CHAPTER 16

INTERNATIONAL ECONOMIC ORGANISATIONS & INDIA

*If as T.S. Eliot said that humankind cannot bear too much reality, recent events suggest that the world cannot bear too much globalisation either.**

In This Chapter...

- International Monetary System
- Bretton Woods Development
- International Monetary Fund
- World Bank
- India's BIPA
- Asian Development Bank
- OECD
- World Trade Organization (WTO)
- Nairobi Negotiations & India
- Buenos Aires Conference and India
- BRICS Bank
- Asian Infrastructure Investment Bank

*__Economic Survey 2016-17__, *Government of India, Ministry of Finance, N. Delhi, Vol. 1, p. 7.*

INTERNATIONAL MONETARY SYSTEM

The international monetary system (IMS) refers to the customs, rules, instruments, facilities, and organisations facilitating international (external) payments. Sometimes the IMS is also referred to as an international monetary ***order*** or ***regime.***[1] IMS can be classified according to the way in which exchange rates are determined (i.e., fixed currency regime, floating currency regime or managed exchange regime) and the form foreign reserves take (i.e., gold standard, a pure judiciary standard or a gold-exchange standard).

An IMS is considred good if it fulfils the following ***two objectives***[2] in an impartial manner:

(i) maximises the flow of foreign trade and foreign investments, and

(ii) leads to an ***equitable*** distribution of the gains from trade among the nations of the world.

The evaluation of an IMS is done in terms of ***adjustment, liquidity*** and ***confidence*** which it manages to weild.

ADJUSTMENT

It refers to the process by which the balance-of-payment (BoP) crises of the nations of the world (or the member nations) are corrected. A good IMS tries to minimise the cost of BoP and time for adjustment for the nations.

LIQUIDITY

It refers to the amount of foreign currency reserves available to settle the BoP crises of the nations. A good IMS maintains as much foreign reserves to mitigate such crises of the nations without any inflationary pressures on the nations.

1. D. Salvatore, ***International Economics*** (New Jersey: John Wiley & Sons 2005), pp. 737–38; Samuelson and Nordhaus, ***Economics*** (New Delhi: Tata McGraw-Hill, 2005) pp. 609–12.
2. D. Salvatore, International Economics, p. 738.

CONFIDENCE

It refers to the faith the nations of the world should show that the adjustment mechanism of the IMS is working adequately and that foreign reserves will retain their absolute and relative values. This confidence is based on the transparent knowledge information about the IMS.

BRETTON WOODS DEVELOPMENT

As the powerful nations of the world were hopeful of a new and more stable world order with the emergence of the UNO, on the contrary, they were also anxious for a more homogenous world financial order, after the Second World War. The representatives of the USA, the UK and 42 other (total 44 countries) nations met at Bretton Woods, New Hampshire, USA in July 1944 to decide a new international monetary system. The International Monetary Fund (IMF) and the World Bank (with its first group-institution IBRD) were set up together—popularly called as the ***Bretton Woods' twins***[3]—both having their headquarters in Washington DC, USA.

3. For the new international monetary system, basically two plans were presented in the meeting—one by the US delegation led by ***Harry D. White*** (of the US Treasury) and the British delegation led by ***John Meynard Keynes.*** It was the US plan which was ultimately agreed upon.

   J.M. Keynes had proposed a more impartial, practical and over-arching idea via his plan at Bretton Woods. His suggestions basically included three things:

   (i) Proposal to set up an International Clearing Union (ICU), a central bank of all central banks, with its own currency (Keynes named this currency ***'bancor'***)—to mitigate the balance of payment crises of member nations.

   This bank was supposed to penalise (***no such provision in the IMF***) the countries holding trade surpluses (with a global tax of one per cent per month) on the ground that such countries were keeping world demand low by under-purchasing the products produced by other countries. The corpus collected via this tax was to be used to maintain an international buffer stock of primary goods (i.e., food articles)—to be used in the periods of food shortages among the member nations. (***In place, under the IMF provisions trade deficit countries are penalised***.)

(Contd...)

INTERNATIONAL MONETARY FUND

The International Monetary Fund (IMF) came up in 1944 whose Articles came into force on the 27 December, 1945 with the main functions as exchange rate regulation, purchasing short-term foreign currency liabilities of the member nations from around the world, allotting special drawing rights (SDRs) to the member nations and the most important one as the bailor to the member economies in the situation of any BoP crisis.

The ***main functions***[4] of the IMF are as given below:

(i) to facilitate international monetary cooperation;

(ii) to promote exchange rate stability and orderly exchange arrangements;

(iii) to assist in the establishment of a multilateral system of payments and the elimination of foreign exchange restrictions; and

(iv) to assist member countries by temporarily providing financial resources to correct mal-adjustment in their balance of payments (BoPs).

The Board of Governors of the IMF consists of one Governor and one Alternate Governor from each member country. For India, Finance Minister is the Ex-officio Governor while the RBI Governor is the Alternate Governor on the Board.

The day-to-day management of the IMF is carried out by the Managing Director who is Chairman *(currently, Ms Christine Lagarde)* of the Board of Executive Directors. Board of Executive Directors consists of 24 directors appointed/elected by member countries/group of countries —is the executive body of the IMF. India is represented at the IMF by an Executive Director (*currently Arvind Virmani*), who also represents three other countries in India's constituency, viz., Bangladesh, Sri Lanka and Bhutan.

INDIA'S QUOTA & RANKING

IMF reviews members' quotas once in every five years—last done in December 2010—here, India consented for its quota increase. After this India's quota (together with its 3 constituency countries) has increased to **2.75** per cent (from 2.44 per cent) and it has become the **8th** (from 11th) largest quota holding country among the **24** constituencies. In absolute terms, India's quota has increased to SDR 13,114.4 million (from SDR 5,821.5 million) which is an increase of approximately US $ 11.5 billion or Rs. 56,000 crore). While 25 per cent of the quota is to be paid in ***cash*** (i.e., in 'Reserve' currency), the balance 75 per cent can be paid in ***securities.***[5]

Once a member nation has signed the ***EFF*** (Extended Fund Facility) agreement with the IMF,

(ii) For the reconstruction of war-devastated Europe, a ***fund*** was to be set up, on the basis of this plan for Relief and Reconstruction (in place of it the US-sponsored ***Marshall Plan*** took care of the needs of Europe).

(iii) There was a proposal of creating Commodity Buffer Stock to be operated by an International Trade Organization (ITO). This stock of primary goods was to be used to stabilise their prices in the international market.

The operation of this ITO making purchases when the world prices were low and selling when the prices became high. The buffer stock operations, however, were to be helpful to the poor countries, Keynes was primarily interested in stabilising the input prices of the rich countries. (***Though the charter of the ITO was drawn up and other formalities completed, it was never born because of US opposition***.) ***For further readings see*** D. Salvatore, ***International Economics,*** 742–43; B. Dasgupta, ***Globalisation : India's Adjustment Experience*** (New DelhI: Sage, 2005), p. 48.

4. ***Basic Facts About the United Nations*** (New York: United Nations, 2000), pp. 55–137.

5. These securities are non-interest bearing note purchase agreements issued by the RBI which can be encashed by the IMF anytime as per its requirement. They do not entail any cash outgo unless the IMF calls upon India to encash a portion of these notes. The 'Reserve' (paid in 'cash') asset portion of the quots is counted as a part of country's 'Reserves'.

borrowing[6] can be done by the member nation—India signed this agreement in the fiscal 1981–82. ***India has been borrowing*** from the IMF due to critical balance of payment (BoP) situations—once between 1981–84 (SDR 3.9 billion) and next during 1991 (SDR 3.56 billion). All the loans taken from the IMF have been repaid. India is now a *contributor* to the IMF as it participates in the Financial Transactions Plan (FTP)[7] of the IMF since September 2002—at this time India was in strong balance of payment situation and in a comfortable forex reserves position.

Current US/EU Financial Crises: Challenges Regarding International Payments

The recent financial crises of the US and the EU nations have raised the questions of the challenges of international payments once again. At this crucial juncture, the world seems tossing the idea of a reserved currency for all international payments—as if the famous Keynesian idea of such a currency (Bancor) is going for a kind of revival. The **Bancor** was a supranational currency that John Maynard Keynes and E. F. Schumacher[8] conceptualised in the years 1940–42 which the United Kingdom proposed to introduce after the Second World War. The proposed currency was, viz., be used in international trade as a unit of account within a multilateral barter clearing system, the *International Clearing Union*, which would also have to be founded. The Bancor was to be backed by barter and its value expressed in weight of gold. However, this British proposal could not prevail against the interests of the United States, which at the Bretton Woods conference established the US Dollar as the world key currency. Milton Friedman[9], the famous US economist insisted that Keynes' theories were incorrect who believed that, 'inflation was highly destructive and that only monetary policy could control it and that monetary policy is a heavyweight instrument and cannot be used for short-term economic management.'

Since the outbreak of the financial crisis in 2008 ***Keynes's proposal*** has been revived—in a speech delivered in March 2009 entitled *Reform the International Monetary System,* Zhou Xiaochuan, the Governor of the People's Bank of China called Keynes's bancor approach **farsighted** and proposed the adoption of International Monetary Fund (IMF) special drawing rights (SDRs) as a global reserve currency as a response to the financial crisis of 2007–2010. He argued that a national currency was unsuitable as a global reserve currency because of the *Triffin dilemma*[10]—the difficulty faced by reserve currency issuers in trying to simultaneously achieve their domestic monetary policy goals and meet other countries' demand for reserve currency.[11] A similar analysis was articulated in the Report of the United Nation's *Experts on Reforms of the International Monetary and Financial System*[12] as well as in a recent IMF's study.[13]

6. Such facility from it is available once the member country has signed the agreement with the IMF called as the Extended Fund Facility (EFF). Popularly, this is known as the ***'Conditionalities of the IMF'*** under which India started its Economic Reform Programme in 1991-92 once it borrowed from the IMF in the wake of the BoP crisis of 1990–91.
7. FTP is the mechanism of the IMF through which it finances/repays its operations—member nations contribute money into it from their 'quota resources' on which they get 'interest'.
8. ***E. F. Schumacher,*** *Multilateral Clearing Economica,* New Series, Vol. 10, No. 38 (May, 1943), pp. 150-165.
9. ***M. Friedman.,*** (1968) *The American Economic Review,* Vol. 58, No. 1, pp. 1-17.
10. ***Zhou Xiaochuan,*** 'Reform the International Monetary System', BIS Review 2009, Bank of International Settlements, Basel, Switzerland, 28 November, 2011.
11. ***Zhou Xiaochuan,*** *Financial Times, 12th Dec. 2011.*
12. Recommendations by the Commission of Experts of the President of the General Assembly on reforms of the international monetary and financial system, UNO, 20th March, 2009.
13. ***Reserve Accumulation and International Monetary Stability,*** *IMF,* Washington DC, 13th April, 2010.

WORLD BANK

The World Bank (WB) Group today consists of ***five*** closely associated institutions propitiating the role of development in the member nations in different areas. A brief account is as follows:[14]

IBRD

The International Bank for Reconstruction and Development is the oldest of the WB institutions which started functioning (1945) in the area of reconstruction of the war-ravaged regions (World War II) and later for the development of the middle-income and credit-worthy poorer economies of the world. Human development was the main focus of the developmental lending with a very low interest rate (1.55 per cent per annum)—the areas of focus being agriculture, irrigation, urban development, healthcare, family welfare, dairy development, etc. It commenced lending for India in 1949.

After the process of reforms started in the World Bank in 2010, India was alloted additional shares in IBRD (now holds 56,739 shares accounting to US $ 6,844.7 million). With this India emerged as the 7th largest shareholder (up from the 11th position) in IBRD with voting power of 2.91 per cent (up from 2.77 per cent).[15]

IDA

The International Development Agency (IDA) which is also known as the *soft window* of the WB was set up in 1960 with the basic aim of developing infrastructural support among the member nations, long-term lending for the development of economic services. Its loans, known as ***credits*** are extended mainly to economies with less than $895 per capita income. The credits are for a period of 35–40 years, ***interest***-free, except for a small charge to cover administrative costs. Repayment begins after a 10-year grace period. There was no human angle to its lending. But now there remain no hard and fast differences between the purposes for the IBRD and IDA lending.

Every year developing nations make enough diplomatic attempts to carve out maximum loan disbursal for themselves. India had been the ***biggest beneficiary*** of the IDA support. The total support (IBRD + IDA) for India had been $ 91.81 billion till date.[16]

IFC

The International Finance Corporation (IFC) was set up in 1956 which is also known as the *private arm* of the WB. It lends money to private sector companies of its member nations. The interest rate charged is commercial but comparatively low. There are many attractive features of IFC's lending. It finances and provides advice for private-public ventures and projects in partnership with private investors and, through its advisory work, helps governments of the member nations to create conditions that stimulate the flow of both domestic and foreign private savings and investment.

It focuses on promoting economic development by encouraging the growth of productive enterprises and efficient capital markets in its member countries. It participates in an investment only when it can make a special contribution that complements the role of market investors (as a foreign financial investor (FFI). It also plays a catalytic role, stimulating and mobilising private investment in the developing world by demonstrating that investments there too can be profitable.

We have seen a great upsurge in the IFC investments in India which has undoubtedly

14. Based on ***Basic Facts About the United Nations,*** 52–55; Publication Division, ***India 2004*** (New Delhi: Government of India, 2007); Publication Division, ***India 2013*** (New Delhi: Government of India, 2014).
15. Publication Division, ***India 2014*** (New Delhi: Government of India, 2015), p. 322.
16. Publication Division, ***India 2013***, p. 415.

strengthened the foreign investors' confidence in the Indian economy.

MIGA

The Multilateral Investment Guarantee Agency (MIGA), set up in 1988 encourages foreign investment in developing economies by offering insurance (guarantees) to foreign private investors against loss caused by ***non-commercial (i.e., political) risks***, such as currency transfer, expropriation, war and civil disturbance. It also provides technical assistance to help countries disseminate information on investment opportunities.

ICSID

The International Centre for Settlement of Investment Disputes (ICSID), set up in 1966 is an investment dispute settlement body whose decisions are binding on the parties. It was established under the 1966 ***Convention on the Settlement of Investment Disputes between States and Nationals of Other States.*** Though recourse to the centre is voluntary, but once the parties have agreed to arbitration, they cannot withdraw their consent unilaterally. It settles the investment disputes arising between the investing foreign companies and the host countries where the investments have been done.

India is not its member (that is why the Enron issue was out of its preview). It is believed that being signatory to it encourages the foreign investment flows into an economy, but risks independent sovereign decisions, too.

INDIA'S BIPA

As part of the Economic Reforms Programme initiated in 1991, the foreign investment policy of the Government of India was liberalised and negotiations undertaken with a number of countries to enter into *Bilateral Investment Promotion & Protection Agreement (BIPA)* in order to ***promote and protect on reciprocal basis investment of the investors***. Government of India have, so far, *(as by July 2012)* signed BIPAs with 82 countries out of which 72 BIPAs have already come into force and the remaining agreements are in the process of being enforced.[17] In addition, agreements have also been finalised and/or being negotiated with a number of other countries.

The **objective** of the BIPA is to promote and protect the interests of investors of either country in the territory of other country. Such agreements increase the comfort level of the investors by assuring a minimum standard of treatment in all matters and provides for justifiability of disputes with the host country *(it should be noted here that India is not a member of the World Bank group's body, the ICSID, serving the same purpose. BIPA is India's version. While the former is a multilateral body, the latter is a bilateral one).*

ASIAN DEVELOPMENT BANK

Set up in 1966 with 31 founding members (India being one of them), today (by ***March 2017***) it has grown to encompass 67 members—of which 48 are from Asia and Pacific and 19 from outside. It has its headquarters situated at Manila, Philippines. The *purpose* of the Bank is to foster economic growth and co-operation in the region of Asia and the Far East and to contribute to economic development of the developing member countries, collectively and individually. The six *functions* of the Bank are as clubbed below:

(i) Promoting investment—public and private—and harmonious regional development with special regard to less developed member countries;

(ii) Coordinating development policies and plans (on request); promoting intra-regional trade; providing technical

17. Government of India, **Ministry of Commerce & Industry**, Government of India, N. Delhi, as on 5 April 5, 2016.

assistance in financing, execution and project proposals;

(iii) Co-operating with the UNO and other international institutions—public and private—and undertaking other activities and provide other services advancing its purpose.

India's subscription to the Bank's capital stock is 7.190 per cent with a voting power of 6.050 per cent (as per the *ADB Annual Report, 2016*).

India started borrowing from ADB's Ordinary Capital Resources (OCR) in 1986. The Bank's lending has been mainly in the energy, transport and communications, finance, industry and social infrastructure sectors.

The Bank has extended technical assistance to India in addition to loans from its OCR window. The technical assistance provided include support for institutional strengthening, effective project implementation and policy reforms as well as for project preparation.

India holds the position of Executive Director on the Board of Directors of the Bank—its constituency comprises India, Bangladesh, Bhutan, Lao PDR and Tajikistan. The Finance Minister is India's Governor on the Board of Governors of the Asian Development Bank and Secretary (EA) is the Alternate Governor.

OECD

The roots[18] of the Organisation for Economic Co-operation and Development (OECD), Paris, go back to the rubble of Europe after World War II. Determined to avoid the mistakes of their predecessors in the wake of World War I, European leaders realised that the best way to ensure lasting peace was to encourage co-operation and reconstruction, rather than punish the defeated.

18. Publication Division, ***India 2012*** (New Delhi: Government of India, 2013), p. 418.

The Organisation for European Economic Cooperation (OEEC) was established in 1947 to run the US-financed **Marshall Plan** for reconstruction of a continent ravaged by war. By making individual governments recognise the interdependence of their economies, it paved the way for a new era of cooperation that was to change the face of Europe. Encouraged by its success and the prospect of carrying its work forward on a global stage, Canada and the US joined OEEC members in signing the new OECD Convention on 14 December, 1960. The Organisation for Economic Co-operation and Development (OECD) was officially born on September 30, 1961, when the Convention entered into force.

Other countries joined in, starting with Japan in 1964. Today, **35** OECD member countries worldwide regularly turn to one another to identify problems, discuss and analyse them, and promote policies to solve them. The track record is striking. The US has seen its national wealth almost ***triple*** in the five decades since the OECD was created, calculated in terms of gross domestic product per head of population. Other OECD countries have seen similar, and in some cases even more spectacular, progress.

There are many countries that a few decades ago were still only minor players on the world stage—China, India and Brazil have emerged as new economic giants. Most of the countries that formed part of the former Soviet bloc have either joined the OECD or adopted its standards and principles to achieve the common goals. Russia is negotiating to become a member of the OECD, and now the organisation has close relations with Brazil, China, India, Indonesia and South Africa through its 'enhanced engagement' programme. Together with them, the OECD brings around its table **40** countries that account for **80** per cent of world trade and investment, giving it a pivotal role in addressing the challenges facing the world economy.

India & OECD: India has got 'enhanced engagement' (since 2007) with the body 'accession' (membership) to it is distinct—though it has potential in future leading to it. The accession process to it is complex and longer as it involves a series of examinations to assess a country's ability to meet its OECD standards in a wide range of policy areas. Meanwhile, India's relationship with the OECD has developed steadily since 1998 (when it joined its Steel Committee)—since 2007 being its 'Key Partner'. By ***early 2017***, India used to participate as an *Associate* or *Participant* in 21 OECD bodies and adheres to 9 OECD legal instruments, making it an important contributor to several areas of importance—from corporate governance to fiscal matters to nuclear energy. Furthermore, India plays an active role in OECD's regional activities in Asia together with co-operation on various international fora.

WORLD TRADE ORGANIZATION (WTO)

The World Trade Organization (WTO) came into being as a result of the evolution of the multilateral trading system starting with the establishment of the General Agreement on Tariffs and Trade (GATT) in 1947. The protracted Uruguay Round negotiations spanning the period 1986–1994, which resulted in the establishment of the WTO, substantially extended the reach of multilateral rules and disciplines related to trade in goods, and introduced multilateral rules applicable to trade in agriculture (Agreement on Agriculture), trade in services (General Agreement on Trade in Services—GATS) as well as Trade Related Intellectual Property Rights (TRIPS). A separate understanding on WTO dispute settlement mechanism (DSU) and trade policy review mechanism (TPRM) was also agreed upon.

The WTO provides a rule based, transparent and predictable multilateral trading system. The WTO rules envisage non-discrimination in the form of National Treatment and ***Most Favoured Nation (MFN)*** treatment to India's exports in the markets of other WTO Members. National Treatment ensures that India's products once imported into the territory of other WTO Members would not be discriminated vis-à-vis the domestic products in those countries. MFN treatment principle ensures that members do not discriminate among various WTO members. If a member country believes that the due benefits are not accruing to it because of trade measures by another WTO member, which are violative of WTO rules and disciplines, it may file a dispute under the Dispute Settlement Mechanism (DSM) of the WTO. There are also contingency provisions built into WTO rules, enabling member countries to take care of exigencies like balance of payment problems and situations like a surge in imports. In case of unfair trade practices causing injury to the domestic producers, there are provisions to impose Anti-Dumping or Countervailing duties as provided for in the Anti-Dumping Agreement and the Subsidies and Countervailing Measures Agreement.

Membership: The present membership[19] of the WTO is **164**. The last member to join was Afghanistan (March 2016) after a long negotiation process of eleven years. Other than its members, at present, there are 22 observer governments including Afghanistan, Holy See (Vatican), Iran, Iraq, Libya, Uzbekistan, etc. As per the guidelines of the WTO, observers (except Holy See) must start accession negotiations within *five years* of becoming observers.

Ministerial Conferences: Ministerial Conferences are the highest decision-making body of the WTO which is to meet at least every two years. These conferences bring all members together which are countries or separate customs territories. During these conferences decisions on all matters can be taken. By now, there have been 11 such conferences of the body—the *11th Ministerial*

19. As per the **WTO** website, March 2018.

Conference took place in Buenos Aires, Argentina (December 10-13, 2017).

Previous conferences: *Nairobi* (15-19 December, 2015); *Bali* (3-6 December 2013); *Geneva* (15-17 December 2011); *Geneva* (30 November–2 December 2009); *Hong Kong* (13–18 December 2005); *Cancun* (10-14 September 2003); *Doha* (9–13 November 2001); *Seattle* (30 November – 3 December, 1999); *Geneva* (18–20 May 1998) and *Singapore* (9–13 December 1996).

NAIROBI NEGOTIATIONS & INDIA

The WTO held its 10th Ministerial Conference in Nairobi, Kenya during 15–19 December 2015. This was the first such meeting to be hosted by an African nation. The outcomes of the Conference, referred to as the ***Nairobi Package***, are as given below[20]:

(i) The Nairobi Declaration reflects divergence amongst the WTO membership on the relevance of reaffirming the *Doha Development Agenda (DDA)* as the basis of future negotiations. This was despite the fact that India, along with many other developing countries, from groups such as the G-33, LDCs, and the Africa Group, wanted a reaffirmation of the mandate of the Doha Round. While reflecting that there are divergences, the Ministerial Declaration also notes the "strong commitment of all Members to advance negotiations on the remaining Doha issues". It records that WTO work would maintain development at its centre. It also reaffirms that provisions for special and differential treatment shall remain integral.

(ii) As the future of the Doha Round appeared in doubt, India sought and succeeded in obtaining a re-affirmative Ministerial Decision on *Public Stockholding for Food Security Purposes* honouring both the ***Bali*** Ministerial and General Council Decisions. The decision commits members to engage constructively in finding a ***permanent solution*** to this issue.

(iii) A large group of developing countries has long been seeking an SSM (Special Safeguard Mechanism) for *agricultural products*. In order to ensure that this issue remains on the agenda of future discussion in the WTO, India negotiated a Ministerial Decision which recognizes that developing countries will have the right to have recourse to an SSM as envisaged in the mandate. Members will continue to negotiate the mechanism in dedicated sessions of the Committee on Agriculture in Special Session.

(iv) It was also agreed to the elimination of *agricultural export subsidies* subject to the preservation of special and differential treatment for developing countries such as a longer phase-out period for transportation and marketing export subsidies for exporting agricultural products. Developed countries have committed to removing export subsidies immediately, except for a few agricultural products, and developing countries will do so by 2018.

(v) Developing countries will keep the flexibility to cover *marketing and transport subsidies* for agriculture exports until the end of 2023, and the LDCs and net food-importing developing countries would have additional time to cut such export subsidies. The Ministerial Decision contains disciplines to ensure that other

20. Ministry of Finance, **Economic Survey 2015–16** (New Delhi: Government of India, 2016), Vol. 2, pp. 73–75.

export policies are not used as a disguised form of subsidies. These disciplines include—

(a) terms to limit the benefits of financing support to agriculture exporters;

(b) rules on state enterprises engaging in agriculture trade; and

(c) disciplines to ensure that food aid does not negatively affect domestic production.

(vi) One of the Decisions adopted extends the relevant provision to prevent *'ever-greening'* of patents in the pharmaceuticals sector. This decision would help in maintaining an affordable and accessible supply of *generic medicines*.

(vii) India supported outcomes on issues of interest to LDCs including enhanced preferential rules of origin for LDCs and preferential treatment for LDC services providers. India already offers duty-free, quota-free access scheme to all LDCs, which provides a comprehensive coverage with simple, transparent and liberal rules of origin. India has also recently (late 2015) made available substantial and commercially meaningful preferences in services to LDCs.

(viii) The issue of ***fisheries*** subsidies could not be resolved due to lack of consensus. Including India, several other countries (China, Egypt, South Africa, Korea and Saudi Arabia, etc) were opposed to disciplining rules on fisheries subsidies due to the lack of clarity.

(ix) On the issue of *Anti-dumping*, India strongly opposed a proposal that would give greater power to the WTO's Anti-Dumping Committee to review Members' practices. Due to lack of convergence, no outcome was achieved.

(x) A group of 53 WTO members, including both developed and developing countries, agreed on the timetable for implementing a deal to *eliminate tariffs* on 201 Information Technology products. This duty-free market will be available to all WTO members (even to India, which was not party to the agreement).

(xi) As regards the introduction of other ***new issues*** for discussion, the Declaration acknowledges the differences in views and states that any decision to launch negotiations multilaterally on such issues would need to be agreed by all Members. The rich (developed) countries wanted the introduction of new issues of their interests which included—*global value chain*, *e-commerce, competition laws, labour, environment* and *investments.*

BUENOS AIRES CONFERENCE AND INDIA

The 11th Ministerial Conference (MC11) of World Trade Organisation (WTO) which took place in Buenos Aires, Argentina (10-13 December, 2017) ended *without* a Ministerial Declaration or any substantive outcome, though the unanimous view was that it was extremely well-conducted with complete openness and transparency and the process afforded everyone ample opportunity to express their views. Major developments (as per the *Economic Survey 2017-18*) at the conference were as given below:

- In the run-up to MC11, decisions were expected on a permanent solution on food security and other agriculture issues. Unfortunately, the strong position of one of the member (the USA) against agricultural reforms based on current WTO mandates and rules, led to a deadlock without any outcome on agriculture or even a work programme for the next two years. However, the existing mandates and decisions ensure that work will go forward and members will continue to work on issues such as the permanent solution on *public stockholding for food security* purposes, agricultural Special Safeguard Mechanism and agricultural domestic support.

- Some of the other decisions that were taken included a *Work Programme* on disciplines on Fisheries Subsidies with a view to arriving at a decision by MC12.
- It was also decided to continue with the non-negotiating mandate of the existing Work Programme on e-commerce.
- On *new issues* like investment facilitation, MSMEs, gender and trade, which lacked a mandate or consensus, Ministerial Decisions were not taken forward.
- **India** stood firm during the Conference on its stand on the fundamental principles of the WTO, including multilateralism, rule-based consensual decision-making, an independent and credible dispute resolution and appellate process, the centrality of development, which underlies the Doha Development Agenda (DDA), and special and differential treatment for all developing countries. Meanwhile, India continues to negotiate with the countries with similar views at *mini-Ministerial Conferences* to reach a consensus on the issues which derailed the Buenos Aires Conference of the trade body.

BRICS BANK

Together with the process of globalisation world regional forces have also been asserting their power through different short of alignments—the *Fortaleza Declaration* of heads of state (late July 2014) from Brazil, Russia, India, China, and South Africa (the BRICS countries) is another such attempt—creation of a BRICS Bank i.e., New Development Bank (NDB). Major highlights about the bank are as given below:

(i) The bank will have initial subscribed capital of $50 billion—eqaully shared by the five nations.

(ii) The capital base is to be used for funding infrastructure and 'sustainable development' projects in the BRICS countries initially.

(iii) Other low and middle-income countries will be able get funding as time progresses.

(iv) A *Contingent Reserve Arrangement* (CRA) of $100 billion is to be also created to provide additional liquidity protection to member-nations during balance of payments problems.

(v) The CRA is being funded 41 per cent by China, 18 per cent each from Brazil, India, and Russia, and 5 per cent from South Africa.

(vi) CRA, according to the Declaration, is 'a framework for the provision of *currency swaps* in response to actual or potential short-term balance of payments pressures.'

More than the establishment of the NDB, the Fortaleza Declaration is remarkable for adoption of ***one-nation one-vote*** prescription for the proposed bank. The Bretton Woods institutions (the World Bank and the International Monetary Fund) have structures that are not equitable.

As per the experts, *two factors* have triggered the birth of the NDB:

(a) BRICS have *emerged as a big economic power*, and solidified their ties in terms of commerce with the emerging market economies and developing countries (EMDCs) and they are a force to reckon with in the global economy.

(b) Their *disenchantment* with the Bretton Woods institutions has been growing over the years.

Two statements of the *Fortaleza Declaration* make the situation more clear—

(i) "We are confronted with persistent political instability and conflict in various global hotspots and non-conventional emerging threats. On the other hand, international governance structures designed within a different power configuration show increasingly evident signs of losing legitimacy and effectiveness, as transitional and ad hoc arrangements become increasingly prevalent, often at the expense of multilateralism."

(ii) "We believe the BRICS are an important force for incremental change and reform of current institutions towards more representative and equitable governance, capable of generating more inclusive global growth and fostering a stable, peaceful and prosperous world."

The BRICS bank development comes at a time when reforms at the Bretton Woods institutions fail to fructify for one reason or the other and with the US and European nations still not reconciled to concede BRICS nations a greater voice in the governance structure of the Bretton-Woods institutions.

Whether the BRICS-sponsored NDB will be a fitting alternative to the Bretton Woods twin depends on a host of factors. Major ones of these factors, among others, are its ability—

(i) to put in place a conflict resolution mechanism,

(ii) to devise a robust credit appraisal mechanism, and

(iii) to put in place an effective supervisory regime.

The BRICS-sponsored development bank is not an isolated and unique initiative. Similar initiatives had sprung up in the past to blunt the might of Bretton-Woods twin. *Development Bank of Latin America* (created by *Andean* nations) in the 1960s, the Chiang Mai Initiative in early 2000s (of 10 ASEAN nations plus China, South Korea and Japan) to establish a network of bilateral *currency swap pacts* in the wake of Asian currency crisis, and the establishment of the *Bank of South* by Latin American countries in 2009 were the result of escalating dissatisfaction with the US-dominated IMF and World Bank.

ASIAN INFRASTRUCTURE INVESTMENT BANK

The AIIB (Asian Infrastructure Investment Bank) was first proposed by the Chinese President Xi Jinping in October 2013. A year later, at its official launch in Beijing, 21 Asian nations, including China, had signed up to be the foundation members. Currently another 21 nations—including Australia, the United Kingdom, New Zealand, Germany and France—have expressed a desire to join as well. An interesting applicant is Taiwan—which signed up just before the April 1, 2015 deadline—although issues around its membership name may complicate the deal. Russia also left it to the last minute to fire in its application. Chinese media reported that only 30 of the 42 member applications have been accepted. The Chinese foreign ministry has said that the full list of countries approved as founding members would be released by mid-April 2015.

The AIIB is aimed at providing finance to infrastructure projects in the Asia region, as a multilateral instituion. It is planned to operate broadly in the same manner as existing multilateral development banks (MDBs) such as the World Bank and the Asian Development Bank (ADB).

While much of the debate is centred on whether the AIIB will complement or compete with existing organisations, it is intended to be more a commercial bank—with nations as shareholders, than a purely development aid institution. The AIIB will start with an authorised **capital base** of US$ 1 billion to be enhanced to **US $ 100 billion**.

Experts have termed it as a rival for the International Monetary Fund (IMF), the World Bank (WB) and the Asian Development Bank (ADB), which are regarded as dominated by developed countries like the United States.[21] The United Nations has addressed the launch of the AIIB as 'scaling up financing for sustainable development' and for the concern of Global Economic Governance.[22]

As per the experts and analysts, there are **several factors** which are behind such an initiative coming from China. Major ones are as given below:

(i) The Chinese government has been frustrated with what it regards as the slow pace of reforms and governance, and wants greater input in global established institutions like the IMF, World Bank and Asian Development Bank which it claims are dominated by American, European and Japanese interests.

(ii) The ADB, a Manila-based regional development bank designed to facilitate economic development in Asia, estimated in a report that developing Asian countries have an infrastructure demand of about US$ 8 trillion between 2010–2020—$2.5 trillion for roads and railroads, $4.1 trillion for power plants and transmission, $1.1 trillion for telecommunications, and $0.4 trillion for water and sanitation investments.[23]

(iii) Oxford Economics reported that by 2025, the region will constitute 60 per cent of global infrastructure investment, with China's share alone is expected to increase from around 22 per cent to 36 per cent over the next decade.

(iv) Despite the significant economic growth enjoyed by countries such as China, India, and South Korea in recent decades, many countries among the developing Asian regions are still mired in poverty, suffering from a profound lack of access to modern-day necessities such as sanitation, a reliable power grid, and adequate transportation and communications networks.

(v) It is believed that the new bank could allow Chinese capital to finance these projects and allow it a greater role to play in the economic development of the region commensurate with its growing economic and political clout.

Stand of the USA and Japan: The United States, Japan and Canada remain firmly on the sidelines despite a number of their closest allies and partners recently breaking ranks. The US has argued that the AIIB doubles up on existing organisations, such as the World Bank and ADB, but doubts it will have adequate transparency and governance standards. However, it appears the US may be softening its stance. Japan has said it would not be

21. The Guardian, 'Support for China-led development bank grows despite US opposition', UK edition, 13 March, 2015.

22. United Nations Financing for Development Office, 'Global Economic Governance', New York, 20 March, 2015.

23. ***The Economist***, *'An Asian Infrastructure Bank: Only Connect'*, 4 October, 2013; Biswa N. Bhattacharyay, ***Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020***, Asian Development Bank Institute, 9 September, 2010.

bound by a deadline not ruling out the possibility of joining in. Though the US has been openly opposing this move some experts view that the US in place of opposing it should work with it. Experts have suggested that China is promoting a solution to the shortage of infrastructure capital in Asia and there is nothing wrong in supporting it.[24]

Size of the AIIB: The AIIB will be one of the largest development banks, but still a fair bit smaller than the European Development Bank, World Bank and ADB. It will start off about the same size as the *BRICS Development Bank*, which was formed by Chinese initiation with Brazil, Russia, India and South Africa in 2014.

Based on the lending capital ratios of the World Bank and European Development Bank —the AIIB could extend loans for infrastructure spending at around 100 per cent to 175 per cent of its subscribed capital. This would mean having outstanding loans of up to \$US175 billion. With Public Private Partnerships and increased subscriptions, considerably larger amounts could leveraged for projects in the future.

An edge to China: The Bank is supposed to give China an edge in the global economy, major ones are—

(i) The AIIB will be a better way for China to deploy its massive foreign exchange reserves which are currently earning next to nothing in US Treasury bonds. China believes that the commercial financing of infrastructure differentiates the AIIB from the likes of the ADB which places a greater emphasis on poverty reduction.

(ii) The AIIB also supports China's strategic interests in its hugely ambitious 'Silk Road Economic Belt' policy.

(iii) By exporting technology, transferring development know-how, and facilitating industrialisation using Chinese long-term finance to the under-developed economies, China will not only find a bigger market, promote prosperity of all nations along the 'Belt and Road', but also diversify its foreign asset portfolio.

(iv) It will make China emerge a much bigger global power player which is supposed to be keen to challenge America's long-established strategy of institutionalising power in a rules-based order. The case of the AIIB shows that China now seeks to define this order for itself, with the battle for influence in Asia increasingly fought through rules and institutions.

(v) The so-called 'rules based order' was set up after the 2nd World War through policies such as the Bretton Woods agreement which established US dominated organisations such as the World Bank and IMF in which China plays a very small role.

Members of multilateral development banks, historically, enjoy benefit such as getting ahead of the queue for loans and enjoying a greater chance of success for national firms competing for project work. Put bluntly, without signing up it is highly likely that a large chunk of the billions of dollars worth of work on offer will simply be doled out to Chinese companies. Before conclusive remarks could be drawn, it will better to keep watching the future developments regarding the new bank.

24. ***The Guardian***, October 27, 2014.