

Indian Think-Tank Dialogue on Rising Powers

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Keynote Speech

Mr/ Madam Moderator, fellow panelists and colleagues, across my professional life, two Anglo-Saxon newspapers: “The Economist” and “the Financial Times” have been very helpful in telling me and others from developing countries what constitutes ‘good’ economic policy and what constitutes ‘bad’ economic policy. Until recently, we were told to privatize, to open our economies to free trade and to understand that economic growth was the only solution to our problems of poverty, inequality and deprivation. In the 1990s, we were further told that access to finance, which was located mainly in the G7, was contingent on following ‘good’ policies. Over the last fifteen years, this advice has changed in two ways. We are now told that we inhabit a common planet and that climate change threatens the future of our common children. This remarkable adoption of the ‘joint family’ concept for the globe means that contrary to the last sixty years, we need to worry about the impact of climate change on Norwegian children as well as Bangladeshi children even though the latter may not have access to health, education etc. because of low income. Second, we are told that globalization can be dangerous and that rich countries have a right to now alter their policy advice and look inward since economic crises threaten their livelihoods.

In this context I think the BRICS grouping has to respond to two challenges. The first is the failure of the Financing for Development Initiative. The second is in responding to 3 key access challenges that have been ignored in the discourse on the SDGs and COP21.

The AAAA is perhaps the most disappointing document ever tabled in the contemporary history of UN and that, given the checkered history of nonsense documents produced by the UN is saying something. Amidst the vague generalizations on Domestic resource Mobilization, and Aid, there was one

concrete initiative which was raised for action by developing countries but was shot down by the G-7.

The AAAA promises to reduce illicit financial flows by 2030 again with a promise of its eventual elimination. This is proposed to be achieved by combating tax evasion and corruption. It also talks of opportunities for tax avoidance by inserting anti abuse clauses in tax treaties. Contrary to popular perception that capital flows from the developed world to the developing ones that compete with each other in receiving such flows, several studies have shown that capital actually flows in the opposite direction. Although there may not be a particular fix on the quantum of such flows, it is reasonable to assume that the quantum is humongous (Global Financial Integrity (GFI) estimates that developing and emerging economies lost USD 7.8 trillion in illicit financial flows from 2004 to 2013). Much of such flows represent loot of natural resources, corruption, tax evasion and systemic tax avoidance through transfer pricing and other means.

And much of the blame for the current state of affairs may be laid at the doors of the Organization for Economic Co-operation and Development (OECD), a club of 34 rich countries that, in effect, has been setting the standards of international tax for over half a century. OECD, in turn, had taken over the legacy from the work of League of Nations, in the 1920s when the world was divided between the colonists and the colonies. Despite persistent criticism, the international architecture at the core remains the same with very little taxing power given to the source states and most of the taxing powers being retained by the residence countries. It is this state of affairs that result in most of the tax base erosion in developing countries, a fact recognized by the OECD, but ignored in the final suggestions for reforms following its Base erosion and profit shifting project.

One of the most significant reasons for illegal financial flows that drain the resources of the developing countries is the existence of tax havens or international financial centers. These jurisdictions, as the Panama papers show, essentially trade in secrecy. International business companies are freely floated in these jurisdictions to help mask the identities of the real beneficial owners and OECD has done nothing to prevent the use of such companies. Its efforts are

concentrated only on getting information. While information is important, it cannot be panacea for all the evils. Besides, as cynics have pointed out, the current system suits the developed world fine since the money ultimately ends up in their financial centers, be it London or Delaware. Moreover, some of the members of the OECD are themselves secrecy jurisdictions.

From the perspective of the developing countries therefore the need of the hour is for a non-partisan organization like the United Nations to take charge in setting the norms. The determined efforts of the G-77 countries at the Addis conference to transform the current group of experts at the United Nations into a permanent body was however stymied by equally determined opposition from the developed world led by the USA, Germany and Japan on the ground that the same will duplicate the work done by the OECD and generate unnecessary bureaucracy. OECD being responsible to its members, however, cannot be expected to be non-partisan.

A possible alternative could be for a plurilateral regional grouping to take the initiative and come up with models and solutions that suit their purpose and gradual expansion of the same in course of time as was done in the case of General Agreement on Tariffs and Trade (GATT). India being part of the BRICS and having its chair for 2016 can take a lead. There is a BRICS tax group set up in 2013 that promised to do a number of things but seems to have gone in hibernation. May be it is time for us to reactivate this e.

. The SDGs and COP 21 provide us with instruments to address these sustainable development challenges. However, the SDGs do not address the highly unequal access to three instruments of development which continue to be more or less as restrictive as they were when I was much younger than I am. These are: i) access to finance, ii) access to technology and iii) access to quality capacities and institutions in developing and emerging economies. . The BRICS have to respond to this multi-lateral failure BRICS cooperation becomes extremely relevant in this context because these access failures cannot be solved purely through technocratic intervention. Political intervention is required, and this is best illustrated by the dramatic ideological shift in the sermonizing that we now

receive from the eminent newspapers mentioned earlier as well as from the heads of the IMF, the World Bank and the OECD. So in this context when we ask what the BRICS can contribute to the SDGs we would be making a horrible mistake if we say that it's another complement to official development assistance. It cannot be because it is political.

Let me in the limited time I have, explore these challenges and the political responses the BRICS could collectively bring to address them. I will, if you permit me, also give you examples from my own country of how we attempt to address these access challenges in India.

First, access to finance is the area I am most familiar with. The main barriers to access to finance is not any more the fact that you have rich countries in which people save money, and you have poor countries which need these savings and we have to work on how to transfer them. That was the spirit in which we created the IMF, the World Bank, the regional development banks etc. True, concessional finance is still extremely important in a variety of situations. But the big challenge now that emerges is that even getting access to non-concessional finance is difficult in the areas where the developing countries need it the most. The most profound example of that barrier is infrastructure. Developing countries need infrastructure to complete their development transformation and that infrastructure is critical to achieving the sustainable development goals because it impacts climate change, it impacts poverty, it impacts equitability. But to create infrastructure we need access to long-term finance and long-term finance today rests, in large measure, in the hands of sovereign wealth funds, insurance companies etc. which are not located in the BRICS. But potentially the attractiveness of investments in the BRICS and developing countries for these companies should be self-evident with interest rates being what they are in the G-7. That market mechanism doesn't work because of one barrier to finance which is called "regulatory risk". What is this? Talk to a regulator, talk to a rating agency and you will find perceptions regarding a country's political credibility and institutional credibility informing these quantifications of regulatory risk. This is a normative, political judgement that chokes access to non-concessional finance by either providing access to finance at absurdly high rates of interest, or not

providing it at all. This is something the BRICS can work together to address, by proposing alternative credit rating criteria, and adopting new approaches to assessing long term risk in the NDB. The BRICS could also rally around multi country initiatives that one of our members lead, with a view to building the requisite political support to change the rules of the game. For example, Prime Minister Modi's announcement after Paris last year about the International Solar Alliance which is an alliance between a number of countries that benefit from lots of sun to come together to gain finance and implement a very ambitious strategy for delivering renewable energy across the globe. Now that is neither a replacement for official development assistance nor is it even contextually relevant to think of it as such. That is an institution that seeks to address a political and institutional problem of access. And it is important that emerging economy groupings like the BRICS throw their political weight behind such initiatives.

In the case of technology, too, I take the example of the solar alliance. We are told, and rightly so, that exciting things are happening in the renewable space. We are told that we must not burn more coal even if we wish for our children to have lightbulbs to read with. And we listen to that; we are good global citizens and we would like to be part of this endeavor. But then when I find that the intellectual property that is permitting the world to make ever more efficient batteries and ever more efficient solar systems, and is owned by the most richest countries in the world, which means that twenty five to thirty per cent, (when I implement my solar plans), of the revenues from solar electricity will revert back to the ten richest countries in the world I'm forced to think about this as a political issue. It is important at a gathering such as this we find solutions to these political issues and that is also what BRICS cooperation should be about: coming together to build technology in solidarity to address a barrier to access.

The third barrier to access that we have and one that we all acknowledge exists, is "capacity" In all my years (and I have spent many) as a UN official, I found the word "capacity" to be defined in such an adjectival way that I stopped taking it seriously. But capacity for me means the ability to take charge of my own affairs and deliver the expectations of the electorate in a manner that addresses the

political mandate that inspires a development process which is very different in every country. That capacity therefore must be created by people who understand that the political context dictate what is feasible; the cultural, political and institutional histories of countries dictates what kind of capacities can be built that can be made to work. So, in a ministry of finance, to ask for a chart of accounts that specifies a particular kind of treasury management system to be replicated as best practice all over the world is completely absurd in a country like India and, I would venture, Brazil, China Russia or South Africa. In our countries treasury management is done on the basis of long held and effective assumptions that are not codified. Codification may be good in a G-7 context but is not necessarily so in the BRICS.

Capacity is not about creating minimum ability. It is about creating maximum effectiveness. Here our development co-operation holds immense promise. An example: we have recently set up with the Government of Ghana the Kofi Annan Centre for Technology in Ghana. The idea of this Centre is that it is not enough for people to say 'India is a great place to do IT so let India collaborate and build IT'; what we want to say is "Africa is a great place to do IT and let's collaborate to make that happen". So that is the kind of institutional transfer that will lift barriers to capacity. Given the remarkable talent that exists in the BRICS to work with the developing world to create such capacities, it would be a tragedy if we did not collectively rise to the occasion and create such centers of excellence across the global South. If we do this we will not simply be replicating the colonial struggle for access and influence but genuinely creating a development framework which counters the political barriers to access to finance, technology and capacity, as something that is in the interests of the BRICS and of the entire planet.

So I have given you four examples, (I hope that will spark debate), of areas where BRICS cooperation can work. In conclusion I reiterate: this is not a technocratic effort, it's a political effort. It will always remain a political effort as long as the barriers that developing countries face to access are, fundamentally, political; as long as the institutions that mediate this access, like the IMF and the World Bank) are governed by a mandate that is fifty years old. When that changes we will see.

But until such time, the BRICS should be, to quote a very famous professor called James Scott, a weapon of the weak because these barriers to access create weaknesses which we collectively have to address. The BRICS must be the weapon of the weak and create a new political economy of development; a historic and tectonic shift but one which the BRICS as the most effective and independent group of emerging economies in contemporary times, must rise to the occasion, and address.