of India. The old economic order began to fall in 1991 when India opened up its economy, bringing a world of opportunity for millions. The economic revolution has ushered in a fundamental change in politics as newly empowered Indians in the so-called "Backward castes" and classes find their political, and eventually, economic muscle. The slow move towards liberalization and away from the "license raj" is hopeful, although not complete.

BUSINESS RISK: POLITICAL ACTIVISM

The results of India's general election in April and May, 1996, illustrate the slow demise of the Congress (I) Party, the parliamentary expression and political heir to the organizational structure that won India its independence. The Congress Party also served as the institutional vehicle for the Nehru family, whose primacy over Indian politics ended only in 1991 with the assassination of Rajiv Gandhi. The results of the 1996 elections suggest a new class of elites has emerged in India. Political power is shifting to increasingly include lower castes while the economy is still controlled by the upper castes. After four decades of increasing political power in local and state governments, the so-called "backward castes" now occupy an unprecedented number of seats in the Lok Sabha, India's lower house of Parliament.

There has also been a regional shift within the Indian body politic. The fact that the prime minister speaks only his native Kannada and English is a potent symbol in the shift of power from India's Hindi-speaking north to its polyglot south. One important result of these changes is that levels of political activity are much higher today than they were in the past.

Non-governmental organizations (NGOs) and less formally grouped citizens are extremely active in India. Citizen groups have occasionally delayed or derailed foreign investment projects. Moreover, citizen groups and NGOs have been active in slowing down liberalization of the economy. As one Indian economist noted, reforms stop at the "human boundary" -- that is, wherever a large number of people are opposed to change -- the change is dropped or whittled down.

Protests by citizens and NGOs can throw a wrench into the best laid business plans. Citizen groups react strongly to threats to their well-being, both real and perceived. This includes nationalist groups, women's groups, environmentalists and others. Protest techniques include, but are not limited to, well-publicized hunger strikes, sit-ins, and instances where people block roads and drape their bodies over construction equipment in order to slow the progress of projects. This is to be expected in a democracy, yet it further highlights the need for good intelligence.

BUSINESS RISK: CULTURAL IMPERIALISM

Hindu nationalists warning of cultural imperialism have created significant problems for foreign investors, particularly in the consumer goods and services sectors. Although by nature nationalism and Hinduism appear to be mutually exclusive, modernization, coupled with economic and political changes have contributed to the increasingly Hindu nationalist political rhetoric. However different reality may be from perception, powerful claims have been made against economic liberalization and in turn, western investment. Given India's colonial history, the notion of foreign multinationals as helpful or benign forces for economic development is highly suspect.

In November 1996, the Miss World pageant took place in Bangalore, the capital of the southern state of Karnataka. A force of some 10,000 police and paramilitary officers were deployed to maintain security in and around the Chinnaswamy Stadium during the contest finals. Opposition to the pageant among a variety of groups was strong. The leader of the nationalist BJP in the Karnataka State assembly called for a strike to bring the city to a standstill. Demonstrators staged a sit-in outside the state government headquarters in Bangalore. More than 800 mostly women protesters who tried to march to the hotel where the Miss World contestants were staying were turned back by police equipped with riot gear. Activists threatened to enter the stadium, take cyanide pills and light themselves on fire in protest of the event. In October, during the run up to the pageant, a bomb exploded at the entrance to the Chinnaswamy Stadium. Earlier in the same week, 16 members of the Mahila Jagarna Samiti (Forum to Awaken Women) were arrested after they smeared feces and tar on the walls and windows of the Bangalore office of Godrej, the personal care products company that sponsored the Miss World Pageant.

Opposition to the Miss World pageant followed two lines of argument. The substance of the first argument -- that the contest exploited women -- appears to have little impact on business projects. However the second complaint -- that the pageant symbolized western cultural imperialism -- can present obstacles for some types of foreign investment.

In the southern state of Karnataka, one group in particular has attempted to instill the fear of western cultural imperialism: the Karnataka State Farmers Association. In January 1996, some 100 farmers from the nationalist farmers' organization broke through a small police cordon outside the Kentucky Fried Chicken restaurant in Bangalore, smashed the glass front of the building and broke up furniture before being arrested. The attackers pretended to be customers to gain access to the building, injuring customers and employees in the melee. Since the

country's first KFC outlet opened last June, the group has threatened to throw the fast-food chain out of the country, protesting that the food is un-Indian and unhealthy.

The leader of the Karnataka State Farmers Association, Mahanta Devaru Nanjundaswamy, is wealthy: he owns some 1,000 acres of land, has a doctorate in law and drives an imported car. The January assault on the Kentucky Fried Chicken restaurant fulfilled a pledge he made in October 1995 in an address to a farmers' rally in Bangalore to take "direct action against an MNC." He argued "Junk food joints serve chemically poisoned food." They also affect India's "food security." His anti-multinational rhetoric seems to have an appeal among a certain sector. Although this group appears able to try and act as a spoiler, more recent events suggest that its support is fairly limited.

As states compete for relatively scarce foreign investment dollars and the benefits they bring, officials are keen to maintain a pro-investment image. This provides additional incentives for the police to ensure that security is maintained. In July 1996, Pizza Hut opened its first outlet in India with few negative incidents. In June, the Karnataka State Farmers Association threatened to obstruct the planned opening of the Pizza Hut in Bangalore saying multinational corporations harm local businesses and create joblessness. Given the experience of other multinational food-related brands such as Kentucky Fried Chicken and Cargill Seeds, Pizza Hut arranged to have police stationed outside the building for the opening. Additionally, through careful planning coupled with accurate intelligence, the opening date coincided with dates Nanjundaswamy was to be away in Germany at an environmental conference.

BUSINESS RISK: ENVIRONMENTAL ACTIVISM

Concern about the environment and natural resources in India pose risks for doing business. Environment-related risks should not be ignored. Both legal obstacles and public pressure have delayed and in some cases forced the cancellation of projects. The government is caught between the often competing goals of promoting investment and carrying out economic reform on one hand, and preventing environmental degradation on the other. Investment generally wins the competition between attracting investment and environmental concerns.

Environmental regulations at both the federal and state level are numerous. India has had environmental laws governing pollution and hazardous materials on the books for more than 20 years.

The Ministry of Environment and Forests requires construction projects to prepare and submit Environmental Impact Assessments (EIA), Environment Management Plans, and project reports. In June 1996, the Mangalore Power Co., a joint venture between U.S.-based Cogentrix Energy Inc., and Hong Kong-based China Light & Power Co., received environmental clearance from the Ministry of Environment. The review procedure took more than nine months. The sheer volume of regulatory requirements is compounded by a legal debate over whether the national government or the states have jurisdiction over the environment.

However, where regulatory control appears strong, lax enforcement and allegedly corrupt oversight frequently have characterized the norm. Regulations are generally disregarded by industries and government officials have tended to ignore environmental damage in the name of development. Limited enforcement of the regulations has meant that the actual threat of liability and cost to foreign investors is fairly limited. The 1991 Public Liability Insurance Act, which among other provisions mandates compensation in the event of an injury, set the highest level of

relief at 25,000 rupees, the equivalent of under \$700. Furthermore, it is difficult for plaintiffs to get compensation for tort injuries in an Indian court. Tort law in India is less well-developed than in the United States.

Since the Union Carbide accident in Bhopal in 1986, Indian courts have taken a fairly active role in environmental protection, and non-governmental organizations (NGOs) have become increasingly capable of launching public interest environmental lawsuits. Litigation has increased significantly in the last ten years and the courts have engaged in non-traditional jurisprudence to seek redress for environmental wrongs. Indian courts have allowed virtually any party with a claim to use the courts to enforce laws and constitutional provisions in the public interest. This liberal interpretation of standing may explain a flood of public interest litigation, which should be of concern for investors. Following in the footsteps of liberal and activist Supreme Courts, the High Courts of the States have adopted broadly the same approach in environmental cases. As a result, citizen protest against industry and business frequently manifests itself through public interest litigation.

Indian courts have taken active steps in enforcing legislation -- even creating pollution review and monitoring teams and shutting down polluting industries. In early 1995, the Supreme Court ordered closed 30 companies in West Bengal following the Environment Ministry's findings that the companies were not in compliance with environmental regulations. The order was prompted by a public interest petition filed by an environmental lawyer alleging numerous violations of pollution control standards. Similarly, in April 1995, the Gujarat Supreme Court ordered 756 polluting chemical units that produce dye for export to either improve their pollution control performance or halt production. The court has since broadened its review to include an estimated 3000 chemical plants. An industry group, United Phosphorus Limited, provided

capital for an effluent treatment plant that will service 79 units. Industry fears of closure remain high, however, due in large part to the small number of plants to be serviced, the delay, and the high treatment costs.

Activists and NGOs are quite active in staging protests and providing a catalyst for public interest litigation. A 1995 Gallup poll in India found that 51 percent of those polled believed the nation's environmental problems were "very serious" and almost 21 percent said that the biggest problems India faces as a nation are those related to the environment. Citizens groups tend to react strongly to perceived threats. In December 1995, in the southern state of Karnataka, at least nine people were injured when police fired on protesters -- mostly fishermen -- demonstrating against a \$1.5 billion petrochemical plant being built in the area by Aditya Birla Group's Mangalore Refineries and Chemicals Ltd. Police intervened after the agitators tried to stop construction on a pipeline connecting the plant with the Arabian Sea. The fishermen fear effluents will harm marine life in the region and affect their livelihood.

During the summer of 1995, NGOs and citizens forced DuPont to relocate its nylon 6,6 plant from Goa to Tamil Nadu, where DuPont had already purchased land and begun construction. DuPont had joined with the Indian company Thapar to build a \$217 million dollar factory to produce nylon 6,6 -- an ingredient in tires -- in the jungle highlands of Goa. The venture, Thapar-DuPont Ltd., was expected to supply Asia's booming tire market. The company has made a concerted effort to allay fears regarding industrial chemical production that arose after Bhopal. For example, they took out a full page advertisement in a Goa newspaper declaring, "We will not handle, use, sell, transport or dispose of a product unless we can do it in an environmentally sound manner."

Nonetheless, local activists organized the Anti-Nylon 6,6 Citizens' Committee. Activists with the Goa Foundation intercepted a message from DuPont to the local project manager Sam Singh discussing problems with groundwater protection, waste water treatment, solid waste recycling, and air pollution control. Indian environmentalists, working with their American counterparts, publicized risks associated with the chemicals produced by the plant. The construction site was stormed in October 1994. Protests continued into January 1995, when DuPont officials visiting from the United States were prevented from entering the factory site. One protester was killed by police in the ensuing melee. At the funeral, a protester blew up the factory's electricity generator. In June 1995, Thapur-DuPont Ltd., signed a memorandum of understanding with the state of Tamil Nadu to relocate the factory in Gummidipoondi, near Madras. The delay increased the project cost by more than \$20 million. The company had already invested nearly \$2.5 million in Goa.

Several other major power projects have met with active and often violent resistance from NGOs and citizens. Enron's Dahbol Power Plant project is an example. Villagers, reportedly fearing pollution from the plant would ruin their fisheries and coconut and mango trees, rioted in May 1995, injuring several construction workers and three foreign advisors. The Enron project initially provoked four lawsuits, and at least five writ petitions. Of the original four, one forced Enron to comply with newer and stricter EIA notification guidelines. In addition to delay, the environmental suit contributed to substantial modification of the project. Although other factors, including politics, undoubtedly played an important role in Enron's initial demise, environmental concerns provided a catalyst.

In 1995, communities in India forced the government to issue closure orders on more than 10,000 industrial units, most of which were small operations in New Delhi. These closures can be seen not as isolated cases but as a growing show of force by NGOs and citizens.

BUSINESS RISK: SECURITY

India is a vast country with a variety of distinct security-related risks including political violence and terrorism, communal violence, and kidnapping. Different states and cities present divergent risks. A number of areas and states are unsafe. Rural areas of the northeastern state of Bihar are bandit-ridden, the northwestern state of Jammu-Kashmir is plagued by an Islamic insurgency, and the eastern state of Assam is troubled by a so-called Maoist separatist group. Sikh militants, who argue that Sikhs would be safe only in an independent Punjab state of "Khalistan," have targeted Hindus, government forces and more moderate Sikhs within Punjab. Some areas of the country are restricted, protected or prohibited places. Foreigners must obtain permits to travel to other northeastern states such as Nagaland, Arunachal Pradesh, Mizoram and Manipur, plus parts of Assam and the Andaman Islands. Special permits are also required for Maziranga and Jaldapara in West Bengal.

Ethnic and religious conflicts between majority Hindus and India's minority populations are manifest in several of the country's regionally based insurgencies, which account for most of the country's bombings, assassinations, and kidnappings. Cities most seriously affected by communal violence tend to be those with roughly equal Hindu and Muslim populations. Although foreign businesses are not generally directly affected, violence can sometimes disrupt commercial operations and has an adverse impact on the economy.

Criminal and terrorist kidnappings are common, but their characteristics vary greatly from region to region. Kashmiri separatists in the northwestern state of Jammu-Kashmir have victimized numerous foreign tourists and business people. In July 1995, a previously unknown group called al-Faran kidnapped two Britons and two Americans in Jammu-Kashmir and demanded the release of 20 separatist guerrillas held by Indian authorities. Shortly thereafter, one of the Americans escaped, but the group subsequently abducted a German and then a Norwegian, who was later found beheaded. The fate of the remaining hostages has yet to be established. Kidnappings of foreigners are virtually unheard of in urban areas, with one notable exception: In 1994 Harakatul Ansar kidnapped three Britons and an American in New Delhi, demanding 10 Kashmiri militants held by Indian authorities be freed or the captives would be killed. The victims were rescued by police and no ransom was paid. In the northeastern state of Assam, Maoist separatists of the United Liberation Front of Assam (ULFA) use the same tactic. In Bihar state, bandit clans frequently kidnap wealthy locals, while in rural areas of Andhra Pradesh state, leftist Naxalite guerrillas have abducted their share of local citizens and police officers. In the New Delhi area, criminals known as "goondas" ransom many a prominent local -- usually at the instigation of one of the victim's business or political rivals.

Foreigners are most often troubled by pickpockets and grab-and-run thieves who frequent tourist sites, markets, airports, bus depots and railway stations. Indian cities are crowded and volatile and petty crime is widespread. Visitors should keep an eye on belongings even in hotel lobbies, and grip handbags and briefcases securely. They should carry only the cash necessary for excursions and keep wallets in inside-jacket or front-trouser pockets. Pickpockets and snatch-and-run thieves commonly key on foreigners in public places and throw all kinds of substances at them to soil their clothing. An accomplice then offers to help the victim, diverting attention from

the thief who slips away with whatever he can. Pedestrians should travel in pairs when possible to deter thieves.

Calcutta is generally a safer city for pedestrians than New Delhi, but visitors should nonetheless take commonsense precautions and avoid poorly lit areas at night. Be careful when walking city streets; watch out for vehicles, not vice versa. The slum-ridden old city of Delhi is best avoided, especially after dark when it is the scene of occasional muggings. Violent crime is not much of a threat in Bombay except in the city's seedier areas, in particular the brothel region renowned for its transvestite prostitutes. Personnel in Bombay should avoid Muslim residential areas, which have become targets for gangs of violent Hindu extremists. Bangalore was once known as a resort and retirement town and to some extent has retained that flavor. However, visitors should maintain usual precautions against petty crime.

India has uneasy relations with its neighbors, traditionally seeing Nepal, Bhutan and Sri Lanka as pawns and China, Bangladesh and -- most importantly, Pakistan -- as enemies. India and Pakistan have fought three wars, and border clashes continue over the disputed Jammu-Kashmir region. Tensions will remain high but are unlikely to escalate into open conflict.

BUSINESS RISK: INTERNAL AIR TRAVEL

In November 1996, two passenger planes collided in mid-air above the village of Charkhi Dadri, some 45 miles southwest of New Delhi in the state of Haryana. All 312 people on board Saudi Arabian Airlines flight 763, a Boeing 747 en route from New Delhi to Dhahran in Saudi Arabia, and the 39 passengers and crew on board Kazakhstan Airlines flight 1907, an Iluyshin-76 flying to Delhi from Tshimkent were killed. The worst mid-air collision in the history of aviation highlights some of the risks associated with internal flight travel in India. The

International Airline Passengers Association (IAPA) in late 1993 described India as one of the most dangerous places in the world to fly, citing unsafe airports, poor navigational infrastructure and lack of discipline and professionalism in the cockpit. IAPA data from a recent 25-year period indicates India has a fatality rate of 7.44 per million passenger miles. This compares to a rate of approximately .015 per million passenger miles in the United States.

Most of the risks associated with air travel in India are systemic and require significant financial and technological investment on the part of Indian authorities. There are some measures travelers can take to increase the odds of safe travel. Travelers should be concerned with the type of aircraft, and opt for the most modern plane. A Western aircraft is a safer bet than an old Soviet-era plane, such as a Tupolev. Additionally, executives from the same company should fly separately whenever possible in order to avoid being delayed together or worse.

The air traffic control system in India poses significant risks to travelers. The equipment at Delhi's air traffic control tower, for example, is outdated and badly maintained. Developed countries have radar that instantaneously give the controller three-dimensional information on an aircraft's height, distance, and direction. Delhi, by contrast, has 25-year old airport surveillance radar that only displays the direction and distance of a plane. Air traffic controllers cannot judge height on their radar and as a result are dependent upon pilot information, which considerably increases the margin of error. In Delhi, violations of international safety norms for minimum distance and height between aircraft occur as frequently as every two months. Although from June 1, 1996, the Directorate General of Civil Aviation (DGCA) made it compulsory for all commercial aircraft to have a mode C transponder so that aircraft will report altitude, the transponders need special radar that can receive their signal. Presently, no Indian tower can do

that. Guwahati, Delhi, Bombay, and Trivandrum were supposed to have the radar by June 1, 1996 but still did not have it in December.

Efforts to modernize have been delayed. In 1993, India ordered \$90 million of sophisticated radar, communications, and navigational equipment from Raytheon Co. for the New Delhi and Bombay airports. The systems were supposed to be operating by October 1995, but they are now scheduled to come on stream in Delhi and Bombay airports in early 1997. According to Raytheon, the project was stalled by civil-works delays including erratic power supply, delays in acquiring land and building the radar tower, and trouble getting high-capacity phone lines installed at the site. Nonetheless, installation of high technology equipment does not ensure safety: it will take at least one year from the time of installation for proper training and integration to occur. Compounding the problems with equipment, historic disputes with the Indian Air Force over air space have left New Delhi's airport with a single narrow corridor for both arriving and departing flights, forcing planes to pass each other at close range. According to the Airport of India Authority, in May 1996, a joint committee of defense, airport authority, and the DGCA was formed to study airspace availability issues and improving airspace control.

Overburdened air traffic controllers are also a serious problem. The air traffic infrastructure in Delhi is supposed to handle 12 flights per hour with the actual figure closer to 20. The shortage of manpower has also resulted in long working hours for the controllers. Air traffic controllers should normally not work more than 42 hours in a week; in Delhi, they work up to 48 hours. Also, normal operational experience suggests controllers should break after 1.5 hours on the radar scope; in Delhi they are reportedly frequently on duty for six-hour stretches.

For the most part, improvements to the air traffic control system are ad hoc efforts and come in the wake of serious crises. When disasters do occur, Indian authorities lack crisis

management capabilities. There are no official drills and officials have generally proven incapable of rapid response to incidents. Ultimately, many of the problems with the air traffic control system are symptomatic of developing countries which lack financial resources for improvements.

In addition to risk associated with the system, internal air travelers also face risks of possible hijacking and terrorism. Following a series of hijackings and attempted hijackings in 1993, authorities introduced a new police force to upgrade security at airports and combat hijackings. There were no hijackings of internal flights reported in 1995 or 1996. Security at airports is high and visitors should limit the amount of time spent in terminals. At least one measure intended to prevent would-be terrorists may slightly inconvenience travelers: batteries for electronic devices must be surrendered to security officers prior to departure effectively preventing the use of personal stereos and possibly laptop computers.

In addition to flight safety risks, the business traveler may encounter other less serious but nonetheless irritating problems. Delays and cancellations are common; travelers should check departure times before going to the airport and reconfirm their flights 24 hours before departure as flights are frequently over-subscribed and they run the risk of being bumped. The Indian Air Force has the first right over Indian airspace and often grounds or redirects civilian flights if it is conducting exercises. Business class seats are rare, and during the high travel season of December and early January all seats are hard to come by. Once on board, travelers should be wary of airline food. Attractive packaging does not necessarily guarantee a savory and hygienic meal.

Although air travel in India is an inherently risky proposition, it is frequently unavoidable. Internal travel risks can be minimized by taking the aforementioned precautions and making informed carrier choices.

Militant Groups & Armed Gangs Active in 1996

The following represents a watchlist of the most active militant groups and armed gangs in 1996 whose acts of protest or violence either had or have a potentially serious impact on foreign firms doing business in India.

1. **Al-Faran** - This group has kidnapped foreign nationals, including Americans. It operates in Jammu-Kashmir. See also **Harakat Al Unsar**.
2. **Ayyankali Pada** - A group of Maoist guerrillas created by former Naxalites, who claim they are waging a guerrilla war in the southern state of Kerala to seize property from wealthy landlords and distribute it among landless peasants. They have kidnapped local officials as a way of getting publicity for their cause.
3. **Akhila Karnataka Yuvaka (All Karnataka Youth Council)** - "Cultural" militants in Bangalore, the capital of Karnataka State. They held disruptive events at Pizza Huts and KFC restaurants. Protested at the Miss World contest against western cultural imperialism.
4. **Asaithambi** - A Mafia-like kidnap and ransom gang targeting local businessmen. They are known to work in the upscale Gandhinagar area of Adyar in South Madras in the state of Tamil Nadu. Other gangs active in Madras include Kumar and Chera.
5. **Al-Jihad** - A Kashmiri separatist group operating in the state of Jammu-Kashmir.
6. **Babbar Khalsa International** - The Sikh militant group who claimed responsibility for the September 1995 attack on Punjab's Chief Minister, Beant Singh. Singh and 12 others were killed in a powerful car bomb attack outside the state government offices in Chandigarh, the capital of the state of Punjab.
7. **Bodo Security Force (BSF)** - This Maoist, tribal guerrilla group fighting to carve out an independent homeland for Bodo tribes in Assam state in the northeast is heavily armed. The group frequently targets Muslims and other settlers in the area, attacking buses and villages

and bombing properties. In 1994, the BSF killed more than 200 people. In December 1996, Bodo rebels fired on sleeping Bangladeshi refugees at a relief camp, killing 46 people and wounding 100 others. In 1993, the federal government signed an accord with Bodo guerrilla leaders, to bring to a close the six-year Bodo uprising. Yet Bodo leaders are now demanding additional concessions from the government.

8. **Dawood Ibrahim** - A Dubai-based criminal gang involved in extortion, drug smuggling and money laundering. Ibrahim himself is the 41-year old son of a retired policeman who runs a company codenamed "D-Company." The company is allegedly involved in both legal and illegal activities including smuggling, film production, aviation, land development and commodity trading. Ibrahim has been blamed for 13 bomb attacks in Bombay in the mid-1990s that killed more than 250 people.
9. **Harakat-ul-Ansar** - A Pakistan-based Islamic separatist group that has staged violent attacks, including bombings, in the state of Jammu-Kashmir. Although the group denies the charge, Indian officials claim Harakat-ul-Ansar and Al-Faran are one and the same. In February 1996, Javed Ahmed, the leader of the group, was killed along with three other militants in an accidental mine blast in a vacant house near Anantnag, south of Srinagar in Jammu-Kashmir. A number of Afghan mercenaries are reportedly in its ranks.
10. **Indian Tigers** - A previously unknown group that set off a bomb at the Miss World contest in Bangalore.
11. **Ikhwan-ul Muslimeen** - A Muslim militant group who has carried out bombings in New Delhi. Also known to kidnap and then release journalists in Srinagar, the summer capital of Jammu-Kashmir, as a way of getting publicity.

12. **Jammu and Kashmir Islamic Front (JKIF)** - A group headed by Sajad Ahmad Kenu, a well-known Kashmiri militant who escaped from jail in June 1995. The JKIF claimed responsibility for the May 1996 car bombing in New Delhi, which killed at least 12 people in Lajpat Nagar market, and for a bomb blast in central Delhi's Connaught Place in November 1995 that injured 20 people.
13. **Jammu and Kashmir Harkat-ul Monineen** - A Kashmiri separatist group advocating union with Pakistan.
14. **Jamaat ul-Mujahideen** - Another militant separatist group in Jammu-Kashmir advocating Kashmir's union with Pakistan. In April 1996, they claimed responsibility with Khalistan Liberation Force for staging a bombing that killed 17 people in New Delhi.
15. **Karnataka State Farmers Association** - Cultural activists who protested the Miss World contest in Bangalore, also has targeted multinationals like Cargill International, Pizza Hut, & KFC, claiming they harm local businesses and create joblessness.
16. **Khalistan Liberation Force** - A decade-old militant separatist group fighting for a Sikh nation in the northern state of Punjab. In April 1996, the Khalistan Liberation Force claimed responsibility for a blast in New Delhi's Paharganj district that killed at least 17 people.
17. **Khalistan Commando Force** - Sikh militant group that has operated in Maharashtra State.
18. **National Socialist Council of Nagaland (NSCN)** - The NSCN wants an independent Naga nation to include areas of neighboring Assam and Manipur states. It survives by extorting businesses, especially tea plantations, but has also raised funds from bank holdups and highway robberies. The main targets of its attacks are military patrols and other official entities as well as rival tribespeople, such as the Kukis.

19. **People's War Group (PWG)** - One of several Maoist rebel groups considered part of the Naxalite movement, a breakaway faction of the main Communist Party started in the 1960s. The PWG was banned in July 1996.
20. **People's Revolutionary Party of Kangleipak** - Separatist group in Manipur State.
21. **Sikh Militants** - Sikh militants are fighting for a separate nation called Khalistan, or Land of the Pure, to be located in the northern state of Punjab. The Sikh revolt peaked in 1984 when government soldiers stormed the Golden Temple in Amritsar, considered the holiest Sikh shrine. Late that year, Prime Minister Indira Gandhi was killed by her Sikh bodyguards. By 1994 security forces claimed to have put down the Sikh insurgency. The Sikh separatist movement re-emerged, however, in September 1995 with the assassination in Chandigarh of Punjab's chief minister.
22. **Tamizhar Pasarai** - Translated, this group's name means Tamil Barracks Group. It is a breakaway faction from the Tamil Nadu Liberation Army and operates in or near Madras in the state of Tamil Nadu. Its standard operating procedure is to detonate bombs in the dark of night, damaging buildings but causing no casualties.
23. **United Liberation Front of Assam (ULFA)** - A separatist group in the northeastern state of Assam (exact membership is unknown, but estimated at several hundred.) ULFA accuses the New Delhi government of exploiting the state's oil reserves and claims that local culture is being threatened by the migration of other Indians to the region. ULFA militants have kidnapped local executives. ULFA has often called on Assamese to support its insurgency with general strikes and other protests and has enforced some of these appeals with bombings of buses and public places. Indian officials have declared the state a "disturbed area" off-limits to

foreigners without special authorization. New Delhi authorities claim the group receives support from China, Pakistan and Bangladesh.

24. Underground Liberation Army - Separatist group in Manipur State.

INDIA INTELLIGENCE CHRONOLOGY FOR 1996

Note: India has a history of political violence. Nearly 300 people were killed in violence associated with the country's 1991 general elections -- including former prime minister Rajiv Gandhi. Figures for the 1996 general elections indicated fewer than 100 people were killed. Nevertheless, this violence does not have a direct impact on the foreign community, and thus has been left out of the following news chronology.

December 30, 1996 - A bomb exploded on a passenger train in the northeastern state of Assam, killing at least 50 passengers. The explosion destroyed two sleeper coaches on the New Delhi-bound Brahmaputra Express train carrying some 1,200 passengers. The blast blew a nine-foot crater in the ground and completely destroyed a 20-foot section of the railroad, which is the main link between the northeast region and the rest of the country. A tribal separatist guerrilla group, the Bodoland Army, is suspected in the attack.

December 25, 1996 - Three family members of the Nagaland Minister of Industry were killed and at least 20 others injured when a car bomb exploded on the road in Arai Mile, some 217 miles east of Gauhati, near Myanmar. The bomb was triggered by remote control as the group returned from Christmas mass. No one claimed responsibility for the blast, although authorities blamed the National Socialist Council of Nagaland.

December 22, 1996 - The Indian Express, a respected English-language newspaper, reported that Kashmiri separatists from the Harakat-ul-Ansar killed four Western hostages on December 13, 1995, and buried them in the Himalayas four months after having captured them in July 1995. The newspaper said its report was based on portions of the 120-page police report on the interrogation of Nasir Mehmood, a Pakistani militant arrested earlier this year and held in a New Delhi jail. Mehmood reportedly said the original plan was to abduct foreign engineers. He also

claimed that Al-Faran, the previously unknown group that claimed responsibility for the abductions, was actually Harakat-ul-Ansar.

December 21, 1996 - At least two people were killed when an auto-rickshaw exploded near the Ahdoos Hotel, a spot popular with foreign journalists in the center of Srinagar, the winter capital of Jammu-Kashmir. Police said they suspect the explosion was caused by a landmine that accidentally exploded while separatist guerrillas were transporting it from the central district.

December 17, 1996 - According to the U.S. Consul General in Calcutta, falcifarum malaria has returned to eastern India. The problem is particularly severe in Calcutta. Fatalities are reportedly increasing in part as a result of a difficulty in diagnosis and the resulting delay in treatment. Assam and other northeastern states are also experiencing severe malaria outbreaks.

December 13, 1996 - Police in the state of Jammu-Kashmir distributed fliers announcing a cash reward equivalent to \$28,500 for information regarding the location of the four Western hostages kidnapped in July 1995 by the Al-Faran group. Police have established special units in New Delhi, Srinagar, the summer capital of the state and Jammu, the winter capital, to investigate the information. In July 1995, two American and two British trekkers in Jammu-Kashmir were kidnapped by Al-Faran, a previously unknown group. One of the Americans escaped and the group then captured a Norwegian and a German. In August, the Norwegian was found beheaded. Negotiations between Indian officials and Al-Faran broke down last November.

December 2, 1996 - Twelve people were killed and 37 injured when a bomb, reportedly made from RDX, exploded in a sleeper car of the Jhelum Express traveling from Pune in the western state of Maharashtra to Jammu in the northern state of Jammu-Kashmir. The explosion occurred as the train sat in the Ambala cantonment station near the Punjab capital of Chandigarh. No one claimed responsibility for the blast but police said it could be part of an escalation of violence in

the lead up to next February's state assembly polls in Punjab. The explosion is thought to be the deadliest train attack in the region since 1991, when Sikh militants stopped a train near Ludhiana city and killed at least 53 passengers.

November 26, 1996 - About 300 protesters gathered in front of the parliament building in New Delhi to protest a decision by the Supreme Court to set aside a lower court's ruling charging eight Union Carbide Corp. executives with manslaughter. The protesters renewed their demands for extradition of Union Carbide's chief executive at the time, Warren Anderson, who has been charged with manslaughter. A judge ordered his extradition two years ago but the Indian government has not acted on the order. No extradition treaty exists between India and the United States.

November 20, 1996 - The U.S. government announced a cash reward for verifiable information regarding the whereabouts of kidnapped American Donald Hutchings. U.S. officials said the identity of anyone responding to the offer would be kept confidential, stressing the purpose of the reward is to locate the hostage.

November 19, 1996 - The deputy police superintendent of Andhra Pradesh and his wife were killed when their vehicles struck a landmine near Ranapur town, 80 miles east of Hyderabad. Police said the People War's Group (PWG) planted the mine. This followed an attack on November 15th at a police station in Sirpuru village, some 160 miles from Hyderabad in the state of Andhra Pradesh, where 13 police officers were shot dead by militants from the PWG. After the killings, the armed gang launched three rockets at the station, killing a civilian. The gang escaped with 17 rifles and ammunition.

November 5, 1996 - The governments of the United States, Germany, and United Kingdom have urged India to support a proposal to offer a financial reward for information regarding the four

Westerners taken hostage in July 1995 by Al-Faran militant separatists in Jammu-Kashmir.

November 4, 1996 - Bomb at Chinnaswamy stadium in Bangalore.

October 31, 1996 - A bomb exploded at the entrance to Bangalore's Chinnaswamy Stadium injuring no one but shattering windowpanes near the gate. A group calling itself the "Indian Tigers" claimed responsibility for the attack against the stadium, which is the site of the Miss World pageant scheduled for November 23.

October 30, 1996 - The main departure terminal for Indian Airlines domestic flights at New Delhi's Indira Gandhi International Airport was damaged by fire. No injuries were reported but officials said it will take at least four months to reconstruct the single-story terminal.

October 23, 1996 - At least three police officers were killed and five others wounded when a car bomb exploded on Residency Road in Srinagar, the summer capital of Jammu-Kashmir, outside a heavily guarded hotel where members of the state's recently reconvened legislative assembly were staying. Several vehicles, including two bullet-proof cars, were damaged in the blast. Authorities said the militant group Jamat ul-Mujahideen claimed responsibility for the attack.

October 17, 1996 - One person was killed and 14 others wounded when a bomb, planted on a bicycle, exploded outside the Grandlay Cinema in the south Delhi's New Friends Colony.

October 8, 1996 - A spokesman for the U.S. Embassy in New Delhi said the government is considering offering a financial reward for information regarding four Westerners taken hostage over a year ago by Al-Faran militant separatists in Jammu-Kashmir. The U.S. government has reportedly not yet consulted the governments of India or the United Kingdom, Norway, and Germany, the three other countries whose nationals were also kidnapped, regarding the proposed reward. Locals occasionally have reported seeing the hostages, although authorities are uncertain whether the captives are dead or alive.

October 6, 1996 - Separatist Islamic rebels in the state of Jammu-Kashmir attempted to kidnap a London-based correspondent of the British Broadcasting Corporation (BBC) who was visiting her family in Srinagar. Although the rebels reportedly fired several shots, the abduction was thwarted by strong resistance from her family.

October 5, 1996 - Maoist guerrillas identifying themselves as "Ayyankali Pada" kidnapped the district tax collector in the Palakkad district of the southern state of Kerala and held him hostage for 10 hours. The kidnappers entered the office complex under false pretenses and then threatened to shoot the official. They claimed to have planted bombs in the building. Local media reported the kidnappers released the hostage following protracted negotiations in which local officials were said to have agreed to pressure the government to restore tribal land to its original owners, to publish details of previous land transfers, and to make public alleged mismanagement of funds earmarked for government expenditure on tribal welfare and development. Officials also agreed not to file charges against the kidnappers. At a press conference following the ordeal, the kidnappers admitted they had used a toy gun and had been unarmed throughout the event.

October 2, 1996 - Police in Bangalore, the capital of Karnataka state, arrested at least 40 members of the Akhila Karnataka Yuvaka Parishad (All Karnataka Youth Council) after they tried to break into the American fast food restaurant Pizza Hut on Cunningham Road during a protest to mark the anniversary of the birth of Mahatma Gandhi. Protesters carried banners and shouted slogans against Pizza Hut, Kentucky Fried Chicken, and Prime Minister H. D. Deve Gowda.

September 27, 1996 - An explosive device planted in an air conditioner in the restaurant of the Imperial Hotel in central Madras detonated, injuring at least 13 people. Police officials suspect

the bomb was planted by either Muslim or Hindu fundamentalists or a women's rights group. A cabaret show takes place in the restaurant and a Muslim women's organization in Tamil Nadu recently condemned the performance.

September 25, 1996 - Two members of the kidnap and ransom gang Asaithambi and a passerby were killed in a gunfight with police in the upscale Gandhinagar area of Adyar in south Madras. According to police, an unidentified businessman in Adyar received a telephone call from a gang member demanding a cash payment and the services of a prostitute. The businessman informed the police who set up a sting operation. Last month, three members of the same gang, including its leader, were killed in an encounter with police near Loyola College at Nungambakkan after they demanded a ransom for kidnapping the son of a local industrialist.

September 11, 1996 - The Indian Government denies permission for the U.S. Federal Bureau of Investigation (FBI) to open an office in the country. In August, the FBI said it would open offices in several countries, including India, to monitor terrorism, drug smuggling and organized crime that could affect U.S. interests.

August 30, 1996 - Local press reported some 14 murders, six kidnappings, and three rapes occur each day in the northern state of Bihar. The newspaper quoted an official report that said 2,625 people were killed, 1,116 people were kidnapped, and 548 raped during the first six months of 1996. Over the same period, the daily average totals included 40 robberies, 15 burglaries, and 34 cases of rioting.

August 19, 1996 - At least 10 government troops were killed August 18 when rebels armed with rocket launchers fired on a paramilitary patrol at Nayabasti village in Nalbari district, close to the northeastern state of Assam's border with Bhutan. The attack likely was the work of Bodo

separatist guerrillas, although officials are not ruling out the possibility of a joint operation by both Bodo and Assamese rebels.

August 2, 1996 - Militants in the state of Jammu-Kashmir on August 1 kidnapped the editor of a local Urdu-language newspaper. He was released the next day.

July 29, 1996 - At least six people died when a bomb exploded in an auto-rickshaw in the town of Anantnag, 35 miles south of Srinagar in Jammu-Kashmir. The blast wounded 25 people, razed more than 20 houses and damaged another 10.

July 23, 1996 - National Socialist Council of Nagaland (NSCN) rebels in northeastern Assam threatened to kill 27 tea plantation owners unless they each agreed to a \$2,860 extortion payment by the end of July.

July 17, 1996 - Officials report a leader of the Ikhwan-ul-Muslimeen rebel group was killed in a gun fight with government troops in Srinagar, summer capital of Jammu-Kashmir state. The group has been blamed for a series of bombings that killed more than 70 people in the following New Delhi areas: Lal-Quila, Connaught Place, Sadar Bazar and Lajpat Nagar.

July 10, 1996 - At least six soldiers were killed and four injured when separatists from the National Socialist Council of Nagaland (NSCN) detonated a remote control bomb and fired on army vehicles in the commercial town of Dimapur.

July 8, 1996 - Nineteen journalists were released after being held hostage by the militant Muslim faction Ikhwan-e-Muslimeen for nearly 10 hours in Srinagar, the summer capital of Jammu-Kashmir. Reportedly, they were released after a local newsman intervened on their behalf.

June 25, 1996 - Dressed in traditional Kashmiri clothes, the wife of an American, held hostage by separatist Kashmiri group Al-Faran returned to the city of Srinagar accompanied by U.S. Embassy officials to plead for the release of her husband. The woman was with her husband

when he was abducted a year ago with three other Westerners. A Norwegian captive has since been beheaded. More than 20,000 people have been killed since the conflict for independence began six years ago.

June 18, 1996 - Sanjeeva Rao, brother-in-law of former prime minister P.V. Narasimha Rao was arrested at his home in Hyderabad for his purported role in fixing government fertilizer contracts. Rao allegedly received a large sum of money from the multimillion dollar deal.

June 8, 1996 - Claiming multinational corporations harm local businesses and create joblessness, the militant Karnataka State Farmers Association threatened to obstruct the planned opening of Pizza Hut in Bangalore. The group has previously targeted other multinational companies like Cargill International, Kentucky Fried Chicken and issued threats to many others.

May 21, 1996 - A car bomb in New Delhi's Lajpat Nagar market killed at least 12 people, destroyed six cars and sparked large fires in at least three nearby buildings. A caller from Srinagar in Jammu-Kashmir, who said he was a spokesman for the Jammu and Kashmir Islamic Front (JKIF), claimed responsibility for the blast.

May 17, 1996 - Gunmen in the northeastern state of Assam shot dead a leading local journalist and injured his young son. Parag Das, who was known to be sympathetic toward the separatist United Liberation Front of Assam (ULFA), was shot at close range when he went to collect his son from school.

May 6, 1996 - Muslim militants abducted 10 Nepalis working at a stone-crushing plant on the outskirts of Srinagar, in Jammu-Kashmir. Two of the laborers managed to escape, but the others were shot and killed.

April 22, 1996 - Two crude bombs detonated in the southern state of Tamil Nadu damaging a railway station in the town of Perani, some 100 miles south of Madras, and a television relay

station building near Myladuthurai, 180 miles south of Madras. The Tamizhar Pasarai, or Tamil Barracks group, a breakaway faction of the Tamil Nadu Viduthalai Padai, or Tamil Nadu Liberation Army, claimed responsibility for the blasts.

April 20, 1996 - A bomb made with 66 pounds of explosives detonated in a street-level shop at a lodging house in New Delhi's Paharganj district killing at least 17 people -- five of them foreigners -- injuring some 30 others and destroying the building. Three Nigerian men, a Briton and possibly two Frenchmen were reported killed in the blast, and a Briton, a Dutchman and a Nigerian are among the injured. In a joint statement delivered to newspaper offices in Srinagar, the Jammu and Kashmir Harkat-ul Momineen, a group advocating Kashmir's union with Pakistan, and the Khalistan Liberation Force, one of the few groups left over from a decade-long rebellion by Sikhs seeking independence in Punjab, claimed responsibility for the blast.

April 17, 1996 - The separatist group Al-Jihad claimed responsibility for a crude bomb that exploded in a residential street in Srinagar, Jammu-Kashmir killing a paramilitary trooper, a security officer, a young boy, and wounding 27 others.

March 12, 1996 - A bomb exploded outside a cinema in the Kokrajhar district of Assam, killing one person. Bodo tribal guerrillas from the Bodo Security Force, which often targets Muslim immigrants and other settlers, was responsible.

March 7, 1996 - Armed gunmen scaled security walls around the home of a Srinagar journalist and tried to persuade him to accompany them to another location. When he refused, the men threw grenades and opened fire at the residence, located in Srinagar's high security Rawalpura Housing district.

February 27, 1996 - Indian officials forbid two German human rights activists from entering Anantnag district, reportedly with the intention of meeting members of Al Faran, the group that

has been holding four Western tourists hostage for eight months. The two Germans have offered to exchange themselves for the four captives.

February 26, 1996 - Bodo tribesmen fighting for a separate province in the northeastern state of Assam killed seven paramilitary troopers and seriously injured another in a bomb attack.

February 16, 1996 - Javed Ahmed, leader of the Islamic separatist group Harakat-ul-Ansar, was killed along with three other militants in an accidental mine blast.

February 13, 1996 - A former minister in Prime Minister P.V. Narasimha Rao's government was arrested at his New Delhi official residence for alleged links to hit men from the notorious Dawood Ibrahim underworld gang, which operates in Dubai and India. Kalpnath Rai is accused of entertaining six members of the gang and charging all expenses for their trip to the energy ministry, which he was heading at the time. Rai was forced to resign in 1995 as minister for food and civil supplies after being implicated in a separate case for allegedly inflating sugar prices to benefit selected businessmen. Brijbhushan Saran Singh, a leader of the opposition Bharatiya Janata Party, was arrested along with Rai in connection with the Dawood Ibrahim allegations.

January 31, 1996 - Some 100 farmers from the Karnataka State Farmers Association broke through a small police cordon outside the Kentucky Fried Chicken outlet, smashed the glass front of the building and broke up furniture before being arrested. Reportedly, the attackers pretended to be customers to gain access to the building, and injured customers and employees in the melee. Since the country's first KFC outlet opened last June, the nationalist farmers' organization has mounted protests against it, saying its food is un-Indian and unhealthy. The group has threatened to throw the fast-food chain out of India. Since then, police have been stationed outside the restaurant on the city's main street. Local authorities claimed KFC's chicken used more than double the permitted amount of monosodium glutamate and had the

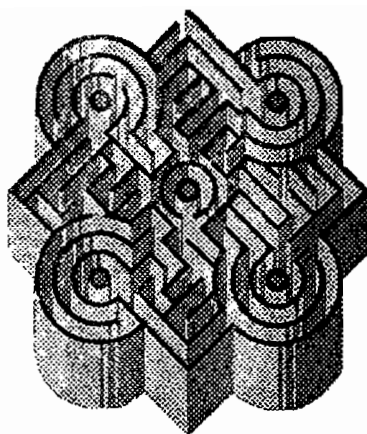
facility closed briefly. KFC reopened hours after appealing to the state High Court. And in November, KFC's second outlet in New Delhi was closed on the grounds it was not hygienic. Detractors claimed two flies had been found in the kitchen, but most observers discounted the claims as petty and specious, and after another court battle, the outlet reopened three weeks later.

January 26, 1996 - A bomb planted by the Underground Liberation Army and the People's Revolutionary Party of Kangleipak exploded near Imphal, capital of Manipur state, killing at least two paramilitary troopers and wounding three others.

January 8, 1996 - The Indian Army killed Sajad Kenoo, the reported leader of the Jammu and Kashmir Islamic Front at Chanapora just outside Srinagar.

January 3, 1996 - Seven people were killed and several others injured when a bomb exploded in the crowded Sadar Bazar business district in the center of the old city of New Delhi. The Jammu and Kashmir Islamic Front, a Kashmiri separatist group, claimed responsibility for the blast.

A complete chronology of events with commentary on India is available from January 1991 to date. Contact KINS for additional information.



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