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Global Governance and The KAS Guidelines: The View From India

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ABSTRACT

The KAS guidelines are a framework for discussions on issues of global economic governance that could be relevant for all G-20 countries. This paper sets out to examine India's approach to the guidelines against its internal and external policies and the general background of current changes and challenges in world economic governance. As a large emerging economy India has a series of national priorities that would not necessarily gel with those of the G-20. In common with some other developing economies, therefore, its attitude toward the guidelines may be somewhat ambivalent, especially in light of the imperatives facing the G-20 economies in the wake of the 2008–2009 economic crisis. India has embarked on a path of reform and liberalisation but still has to address serious income imbalances and issues of social deprivation that may demand policy initiatives and structural changes incompatible with the guidelines. While in practice India would be a strong supporter of some of the guidelines, it would play only a secondary role in the articulation of others. India is conscious of its place on the global stage but nevertheless faces challenges in aligning its policies more closely with those put forward in the guidelines.

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ABBREVIATIONS AND ACRONYMS

Asean	Association of South East Asian Nations
Basel III	Third Basel Accord
BRICS	Brazil, Russia, India, China, South Africa group.
G-7	Group of Seven industrialised nations
G-20	Group of 20 finance ministers and central bank governors
G-77	Group of 77 developing nations
GDP	gross domestic product
KAS	Konrad Adenauer Stifftung (Konrad Adenauer Foundation)
IBSA	India, Brazil, South Africa dialogue forum
PPP	Public-Private Partnership
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
WTO	World Trade Organization

INTRODUCTION

The Group of Twenty ministers and central bank governors ('the G-20') was established to meet a perceived need to institutionalise dialogue between advanced and emerging economies. In furtherance of that aim the finance ministers of the seven industrialised nations that together comprise the Group of Seven (G-7) invited their 'counterparts from a number of systemically important countries around the world' to the first G-20 meeting in Berlin in December 1999. A new, ministerial level G-20 forum was formally created in September 1999. Kharas and Lombardi have documented the origins and history of G-20[1] in a recent paper. They argue that:

> For the time being, the G-20 appears to be the "best available option" for global economic governance. It is not designed to achieve institutional legitimacy per se, and thus it has chosen to work with other bodies that have a more inclusive and universal representation. It is not an implementing body, but it encourages others to rise to the challenge of addressing the issues that its agenda advances. The G-20 receives the greatest media coverage during times of crisis, but the leaders who now participate in it are finding ways to demonstrate to their own electorates that they are making a difference in the conduct of global affairs through the stance they take at its summit meetings. This link between global and domestic dialogues, and the building of popular support to address global challenges, may yet become the greatest value that the G-20 adds.

A need for consensus on global economic governance seems to have emerged from the economic crisis of 2008–2009 and responses to it, as well as from larger issues relating to security and terrorism, especially after the attack on the World Trade Centre in New York in September 2001. It is finance ministers and central bank governors, however, who remain the key members of the G-20 process[2] and their meetings continue to stress financial co-operation over other issues: in the wake of the 2008 economic crisis issues of financial regulation, market regulation and fiscal policies have supplanted concerns over matters of trade and climate change. G-20 meetings appear to some to be overly concerned with current crises, rather than with a larger architecture for global governance. Current meetings seem mainly to address issues of food security in the wake of drought in producer nations – matters that are certainly relevant and immediate, but not necessarily strategic.

The nature of the emerging international economic order has been the subject of considerable discussion. Mahbubani[3] has argued that the perspectives of Asian nations are likely to be different from those of their Western counterparts, while there have been equally strong proponents of the argument (Jaishanker and Walker, for example[4]) that principles and not players should determine the nature of the global economic order. The Konrad Adenauer Stiftung (KAS) guidelines[5] constitute a methodological approach to arriving at norms that should guide global economic governance. The ten most important guidelines are first, a proper regulatory or legal framework; followed by principles respectively of private property ownership; open competition; assurance of liability for losses incurred in the pursuit of profit; stability of the economic environment; provision of public goods by the state; social security and just distribution; neutral tax systems; environmental sustainability; and open markets.

From the standpoint of the emerging economies, the point at issue is whether or not they would be able to address the KAS tenets in their domestic economic policy making, and more importantly, articulate them as principles governing their international activities. In the case of India, the answer cannot be a categorical affirmative. There are several reasons for this.

INDIA'S POLICY IMPERATIVES

First, the Indian constitution provides for a federal structure. Apart from the union (ie federal) government, India includes 28 states and seven union territories. The largest of the states, Uttar Pradesh, has a population of 200 million. States are governed by separate legislatures and the union government currently is an amalgam of several distinct regional political parties, with the national footprint of the Congress Party providing the necessary degree of cohesion. Increasingly, regional parties must cater to their distinctive populations, and their involvement in national policy making is constrained by the interests of their local electorates. In practice this has meant that policy making has become an elaborate cohesion-building exercise, especially on issues of globalisation and economic reforms. International trade, financial markets and open market architecture are not high on the priority list of the regional political parties. In fact recent reform measures announced by the Congress Party have not gone down well with all its allies and one of them has pulled out of the alliance.[6]

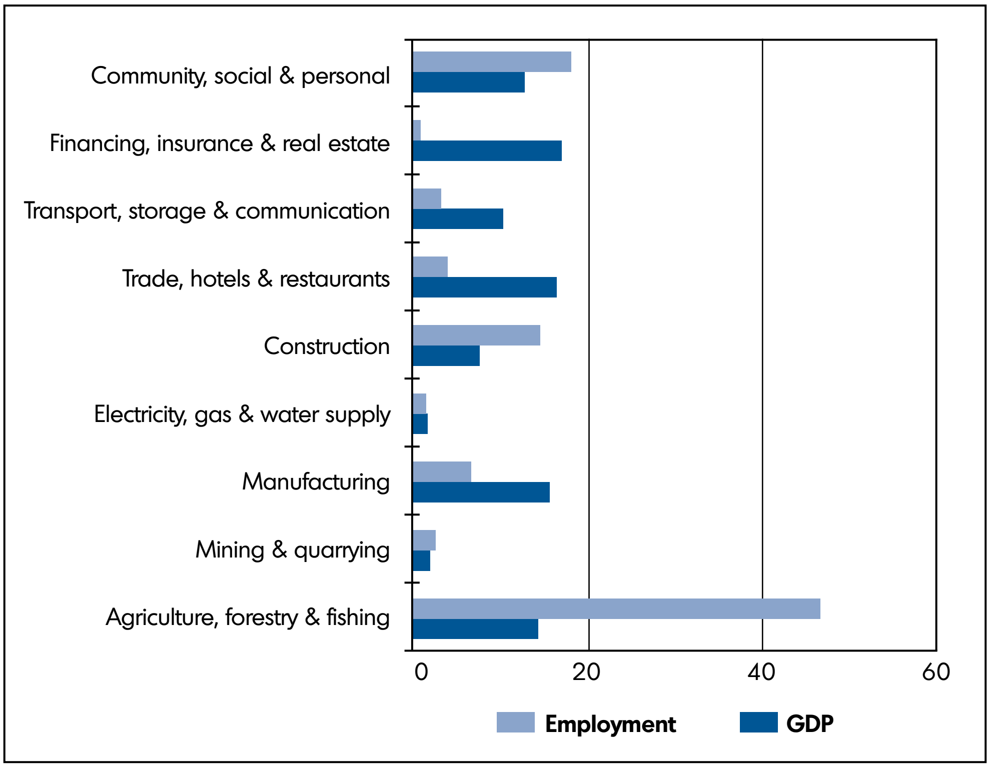
In short, the very fundamentals of the KAS architecture find no resonance in India's regional party politics, and the nature of the governing coalition makes it difficult for policy makers at national level to get regional parties interested or involved in these issues. Nor are there indications that the influence of regional parties in national politics is likely to wane in the near future. This situation does, however, indicate a strengthening of democratic traditions in a very diversified country, with regional aspirations finding a consensual voice at the national level.

Secondly, the structure of the Indian economy continues to be characterised by a large rural population dependent on agriculture. Although agricultural output constituted only around 19% of gross domestic product (GDP) in 2010, the number of people dependent on agriculture and rural livelihoods exceeds 500 million (see Figure 1). As GDP grows it is imperative that this large population does not slip further into poverty. Overall the Indian economy is therefore still essentially one that is rural subsidy-orientated, public goods transfer-based, and low-income. These characteristics are closer to those of the group of 77 developing nations (G-77) within the UN, than to the G-20.

It could be argued that India has become a member of the G-20 too early, before it has had time to solve its domestic problems of poverty and inclusive growth. While there is some pride, especially in educated urban circles, in India's sitting at the table with the big economies, there is also the knowledge that the country's domestic economic problems are very different from the questions under discussion at those meetings. For example one of the issues India hopes to flag at the forthcoming G-20 meeting is the postponement of implementation of the Third Basel Accord norms ('Basel III') on the capital adequacy of banks. While it is in full agreement with the requirements for capital adequacy mandated by Basel III it is in no position to recapitalise its own public sector banks, which constitute

75% of all banking in India, within the time frame mandated. Such an admission, of an absence of fiscal control, in such a forum would be embarrassing for India.

Figure 1: Percentage contribution of GDP versus employment



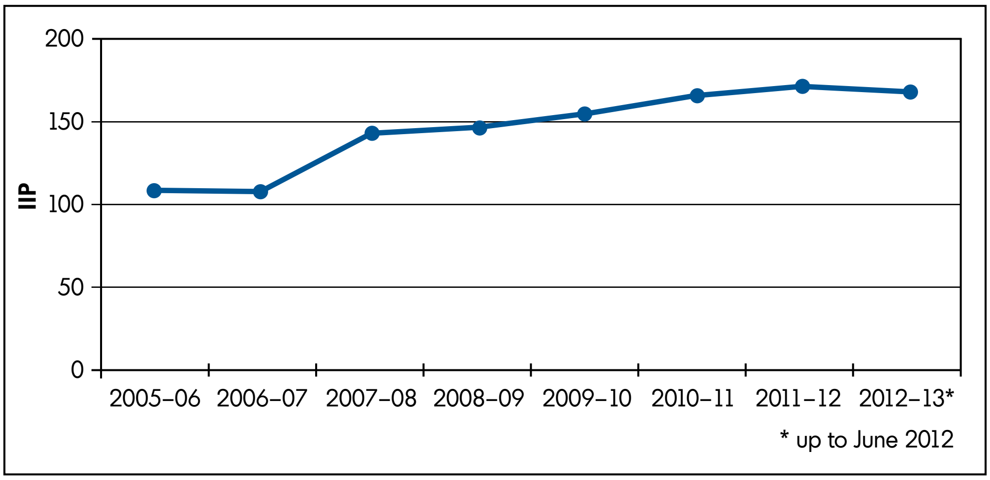
Source: India Statistics, Ministry of Statistics and Programme Implementation, Ministry of Labour and Employment, Government of India

This leads in turn to the third argument, which concerns India's current macro-economic problems. Its GDP growth has slowed to less than 6% a year, a drop of more than 2% from its 2007–2008 peaks. Industrial production is flagging and capital formation is at a five-year low (see Figure 2).[7] Inflation has averaged 8.4% over the past 12 months and inflationary pressures continue high (see Figure 3).[8] The negative current account balance stands at 3.9% of GDP in 2011–2012 and reduced net capital inflow in the second and third quarters of the financial year has put pressure on the exchange rate.[9] Government subsidies for fuel, food and fertiliser exceeded budgetary estimates by more than 26.7% in fiscal 2011–2012.[10] The fiscal deficit appears to be climbing to 6% of GDP, an unacceptable figure (see Figure 4).

The inability of the government to rein in the fiscal deficit, reduce subsidies and improve revenues has drawn criticism from policy makers, media and economists the world over. In addition, the government has been embroiled in a series of scandals that point to nepotism and corruption. There have also been domestic disturbances and infringements of peace and law and order which appear to signal a sense of dissatisfaction among the electorate. In private consumption terms, reductions in personal savings and lower capital formation point to stresses arising from inflationary pressures and macro-economic imbalances. The government is under fire for 'policy paralysis'. General elections are due in 2014 and the ruling coalition appears to be looking for ways to instil confidence in the economy.

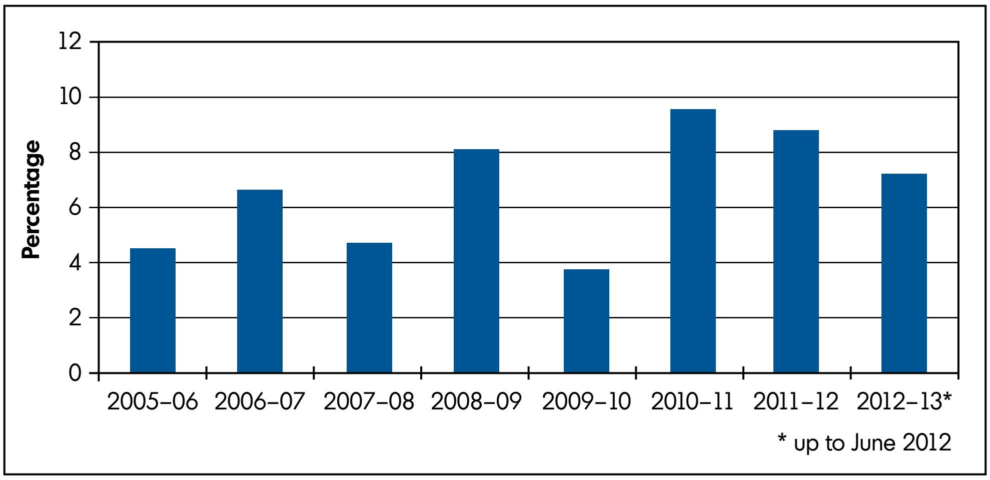
There have been some recent efforts to realign fuel prices in order to reduce the fuel subsidy burden, as well as to embark on reforms in the retail and civil aviation sectors, but the impact of these measures alone may be quite limited. The prime minister has announced that he would be undertaking further reforms to revitalise the economy. Overall, it is clear that the government is concerned more with domestic than international issues.

Figure 2: Index of industrial production (base year: 2004–05 = 100)



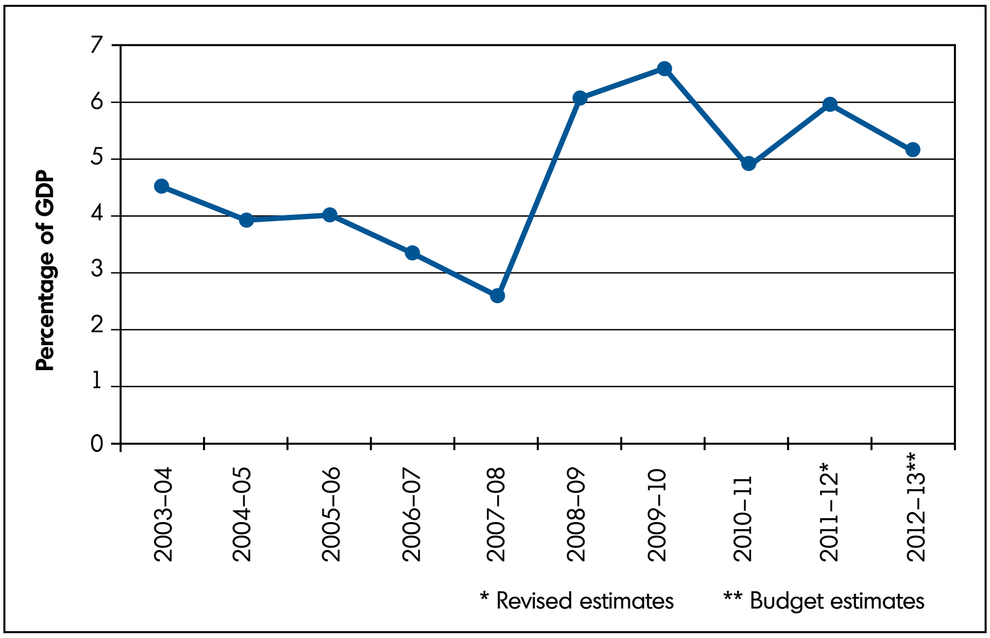
Source: India Statistics, Ministry of Statistics and Programme Implementation, Ministry of Labour and Employment, Government of India

Figure 3: Inflation based on wholesale price index



Source: India Statistics, Ministry of Statistics and Programme Implementation, Ministry of Labour and Employment, Government of India

Figure 4: Gross fiscal deficit



Source: India Statistics, Ministry of Statistics and Programme Implementation, Ministry of Labour and Employment, Government of India

Finally, it can be said that the main questions on India's international agenda do not feature prominently in G-20 discussions. At the top is the matter of regional trade agreements. India is pursuing a host of such agreements with the Association of Southeast Asian Nations (Asean), the EU, Japan and Korea, and is in a preliminary discussion with China, but trade issues do not seem to feature in G-20 discussions. Issues of climate change and global warming are very important for India and South Asia in general, but are not in the forefront in the G-20. There is a significant move to open up bilateral trade with Pakistan and to reduce trade barriers with neighbours, both of which initiatives appear to be progressing well. Yet it is evident that the concern of the G-20 is overwhelmingly with currencies and markets and with fiscal, monetary and financial market architecture; and less with the real economy of goods and services.

INTERNATIONAL REALITIES AND DOMESTIC REFORM

There is also the implicit question of the application of the KAS guidelines, or the lack of it, by the G-7 nations, in the light of their behaviour since 2008 in terms of fiscal prudence, funds transfer to disadvantaged groups, and even financial regulation. It would be difficult to argue that the example set by developed countries over the past few years is one to instil confidence in the emerging economies as to adherence to rules and norms. It has been posited that that the establishment of a rule-based system and a democratic framework would itself ensure that the architecture put in place would stand. This argument is difficult to support. First, it presupposes the existence of institutions and regulations in each country that are capable of monitoring, supervising and regulating governance behaviour. This has not been the case in the financial markets even of developed countries, which purport to be transparently regulated. Secondly, there is an assumption that democratic institutions are inherently superior to those less democratic, an argument still far from finality. Hence, simply putting in place rules and commitments would not of itself ensure compliance. Even in the IMF and the World Bank there would be a need for universal consensus, which has always been difficult to find.

Yet, within this framework, there are opportunities for India to work with other members of the G-20 in putting in place some of the principles laid down in the KAS guidelines. Some of them are very much in India's economic interests and India probably would vigorously pursue those that were in the multilateral forum, while remaining silent in the debate on others. The distinction between the two sets is likely to reflect different policies relating to the domestic economic sectors that drive India's economic growth.

India's major economic reforms, which began in 1991, focused on both the real economy and financial markets. Reforms in the latter have included a revamping of equity markets, online order matching, sale and delivery of security, settlement of claims within 48 hours, and close monitoring of all transactions. The new architecture has encouraged international investors to take advantage of investment opportunities in the market. Even during the financial crisis of 2007–2008, when foreign investors withdrew almost $20 billion from the Indian market, trading was never halted and there were no complaints about settlement. Over the years increasingly complex instruments have been introduced and have been used by investors. The commodities market is also vibrant, and multiple platforms including power exchange pricing platforms are now available. Even though the Indian rupee is not convertible on the capital account, there are several regulated ways in which exchange flows are monitored, offering substantial opportunities for foreign exchange transactions and hedging. In short, India is recognised as a well-regulated financial market, attracting funds which, even though short term in nature, help to boost the capital inflows necessary to fund its large infrastructure and social sector programmes.

Subsequent to the 2008 financial crisis the Securities and Exchange Board of India (SEBI)[11] and the Reserve Bank of India (RBI), respectively the market regulator and the monetary and banking regulator,[12] stepped in to prevent consequential damage to the Indian economy. The steps taken by the RBI in this process have been welcomed in international forums. They reflect several KAS guidelines, such as improved regulation, a legal framework for settlement and dispute resolution, fixing liability for losses and an open, competitive market. Given that the G-20 delegates are central bank governors and ministry of finance representatives, they presumably would be competent to offer an authoritative view on India's compliance with these standards. India in turn could strongly support the mandate for ensuring uniform international rules to govern financial markets, and would be able to assure international institutions and banks that it could put in place such rules. In particular, it would strongly argue for a transparent taxation regime under which incomes would be taxed in the parent country, regardless of where they were earned. Reforms of the financial markets and international transparency in capital and income flows are also likely to be platforms that India would strongly support.

Indeed, India has found it easier to reform its financial markets than intervene in the real economy of goods and services. The two spurts of reforms, in the early 1990s and in 2000–2003, freed a number of sectors from governmental oversight and control.

Tight governmental control over banking, insurance, energy, infrastructure and mineral resources, however, limited the scope of reforms in those sectors. Since 2004 there has been little evidence of extending globalisation of the Indian economy. There have been allegations[13] of policy paralysis in India and two leading ratings agencies have downgraded the country's credit rating. The absence of reform in the real economy appears to be an important factor behind the slowdown in GDP growth and the reluctance of domestic as well as international capital to invest in manufacturing and infrastructure.

The inability of the government to take politically sensitive decisions has had its impact on several reform measures. One of them is private property ownership. Acquisition of land for public purposes, including infrastructure and manufacturing, is undertaken by government under a law that traces back to 1896. During the past few years there have been several instances of those displaced by developmental projects resorting to agitation and to the courts to stop takeover of land. The government is now trying[14] to make compensation payments for land acquisition more market-based and people-friendly, with a strong emphasis on accepting responsibility for rehabilitation and resettlement of the dispossessed. Entrenched interest groups have, however, strongly opposed the proposals and increasing pressure on land and growing urbanisation has brought acrimony to the development versus land rights debate. The issue is still open, with parliament yet to debate the structure of the new legislation. Quite apart from the KAS-stipulated right to private property, a more important matter is attracting attention: that of food security. This question is especially vexatious because it addresses problems of social entitlement and transfers, as well as the equitable distribution of wealth and resources – issues on which even the US, among developed nations, seems to be divided. India would not be a leader in this debate.

There is a similar dilemma in the concept of fully functional competition. It is clear that there would be different views among Brazil, India, Russia, China and South Africa (BRICS) because they each see the role of the state differently. Emerging economies without exception have strongly articulated the need to retain autonomy and sovereignty and they reject attempts to agree on international supervision of levels of competition prevailing in individual countries. India is one country that would never be able to accept such a proposition because ideology aside, there are important contemporary debates in train on the nature and influence of the Indian state.

A current controversy relates to ownership and disposition of natural resources. There have been instances, now under investigation,[15] when natural resources such as coal in effect have been rendered into the hands of a select few. India's supreme court has suggested that leases involving natural resources should be auctioned. The government appears to take the view that parliament should decide the rate and prices at which such resources should be exploited, on the basis of its concept of the welfare of the people; an argument that has drawn many opposing views. Not least of them is the argument that natural resources are not renewable assets and that it is important to reach a balance in welfare considerations between the needs of this generation, which elected those representatives to parliament, and the next. The matter is not yet settled.

Even in sectors in the real economy such as civil aviation, manufacturing, retail and railways, policies have not always favoured open competition. Although successive governments have committed themselves to reform and globalisation of all such activities they have found it increasingly difficult to navigate the changes in rules and regulations and to legislate for an open market agenda. This is primarily due to differing perceptions across different political and interest groups, resulting in difficulties in arriving at consensual policy decisions. The principles of open markets, a neutral tax regime, and fully functional competition are therefore ones that India would wish strongly to articulate and support but might have difficulty in implementing within its own economy.

This problem is even more acute in the agricultural sector. India has been one of the countries objecting to the World Trade Organization (WTO) Doha round of development initiatives on agricultural subsidies. The 500 million Indian citizens who depend on agriculture and allied activities represent a vote bank and electoral pressure base that cannot be ignored. In the WTO discussions that followed the failure of the Doha round, India has been reluctant to commit to any targeted reduction of agricultural subsidies. Others, including US and China, have also been hesitant. In any case open competition in agriculture and open and free trade in agricultural products and commodities are unlikely to be features of global trade in the foreseeable future.

The large numbers of the population engaged in agriculture and India's growing urban poor demand significant social responses from the state. The current government places great stress on the principles of 'inclusive growth' and has initiated several projects to improve livelihoods and assure minimum support levels for the rural unemployed. There are concerns about equitable distribution and worries that the benefits of economic growth are accruing only to a few at the top, and there have been several attempts to provide assistance for those marginalised during the development process. A flagship scheme[16] now in place assures the rural jobless of wages for 100 days of employment. Similar programmes in urban areas offer livelihoods and support for infrastructure. Hence protectionism in agricultural trade, and subsidies and handouts to the rural poor, are likely to be features of the Indian economy for some time to come.

Open markets in parallel with programmes of social responsibility are therefore likely to be the keystones of future policy in India, in the face of an increasing demand for provision of public goods by the state, most importantly food security, rural livelihoods and rural infrastructure. The pressure on public finances from meeting these needs is crowding out other, equally important public goods provisions such as roads, infrastructure and even water supply. The 12th five-year plan document, now in its final stages of preparation, attempts to transfer a significant proportion of these responsibilities to the private sector, within the ambit of Public-Private Partnerships (PPP). In part it is recognition that the private sector can bring better execution efficiencies and technology to these sectors. Equally, however, it reflects a realisation that the capital requirements of these sectors are substantial and cannot be met from the public exchequer alone. The definition of public goods is therefore being revisited to exclude those that can conceivably be farmed out to partnerships with the private sector; policies perhaps born out of fiscal necessity, rather than considerations of public welfare. There are strong views, for example, that provision of drinking water in urban areas should not be privatised: equally, there are arguments for pursuing the distribution efficiencies and collection of dues that the private sector promises. The debate on what constitutes a public good has been revived in India, and it is likely that the answers lie in the realm of politics rather than economics or social welfare.

CONCLUSION: TOWARDS AN ALIGNMENT OF INTERESTS

The analysis so far has tried to examine the internal policy and political imperatives likely to influence India's position in regard to KAS guidelines on global governance. It is clear that its concerns are not ideological or fundamental, but are driven more by economic pragmatism in managing the domestic economy.

At the same time, India is quite conscious of its larger role in the global economic arena. Its recent pledge of $10 billion[17] to the IMF crisis management fund and the creation of a $15 billion[18] external aid agency are cases in point. They were commitments intended to fulfil India's international obligations in maintaining the stability of the economic environment, which is one of the key objectives in the KAS guidelines. In addition trade, technology and capital inflows, and integration with international financial markets and monetary systems, are vital for India's future economic growth. In 2012, there have been high level visits from China, UK, US and France, indicating the importance of India to the rest of the world. Its geography, placing it close to conflict-prone regions, and the need to tackle terrorism and ensure international security, brings the country closer to global efforts to secure peace and order. Its foreign policy stance is increasingly driven by trade interests, the need to ensure energy security, transparency of financial flows across borders, the requirements of international capital, and the security of land and sea trade routes.

India requires the support of the international community to deal with cross border terrorism issues, as well as to plug the source of funding for terrorism. It is also conscious of the growing regional presence and influence of China, especially in South East Asia, where India has historical as well as contemporary interests. In this regard the India, Brazil South Africa dialogue forum (IBSA) offers an opportunity to showcase the advantages of democratic development. Democratic, institutions, rule-based administration and governance through public mandate are intrinsic values shared by India and the developed democratic countries, which is perhaps one of the reasons the G-7 is interested in closer relations with India.

In recent G-20 meetings, however, the agenda has overwhelmingly concerned itself with the crisis in EU and the US, and the steps necessary to revive the economies of the developed world. In particular, problems in the EU have been at the forefront of deliberations. Given the sheer size of the US and EU economies, which significantly outweighs that of all the emerging economies (even when taken together), it is natural that their concerns get primacy. Yet there continues to be a sense that G-20 discussion on issues facing emerging economies is less than proportionate and as latecomers to this group, the latter could be forgiven for attempting to make their points more forcefully, in the interests of being heard. For its part, India has its own part to play and in doing so, must align its internal interests with the role expected of it in global affairs.

ENDNOTES

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18 See http://www.globalpost.com/dispatches/globalpost-blogs/india/india-global-aid-agency.

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