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Telecom Scandal Plunges India Into Political Crisis

By JIM YARDLEY and HEATHER TIMMONS

NEW DELHI — Tycoons with friends in high places. Public tenders conducted by irregular rules. Tens of billions of dollars in potential losses for the national treasury. Allegations of government ministers on the take, and of a respected prime minister too aloof to notice.

Those are some of the ingredients of a telecommunications scandal that is growing into India's equivalent of Teapot Dome. It has produced almost daily revelations about bribery, abuse of power, and privatization of public wealth that paralyzed Parliament for more than three weeks before its winter session ended Monday and have plunged the governing Congress Party into its worst political crisis in years.

The issue is how a minister allied with the party sold cellphone operators the airwaves to provide their service in 2008. But the amounts involved, and subsequent revelations of how some of India's richest men sought to exercise influence over political appointments and regulatory decisions, have surprised a nation seemingly inured to reports of corruption in politics.

An independent auditor estimated that the government may have left almost $40 billion on the table by selling the rights too cheaply.

The political fallout seems to grow each day. The telecom minister, Andimuthu Raja, has already resigned. On Monday, the focus expanded to India's minister of highways, Kamal Nath, after the retired head of India's most powerful trade group suggested on secret tapes connected to the telecom scandal that Mr. Nath skims 15 percent from projects he oversees.

The scandal has energized a once-moribund opposition, led by the Bharatiya Janata Party, which has blocked normal business in Parliament. The opposition is demanding that Prime Minister Manmohan Singh create a parliamentary commission to investigate, a step Mr. Singh has resisted, promising that the government will clean house.

Beyond the political infighting, the scandal has broad implications for India, the world's second-fastest-growing major economy. Growth depends increasingly on turning whole swaths of the state-directed economy over to the private sector, whose capital and expertise are critical as India embarks on plans to build roads, bridges, ports and power plants.

But many analysts say the telecom scandal is just one indicator of crony capitalism and inadequate oversight that fuel public skepticism about capitalism and slow down reforms. The scandal also has revealed an incestuous world of journalists, corporate lobbyists and politicians and has reinforced the perception of an Indian economy dominated by a small, tightly connected elite.

"Even as the government cedes control over large parts of the economy, its graft-ridden approach to privatization could leave long-lasting scars that hold India back from reaching its potential," said Eswar S. Prasad, a professor of trade policy at Cornell University and an adviser to India's Finance Ministry. "Open corruption and rising stark disparities in wealth are a volatile mix that could affect social stability if the benefits of growth don't filter down."

For the Congress Party, the scandal has even tarnished Mr. Singh, considered the most upright and squeaky clean politician in India. He has not been linked to any wrongdoing, but his image as a capable administrator has been damaged as more allegations emerge about members of his cabinet.

To many analysts, the telecom scandal is emblematic of what many consider India's gilded age, as a small group of powerful conglomerates scramble to fight for resources or projects, whether mining rights, land, infrastructure projects or the electromagnetic waves known as spectrum that carry cellphone service.

India is the world's second-largest cellphone market, with nearly 700 million subscribers, and the profits of private operators depend on licenses for spectrum. In a hearing this month, India's Supreme Court expressed astonishment over the irregular practices of India's Department of Telecommunications in dividing up the spectrum in 2008.

On the final day of the allocation, telecom officials issued an unexpected notice informing applicants of a rule change. Spectrum would effectively be awarded by schoolboy rules; the first companies to reach the counter with completed paperwork and a license fee of $355 million would qualify. Businessmen sprinted down the hallway, jostling down stairs, as they rushed toward the office where a clerk was processing applications. Investigators are now looking into whether certain companies were tipped in advance to the rules change.

"The bizarreness of it took us by surprise," one executive who witnessed the scramble said in an interview. "People were pushing and shoving, making sure they were ahead of everybody else."

Less than two years ago, India was horrified over a scandal at Satyam, an Internet technology company whose founder and chairman admitted to fraudulent accounting. That now seems quaint, as scandals of far greater magnitude multiply in illegal iron ore mining, banking, the staging of the recent Commonwealth Games and more.

The telecom industry in India was essentially born in the mud pit of corruption. Telephones were once a rarity in India — made rarer by the plodding intransigence of the government service provider, which might take one year, or three, to fulfill a customer's order for a new line. Then in 1994, three years after India began embracing market reforms, telecom was opened to the private sector.

The move unleashed nothing short of a revolution, eventually providing hundreds of millions with their first telephone service. But corruption also soon surfaced: in 1996, the minister overseeing the telecom field was charged with accepting bribes. Investigators searching his home discovered more than 24 million rupees, or roughly $550,000, stuffed inside trunks, pillowcases and toilet tanks.

Nearly 15 years later, the style of corruption is far different, as is the money. This year, India's cellphone customers are expected to pay nearly $20 billion in bills, according to the technology research company Gartner. Most of this revenue will go to a handful of big players — Reliance Communications, Airtel, Vodafone, Tata Teleservices and Idea Cellular — which together account for almost 80 percent of the market.

With the exception of Vodafone, a British corporation, these giant telecom companies are all subsidiaries of India's biggest conglomerates, headed by some of the nation's most powerful tycoons. Their companies reach into steel, autos, natural gas, power plants, mining, construction and media. Today, India has 66 resident billionaires whose combined wealth of roughly $244 billion is equivalent to more than a fifth of the country's $1.1 trillion gross domestic product.

This trend of the richest getting even richer, in a country where 800 million people survive on $2 or less a day, is raising concerns, especially since so many fortunes are rooted in industries intertwined with government licenses and rife with corruption.

"There is a risk that India will evolve toward a condition of oligarchic capitalism, in which the market and political power of major corporations will become a drag on long-term growth and a source of distortion in policy," a report sponsored by the Asian Development Bank warned.

Now many analysts say that the scandal represents a major test for Indian governance and capitalism — and whether the system can mete out punishment for wrongdoing.

"When the entire government structure sees that people are getting away with taking bribes and no one is getting punished, right down the line everyone starts trying to do it," said Raghuram G. Rajan, a professor of finance at the University of Chicago.