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UK Worried About Indian Governance?

These are tough times for Prime Minister Manmohan Singh. He has probably just about become accustomed to the regular calls from domestic quarters to answer for India's "governance deficit." But now those calls may be starting to come from further afield.



Agence France-Presse/Getty Images

British Prime Minister David Cameron reportedly expressed concern about the transparency of the business environment of India, in a letter to India's Prime Minister Manmohan Singh.

The [Hindustan Times reported on Monday](#) that British Prime Minister David Cameron wrote to Mr. Singh in February to express concern about the "transparency of the business environment of India."

Ben Saoul, chief press officer for foreign affairs for 10 Downing Street, confirmed that a letter had been sent "to follow up on a range of trade and investment issues" that had been discussed during the [British prime minister's visit to India](#) last year.

The Hindustan Times, which says it has a copy of the letter, says Mr. Cameron expressed concern over India's attempts to levy up to \$2.6 billion in [taxes on Vodafone Essar Ltd.](#) that tax authorities here say should have been withheld when it purchased Hutchison Whampoa Ltd.'s stake in its joint venture with India's Essar Group in 2007.

Vodafone "remains, pending a satisfactory outcome to the judicial process, subject to a substantial demand for capital gains tax on a basis which has no precedent," said the letter, according to the Hindustan Times.

The British PM also raised concerns about the delays in approving Cairn Energy PLC's deal to sell its Indian subsidiary, the report said.

The letter also notes that some British firms have not been paid for services they delivered during the Commonwealth Games. Several members of the Games Organizing Committee are now being investigated in connection with a federal corruption investigation of spending for the event and [two have been arrested](#).

In one or two cases the "delays which have had serious consequences for the financial viability of the companies concerned," the report cited the letter as saying.

Mr. Saoul declined to discuss the details of the letter but said it wasn't unusual for country leaders to bring up such concerns with one another.

"India is a very important market for British business," he said, "That's why the Prime Minister led a very large trade delegation there last year. We want to work with India to unblock market access issues and regulatory barriers where they exist. These are issues that are normal to take up between two governments."

Corporate tax lawyer Nishith Desai, of Nishith Desai Associates, says it's not just British firms that are worried. Mr. Desai, who advises American firms on doing business in India, said the combination of corruption scandals and arbitrary policies were a concern for firms entering India. He noted that some initiatives in the new budget undo previous tax-exemptions that attracted foreign investors and also singled out policies like the use of retrospective regulation and attempts at extra-territorial taxation.

"When you do it regularly and habitually without any policy discussion as to what impact it will have on international relations, what impact it will have on the taxpayer who has invested large amounts of money, you destabilize the whole framework," said Mr. Desai. "That is a huge uncertainty, along with corruption."

Is India leaping to address the issues that have been raised? It appears not, given that an aide to Mr. Singh said on Monday that the prime minister's office had "no information" about the letter. They can probably afford to sit on this one, in any case, since even the normally vociferous opposition would likely back the PM if it looked like the Brits were raising questions about how India is run.

Vibhuti Agarwal contributed to this post.

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