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## Ticking Time Bomb: The Indian Banking System

Ashish Pandey\*

### Abstract

This is a perspective paper on the long term impact of Non-Performing Assets of the public sector banks in India how the process of further deterioration in the scenario can be reversed. The author first tries to unfold the root causes of the burgeoning crisis arising out of Non-Performing Assets and then suggest appropriate measure, which if adopted, can help the nation protect itself from the looming catastrophe which can shake not only the erring banks but also the entire economy of the country. The crisis of non-performing assets can be ignored only at nation's peril. Hence it is imperative for the government as well as the Reserve Bank of India to take urgent measures in order to diffuse the proverbial time bomb which is almost ready to burst. Any further delay in managing Non-Performing Assets in an effective manner is bound to devastate the financial stability of the country, thus making it vulnerable the dictates of the global payers.

**Keywords:** Public Sector Banks, Non-Performing Assets, India

### Introduction

Public sector banks have once again delivered financial results that will hardly cheer anybody. A deep-dive analysis of statistical data released by Reserve Bank of India on 23 December 2015 shows that India is currently staring at a crisis of unprecedented magnitude. Non-Performing Assets (NPAs) in the banking system stood at INR 2.6 Trillion or 5.4% of total advances as of 31 March 2015. In addition, loans totaling another INR 3 Trillion or approximately 6.2% of total advances belong to restructured category. It is a well-known fact in the Indian banking circles that a significant percentage of restructured assets will eventually become doubtful assets since the financial viability of restructuring was not rigorously validated. Banks wanted their year-end balance sheets to appear healthier than they really were, and unsound restructuring efforts were merely an attempt at pushing the can down the road. Stressed assets, i.e. a combination of NPAs and restructured assets, still do not tell the full story. There is another hidden pocket of Non-Performing Assets on Bank balance sheets that go often unnoticed. When banks sell NPAs to Asset Reconstruction Companies (ARCs), they typically retain 85-95% of exposure to eventual loan recovery in the form of Security Receipts. Banks have sold assets with a book value of INR 1.9 Trillion till 2015 and considering the abysmal recovery ratio of ARCs till date, it is more than likely that a significant percentage of face value of security receipts will eventually be written off.

Current Governor of Reserve Bank of India, the Indian equivalent of Federal Reserve's Chairperson, is Mr. Raghuram Rajan, a well-meaning and an erudite economist who was the Chief Economist at the International Monetary Fund (IMF) from October 2003 to December 2006. He has been at the forefront trying to tackle this impending crisis that he inherited but, unfortunately, is dogged by the exceptional scale of the problem. Public Sector Banks, where Indian government holds majority shareholding, are worst hit by the crisis. Their share of non-performing and restructured loans as a percentage of total advances is more than double of private sector banks. Concentration risk for public

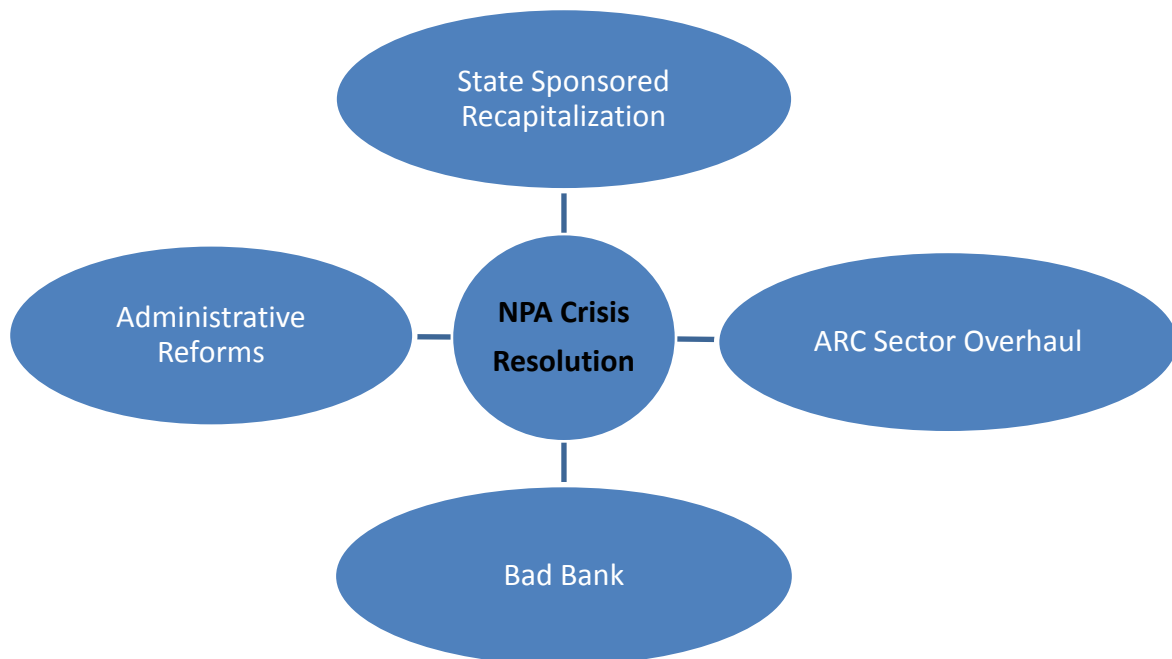
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sector banks is at an all-time high level. Top 10 borrowers account for 13 per cent of the entire bank loans and a whopping 98 percent of the net worth of the banking system. Stressed assets as a percentage of total net worth exceed 100 percent for many banks rendering them insolvent by fiduciary standards though not by accounting standards. Growing NPAs have effectively stymied the transmission of RBI's repo rate reductions to bank's lending rate. Banks need higher net interest margin to manage their capital ratios that are impacted by growing NPAs and subsequent provisioning requirements. This has led to a virtual stoppage of credit growth and has raised theoretical concerns regarding Lemons Problem. India needs to tackle NPA problem aggressively rather than pussyfooting as it has been doing over the last two years. The magnitude of the crisis is already significant and any delay will only lead to worsening of the situation to a deep crisis.

### Imperatives

There are four initiatives available to the Indian government and RBI. It is unlikely that one of them in isolation will be enough to prevent the crisis but a determined multipronged approach may well work.



**Figure 1: Multi-Pronged Approach to deal with NPAs in Indian Banking System**

First initiative necessary to tackle NPA problem is a recapitalization of Public Sector Banks by Government so that they can start lending in a prudent fashion. New loans, when underwritten properly, will reduce the magnitude of the problem by sheer denominator effect. Most of the Public Sector Banks are trading below their theoretical book value and considering the opacity of their balance-sheets, there is a limited demand in secondary markets to participate in a follow-up subscription. The price discovery mechanism for a forced secondary offering of shares of public sector banks is likely to be vicious and subsequent dilution of Government's holding may not be palatable from financial and public perception perspective. Government's announced plan of INR 700 billion investment over next 4 years fall way short of required amount. Fitch estimates that banks need INR 9 Trillion of capital infusion over the next four years to comply with Basel III requirements. This is a huge amount for a cash constrained government and INR 700 billion earmarked by government are insignificant in this context.

While trying to arrive at the ratio of NPAs to total advances within 5%, I estimate that Government needs to infuse at least INR 2.5 Trillion of capital over the next two years. This figure may reduce further to INR 1.6 Trillion with the softening in future bond yields once RBI's monetary policy transmission effort achieves success. Reduction in bond yield will result in mark to market gain on

bonds held in balance sheet towards statutory liquidity reserve requirement. This will bring credibility back into the banking system and remove the impediment in immediate growth of credit book. A larger, diversified and better quality credit book will improve the profitability of banks, increase equity valuation and position them to tap capital markets rather than relying on government support. An investment by government in Public Sector banks is actually the most logical initiative as in the absence of such initiative, the notional value of government's shareholding will only decline further whereas investment will lead to a higher valuation at a future date. Capital infusion by Government in Public Sector Banks will not be a desperate gambler's 'double-down' decision but a well thought strategic investment.

Second initiative necessary to tackle NPA problem is a complete overhaul of ARC sector in India. This will involve changing the sale mechanism adopted by banks currently, liberalizing the FDI regime for the sector and streamlining legal recovery process. Today, Banks sell their assets to the highest price bidder irrespective of their past recovery performance or operational wherewithal to effectively manage the distressed assets. Prior to August 2014, ARCs were allowed to only invest 5% of sale price while they were paid close to 1.5% annually as a management fee. Since it takes a long time to resolve distressed assets (often more than five years), ARCs were able to recoup their entire investment even in a zero recovery scenario and had no 'skin in the game'. Since August 2014, the 5% requirement has been enhanced to 15% but the *pari-passu* nature of ARC investment still leads to a perverse incentive. Banks need to adopt a mechanism where ARCs recoup their investment only after Banks have received the face value of security receipt. ARCs can be incentivized by offering them a disproportionate share of recoveries in excess of face value. This mechanism will weed out non-efficient players and will incentivize players that make serious recovery efforts and are technically proficient in managing distressed assets.

In addition, the investment restrictions in ARCs need to be removed as contemplated in the current budget. The current capitalization of 15 ARCs is approximately INR 30 Billion. Given 15% capital requirement, they cannot buy new assets in excess of INR 200 Billion over a period of time. INR 200 Billion of investment capital is pittance considering INR 5.5 Trillion of distressed assets. Past guidelines imposed a restriction on maximum equity that a foreign player can own in an ARC. Large global buyers of distressed assets and special situations asset management firms have therefore shied away from the entry to the Indian market. The government needs to allow unfettered entry of foreign capital in ARC sector to bring required capital and the missing expertise required in managing distressed assets. Though enactment of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (the "SARFAESI Act") was a noble attempt to resolve legal bottlenecks and expedite recovery process, there are still some lacunas and procedural bottlenecks that impede recovery process. Amendments necessary to streamline the process will be a welcome step and should act as confidence building measure for infusion of fresh capital in ARCs.

The third initiative necessary to tackle the NPA problem is the creation of a Bad Bank that will act as super ARC by the government. The capital flow to ARC sector will happen over a period of time and existing ARCs have very limited financial ability to participate in the government's clean-up exercise. Further, there will always be certain assets where a difference in perception of value exists between buyer and seller. The existence of a state-owned entity tasked exclusively with tackling NPAs on a one-time basis will facilitate expedited clean-up process of banking system without sacrificing intrinsic recovery value of the transferred asset.

None of these initiatives will lead to a long term success until systemic and administrative reforms are implemented in the public sector banks. Fourth initiative necessary for dealing with this crisis is a complete overhaul of risk management system, performance appraisal system and board appointment process in the public sector banks. Otherwise, the problem will recur at a later date. To that avail, RBI needs to propose, implement and rigorously monitor guidelines that promote prudent lending and reduce concentration risk significantly from the current levels. RBI needs to advise banks on adopting sector specific caps, applying single name exposure limits, developing policies that ensure transparent

and fair assessment of collateral value and implementing constant risk monitoring mechanisms that incorporate Value at Risk (“VAR”) as a primary metric.

**Conclusion**

Banks need to invest in human and technical resources necessary to comply with new RBI guidelines. Further, banks need to implement performance appraisal systems that incorporate long term asset performance as a critical metric in evaluating bank employees for their career advancement. Lastly, the government needs to appoint more professionals on bank’s board of directors rather than state appointees. Skills should be a determining factor and not political patronage as has been the case. Tighter accountability and adequate incentive mechanisms need to be put in place for bank employees that will stimulate profitable lending in the future.

## Implications of Economic Globalization for Nation States

Srihari Hulikal Muralidhar\*

### Abstract

This essay looks at the question of whether globalization unites and/or divides nation-states in the context of what can be broadly termed as 'economic globalization'. The author analyses the issue using two case-studies: one is the 2013 Bali Ministerial Meeting of the World Trade Organization, and the other is the burgeoning of regionalism in international political economy (with the proliferation of Regional Trade Agreements). The author provides his candid observation on potential implications economic liberalization on nation states in years to come.

**Keywords:** Economic Globalization, Nation States, World Trade Organization

### What is Economic Globalization?

While any form or kind of globalization is hard to define and adequately describe, the approach taken here is that we must begin somewhere. We need a working definition which will act as a starting point and allow us to explore some issues of importance in depth. In this regard, we define 'economic globalization' as increased global economic connectivity, characterized by the increased flow of capital, labour, goods, and services. Whether this flow occurs 'freely' or not depends on the particular context. For instance, within the European Union, all four flow 'freely' i.e. without any barriers. In this regard, it is important to understand the intellectual debate behind 'free trade' and 'protectionism', for it is this age-old debate which still informs various policies in nation-states of both the developed and developing worlds. The dominant theoretical paradigms in this regard are mercantilism, liberalism, and critical theory (Marxism, feminism, environmentalism etc.).

### Theories of Economic Globalization

A central decision in economics is –whether to 'buy' or 'make'. This is probably the most fundamental idea over which debates have taken place for centuries. To put it very simply, mercantilists argue for 'make', regardless of cost. Liberals argue for 'buy' if cheaper. Critical theorists ask who is 'buying' from whom, if they are indeed buying, and what is the medium of exchange (Emmanuel 1972). While this simplification illustrates the arguments with respect to goods and services, they can be extended to labour and capital mobility as well.

Mercantilists, such as Alexander Hamilton and Friedrich List, prioritize 'national interest', usually in terms of economic welfare. They urge for protection of domestic players from foreign competition. They believe in import-substituting development strategy. As a result, they look 'inward', that is, at improving domestic competitiveness, instead of opening up domestic markets for foreign players or outsourcing of manufacturing and service to low-cost producing countries like Vietnam or Bangladesh. Mercantilists have a lot of influence over policymakers and the larger public, and the recent protests in the United States (by the members of auto and agricultural sectors) and Japan (by agricultural sector) against the Trans Pacific Partnership exemplifies it. Furthermore, mercantilists see the world economy as a zero-sum game, one state's loss being another's gain; second, more importantly, they do not agree with free trade advocates that 'trade benefits everybody'. If and when it does, the gains from trade are unequally distributed and favour those with greater economic and

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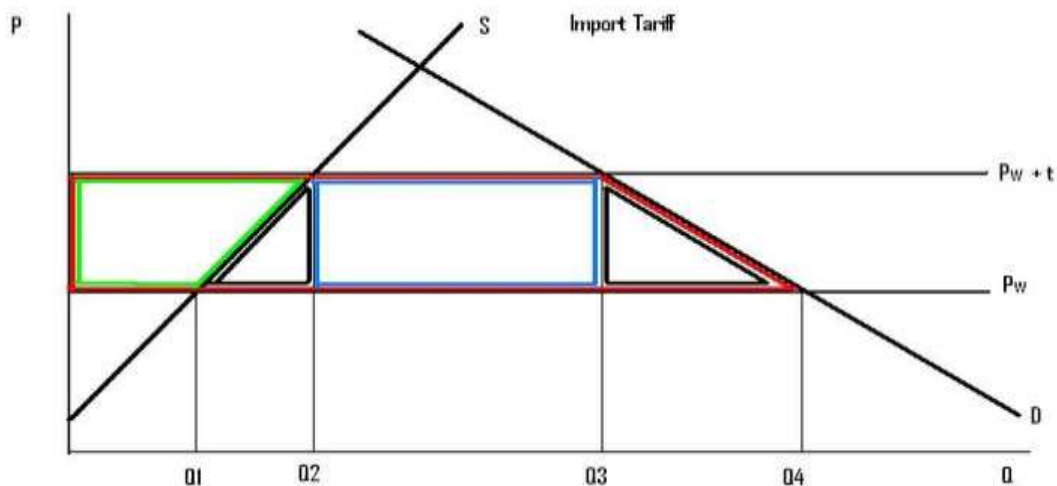


political power (O'Brien and Williams 2013, p. 10). For instance, the United States is estimated to gain \$77 billion out of the total 'global' income benefits of \$223 billion per year (Botsford, 2014).

Liberals, such as Adam Smith and David Ricardo, in stark contrast to mercantilists, do not see the world as being a zero-sum game and stress on the possibilities and benefits of cooperation. Given that we live in a highly interdependent world, it makes sense for states to cooperate with each other, and reap the benefits of trade on the basis of the comparative advantage principle (O'Brien and Williams 2013, p. 13). When states cooperate, the economic pie becomes bigger and everyone will therefore get a bigger share. They look towards trade as the main driver of growth and prosperity, and believe in market delivering the best possible outcomes for everybody. While there is no single liberal perspective, there is more or less a broad agreement among the liberals that government interference usually causes more harm than benefit.

Critical theorists perceive the global trading system as being inherently exploitative. They see 'free trade' as resulting in increasing inequalities across the globe, not only between the rich and the poor within a particular country but also increasing the wealth of the 'core' at the expense of the 'periphery' (Santos 1970, Cox, 1996). They see the advocacy of free trade as representative of attempts of the United States and European Union, the dominant economic powers, to further their own economic and geopolitical interests.

Given the opinion held by a section of intellectuals that free trade does not benefit all, it becomes important for us to understand why the idea is hegemonic today. Let us examine it with the help of a diagram.



Source: [http://worthwhile.typepad.com/worthwhile\\_canadian\\_initi/2013/10/teaching-tariffs-vs-taxes-in-a-small-open-economy.html](http://worthwhile.typepad.com/worthwhile_canadian_initi/2013/10/teaching-tariffs-vs-taxes-in-a-small-open-economy.html) (The website's diagram was originally taken from Mankiw, Keebone, and McKenzie.)

As reflected in the diagram, prices are determined by supply and demand. Producers tend to supply more at higher prices. Consumers tend to demand more at lower prices. At world price  $P_w$ , the country's domestic producers are willing to supply quantity  $Q_1$  and the demand from consumers is quantity  $Q_4$ . Now, an assumption is made here that foreign producers have a relatively more efficient production technology, which means that they can produce the same quantity as the domestic producers at a much lower cost or produce more for the same price. Because they are more efficient, they are willing to supply a lot more than  $Q_1$  at a price  $P_w$ . In the absence of any barrier to trade (such as tariff or quota restriction), there is a free flow of goods and services across countries. Therefore, the difference in the demand and supply -  $Q_4 - Q_1$  - is supplied by foreign producers. In other words, quantity  $Q_4 - Q_1$  is imported from abroad.

Although the domestic producers are not willing to supply more than  $Q_1$ , they are not happy about the foreign competition either. So, they lobby the government to impose a barrier which will curb imports. The government decides to impose a tariff i.e. a tax/duty on imports. It could be a fixed value or a percentage of the value of imports. With the imposition of a fixed tariff, the price of imports now increases from  $P_w$  to  $P_w+t$ ,  $t$  being the tariff. With the price increased, domestic producers are willing to supply quantity  $Q_2$  (which is greater than  $Q_1$ ). Because of the price increase, consumers now demand less. They demand quantity  $Q_3$  (which is less than  $Q_4$ ). So, now, foreign producers supply the difference  $Q_3-Q_2$ , which is less than  $Q_4-Q_1$ . What essentially happened here is that the government, by curbing demand, reduced the quantity of imports.

The green trapezium is what the domestic producers gain because of the imposition of the tariff  $t$ . The government accrues a revenue equal to the area of the blue rectangle. It accrues this revenue because, despite the introduction of tariff, the country is still importing quantity  $Q_3-Q_2$ . The revenue is given by the product of this quantity and the tariff rate. The left triangle is a welfare loss called 'deadweight loss' because a less efficient domestic production has replaced the more efficient foreign production. The right triangle is also a welfare loss because domestic consumers are now consuming less because of the 'artificial' price rise (price rise is considered artificial because it was not a result of changes in market supply and demand but government intervention). Similar results can be shown for other kinds of trade barriers such as quotas, export subsidies, voluntary export restraints etc. To reiterate, consumers lose and producers win. Hence, liberals argue for free trade. Before going into the political aspects of why free trade has gained currency among policymakers, especially in the West, we will briefly look into the levels of economic integration and what are the pros and cons of more integration.

### **Degrees of Economic Integration**

The most basic level of economic integration is the creation of a free trade area. A free trade agreement implies the removal of all kinds of trade restrictions on goods and services. An example would be NAFTA or the North-American Free Trade Agreement between the United States, Canada, and Mexico. A free trade agreement (FTA hereafter) specifies nothing on how member states should conduct trade with third countries. This means the individual member states are fully free to decide on their tariffs and non-tariff barriers (NTBs) with respect to countries that are not part of the free trade area.

This often creates problems, usually around the 'country of origin' principle. Let us elaborate upon this, for it provides one of the rationales for deeper economic integration. What one needs to remember about a free trade agreement is that it is preferential, meaning the benefits are applicable only to the goods and services originating in any of the member states. The benefits are not to be shared with non-members. However, the non-members can be impacted because of the FTA. Suppose, the United States is importing yoghurt from Greece. Because there are no free trade agreements between the European Union and United States, Greece exporters will have to pay a tariff on the yoghurt. Let us assume that Canada has a lower tariff rate than United States. Now, Greece can exploit this tariff rate differential by exporting it to Canada and re-exporting it to the United States from there. It becomes a problem when the United States blocks it from entering its territory or tells Canada to pay a tariff because the yoghurt is not actually from Canada i.e. manufactured in Canada. Hundreds of cases have been lodged at the World Trade Organization and the European Court of Justice over this 'country of origin' issue.

In order to resolve this issue and standardize member states' trade behaviour with third countries, they decide to go for more integration and agree to form a customs union. An example would be the Southern African Customs Union. Another example would be the European Coal and Steel Community that was created in 1951. The difference between a free trade area and a customs union is that, with the latter, the trade agreement will specify terms of conduct of trade when dealing with non-member countries. More importantly, the countries have not only removed trade barriers amongst themselves but have also set up a common external tariff or non-tariff barrier for all non-members. Members no longer have the freedom to decide on the tariff rate. They also cannot enter into trade

agreements with third countries on their own. Such agreements with third countries shall be negotiated and ratified by the union as a whole on behalf of the member states. For instance, if Britain wants a free trade agreement with Canada, then it cannot do so. It has to approach the European Union to do it on its behalf. While resolving the issues surrounding origin, inter alia, this does represent a significant loss of autonomy on part of member-states.

Both free trade area and customs union deal with only goods and services. However, as history shows, when flow of goods and services increases to large volumes and production networks become transnational, free flow of goods and services would not be enough. Capital controls and labour standards also need to be modified in order to facilitate their free flow to cater to the demands of global supply chains and consumers. This leads states to create what is called a 'common market'. The European Union formed a common market with the Maastricht Treaty in 1993. A common market basically implies the famous 'four freedoms': that of capital, labour, goods, and services. Capital controls are abolished. Labour mobility is de-regulated. The flows are left to be determined by market forces. Creating a single, common market allows for producers to take advantage of economies of scale and consumers get to a greater variety of goods and services. This represents an even more significant loss of state sovereignty since a state cannot say 'no' to the setting up of a manufacturing or a service unit to a firm from another member state. The same applies for labour.

A higher level of economic integration is the creation of economic union. An economic union involves the coordination of macroeconomic policies among member states so that their economies are heading in the same direction. If they are subject to divergent trends and they do not coordinate their policies, some of the countries will be adversely hit while others benefit. In order for this not to happen, a coordination of policies is needed. The highest level of integration is the formation of a monetary union. An example would be the Eurozone. A monetary union implies the creation of a common currency area, a single monetary policy, and a single monetary authority. In the case of Eurozone, the common currency is Euro. The entire Eurozone has a single monetary policy decided by the European Central Bank (ECB) in Frankfurt.

The most obvious benefits of a monetary union are: first, transaction costs arising due to different currencies are eliminated, thereby facilitating comparison of prices across countries; second, countries need not worry about fluctuation in their currency exchange rates. This provides price stability. However, a monetary union is not without costs and there are many as given below:

- Budgetary financing by printing currency is no longer possible. When a country's expenditures exceed the revenues it accrues, then it has to somehow meet its deficit in order to finance those expenditures. It can do this by either domestic or external borrowing through grants or loans or development aid. It can also simply print more currency for financing its budget. While it has its own limitations and problems, countries in a monetary union do not even have this choice.
- Devaluation of currency is no longer possible. When an economy is facing a downturn or a slowdown, it can choose to devalue its currency. This is done in order to make exports cheaper and imports costlier. By curbing imports and promoting exports, the country can generate growth.
- Interest rate cannot be changed. Interest rate is one of the key instruments a country's central bank uses in order to maintain price stability and tackle inflation. This is not possible when a country is a member of a monetary union. Individual countries cannot set interest rate according to their needs or fancies. It will be decided by the union's central bank.

In short, monetary policy is no longer in the country's hands. It is delegated to an independent authority. While independence is needed to ensure price stability, complete isolation from political authorities can also create accountability and legitimacy issues. The ECB, in particular, has been vested with so much power and autonomy that no individual government or national central bank can question its policies.

From the above, what can be more or less unequivocally concluded is that economic liberalization comes with its costs. The idea behind listing out various degrees of economic integration with its pros and cons was to provide a glimpse of the trade-off between national sovereignty and welfare, and globalization (as per our working definition). The two trends do not always head in the same direction and can have significant profits for one at the expense of the rest. The Eurozone crisis is a classic example in this regard. Greece's options to come out of its sovereign debt crisis are highly restricted because of its membership in the Euro currency area. Greece does not have many of the options which are available to other countries like United Kingdom and Denmark. This begs the question of why countries liberalize. Surely it cannot be merely the economic motivations explained above. There are socio-political factors at play too. And an important institution in this regard has been the World Trade Organization to which we will now turn our focus.

### **The World Trade Organization (WTO)**

The WTO was established as a permanent 'global' trade body in the Uruguay Round of trade negotiations of the former General Agreement on Trade and Tariffs (GATT) in 1995. The GATT was a trade agreement on goods and services. The WTO, in contrast, is a permanent organization, a forum whose scope has expanded into government regulations, health and safety standards, intellectual property rights, investment procedures, and so on. Today, it has more than 160 members. The most important thing one needs to know about the WTO is that *it is not ideologically neutral*. Although we can say this about the IMF and World Bank as well, this is particularly important in the context of WTO because unlike the other two institutions, the WTO and its advocacy has met with a lot of criticism and protests in both developed and developing worlds (Wallach et al 2004).

The WTO advocates free trade, whose theoretical aspects were already discussed in the second section. It pushes for economic reforms in all countries, and aims to liberalize trade so that it benefits everybody. Its Doha Development Agenda has been the most controversial, however. While the WTO maintains that its benefits will be disproportionately reaped by the developing countries, agriculture and intellectual property rights remain highly contested areas and one can see a divide between the developed and the developing countries. As our case studies, we shall examine the agreement that was reached by all member states at the Bali Ministerial in 2013, and also the concomitant rise of Regional Trade Agreements in recent years. The Doha Development Agenda is a comprehensive package which aims to achieve trade liberalization in several important sectors like agriculture and services. According to WTO estimates, if it agreed upon and ratified, it is expected to add \$1 trillion to the global economy and create 21 million jobs worldwide (Guardian 2013, Reuters 2013). The Doha Round negotiations commenced in 2001 and have not yet been concluded. After reaching an impasse around 2006, the Doha talks were suspended which were resumed sometime in 2010s.

### **Bali Ministerial 2013**

A small part of the Doha Development Agenda was the focus of the Bali Ministerial Meeting of the WTO in 2013. The Bali Package was a Trade Facilitation Agreement (TFA hereafter) which aimed at streamlining customs procedures in all member countries i.e. cutting the bureaucratic 'red tape' (BBC 2013). It was *not* about reducing tariffs or non-tariff barriers. The TFA rules stipulated a limit on farm subsidies and on stockpiling of agricultural produce to 10% of the country's total output. This was problematic for developing countries like India which procure grains from farmers for their food security programmes. India therefore objected to the deal. India, to provide food security to its poor, procures grains from its farmers by offering what is known as a 'Minimum Support Price' - basically a farm subsidy. The government procures about 30% of the country's agricultural output which is then distributed by government-run or contracted retail outlets called 'fair price shops', where grains are sold to the poor at highly subsidized rates.

India passed landmark legislation – the Right to Food Security Act –in 2013. With the intended beneficiaries running up to more than 600 million people, the procurement quantity and farm subsidy amount was expected to shoot up from the current \$12 billion to \$20 billion. The problem arose when this new figure exceeded the WTO's limits and complaints based on this could be lodged against India, claiming that this 'violation of rules' distorts global markets. The United States was especially

critical of India's stance. Several other countries followed suit. Consequently, liberal economists were extremely critical of India's stance and argued that India could have sought refuge from the WTO rules under the 'peace clause'. The Economist declared 'those least committed to progress - in this case India - can hold proceedings hostage until their demands are met' (Economist 2013). Is it really progress if 600 million people are going to get adversely affected?

But why is Bali package so important if it does not deal with WTO's main agenda –cutting of tariffs and NTBs - at all? Well, liberals such as the Peterson Institute's economists argue that costs due to administrative barriers and regulations are twice as that of tariffs. So, it *is* an important deal. They estimate the costs of shipping around the world exports to be cut down by 10%, raising the global output by \$400 billion per year (Economist 2013).

What is this 'peace clause'? Peace clause is Article 13 of the WTO's Agreement on Agriculture which states that domestic support measures and export subsidies of a WTO member that are legal under the provisions of the agreement cannot be challenged by other WTO members on grounds of being illegal under the provisions of other WTO agreements. However, India's argument was that peace clause would grant an exemption for only four years and countries could file a case after that. So, India bilaterally negotiated with the US that it would be exempted from this rule till a 'permanent solution has been agreed and adopted on this issue, however long that might take'. Therefore, in one sense, this can be considered a victory for India but what about developing countries as a whole?

Several developing countries, especially from Africa, did not exactly share in the celebrations of the Bali package as a 'successful deal' which proved that 'WTO is back in business'. They said that the deal lacked balance. They were particularly concerned about the gap between rhetoric and reality on the part of developed countries. They were suspicious of the global North's commitment to provide financial and technical assistance with regard to the implementation of the TFA. The agreement is going to involve huge costs for the South in regards to their streamlining of bureaucratic procedures along the lines of the North. Trade Facilitation is not something that they should be spending a lot of money on. They ought to be spending on health and education and therefore the North should offer such assistance. There were concerns also about the Bali package offering non-binding commitments to the North but binding, comprehensive agreements on the South (Kanth 2013).

Why was the Bali package touted as a success then? Well, WTO members hadn't been able to reach a single agreement (one involving all members) in 12 years! The new WTO director- general was particularly anxious about getting the members to sign the deal. The WTO was facing an 'existential crisis' – Regional Trade Agreements were increasing across continents which questioned the purpose of the WTO, let alone its centrality in the global trading regime. This was only accentuated by the Trans-Pacific-Partnership agreement.

Ravi Kanth, one of the many critics of the Bali Package argued that it was not a fair, successful deal because 'no legally binding outcomes' were reached on the issues raised by the developing countries. The deal, unlike previous Ministerials, failed to secure permanent protection for developing countries to safeguard the food rights of their peoples (Kanth 2013, 2014). He also argues that the West led by the US resorted to the age-old strategy of Divide and Rule. Since the developing countries did not have a united stance at the negotiating table, it was easier to reach an agreement. The 'plurilateral' approach as opposed to multilateral approach - is also a subject of criticism - because it is not inclusive. You are reaching a deal with the more eager members while the less eager members are not even present at the table. This two-speed process can lead to outcomes which can come at the expense of the latter.

From a liberal perspective, the Doha Round offers massive gains to all countries. The agreement, upon ratification, is expected to add 21 million jobs and add \$1 trillion to the global economy. These estimates have been arrived at by the Peterson Institute of International Economics (Washington DC). The Institute's economists further claim that the agreement is expected to 'disproportionately benefit developing countries'. However, nobody really knows how these figures were arrived at, on what



basis they expect the South to benefit more than the North etc. Economists often make unrealistic assumptions but the consequences of their hypotheses and policy prescriptions are often real enough!

While Bali had its own problems, a more interesting and controversial development in the global trading system has been the burgeoning of Regional Trade Agreements in the last two decades. It is to this trend we now turn our attention to.

### **The Emergence of RTAs**

The focus of both academia and policy makers in international trade is no longer around whether trade is beneficial or maleficent. The idea that trade is beneficial, and is the driver of growth and development has become hegemonic. Similarly, in the discussions around trade liberalization, the debates are no longer about whether a country should liberalize or not. We have come a long way from tariff and quota reduction. With the genesis of the World Trade Organization in 1995 as a result of the Uruguay Round, quotas and several similar trade barriers have been prohibited. Member states have also committed themselves to tariff reduction. However, even this is 20th century story.

Pascal Lamy (2015), the former Director-General of the WTO, in a recent paper, talks about a trend that is relatively new in the area of international trade, a development that has evolved in the mid-2000s and 2010s. As the world economy becomes more integrated, trade liberalization will no longer be about mere reduction of tariffs. It will be about policy convergence. This is because, some argue, it is not possible to really reap the benefits of globalization unless we coordinate our policies in this highly interdependent political economic system.

To illustrate, the Peterson Institute of International Economics argues that costs due to administrative barriers and regulations (non-tariff barriers or NTBs) are twice as that of tariffs. Upon achieving regulatory convergence, they expect the costs of world exports will be reduced by 10%, raising the global output by \$400 billion a year (Economist 2013). The objective, to quote US President Barack Obama, 'is to look beyond tariff reductions to market regulations and how to make them more compatible' (Botsford 2014). The collapse of the Doha Round's discussion (with the exception of Bali package which was just one aspect of the broader Doha Development Agenda) has been accompanied by the rise of what are termed 'mega-Regional Trade Agreements'. These free trade agreements are neither bilateral nor multilateral. They are somewhere in-between, as a result of which a neat distinction between regionalism and multilateralism may no longer be feasible. A number of questions as to these mega-RTAs have captured the attention of economists, especially with regard to their impact on developing countries and, more broadly, on the multilateral global trading system as a whole, represented by WTO. Lamy's main argument seems to be 'so far so good but no guarantees'. While multilateralism has its advantages, he argues that there are some areas such as competition policy and public procurement which are severely contested. As a result, positive outcomes would be too difficult, if not impossible, to achieve at the WTO level.

Lamy further states that the emergence of the mega-RTAs such as Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) reflects changes in global production networks. These production chains have had to deal with difficulties arising out of differences in regulatory standards than tariffs. Huge costs can be avoided by simplification of rules, and policy convergence which can happen in one of two ways: policy harmonization or mutual recognition. 'The economies of scale to be gained from regulatory convergence are now at the heart of the new mega-trade deals' (Lamy 2015, p. 68).

While he admits that there are legitimate reasons behind the relevant countries' push for these mega-RTAs, he also cautions of the potential risks that they carry. To quote, 'the risk for the future is that the multilateral playing field will be eclipsed by a proliferation of divergent regulatory systems (what Bhagwati (2008) calls 'spaghetti bowl effect'), with the establishment of 'regulatory blocs' disrupting global supply chains and leading to major trade diversion – in other words, scattering the trade regime and undermining the WTO's centrality' (Lamy 2015, p. 71).

Mercantilists, who prioritize 'national interest', advocate against these mega-trade deals. They urge for protection of domestic players from foreign competition and therefore protest against any free trade agreement. Notwithstanding the hegemonic status that liberal economic thought has acquired in contemporary economic system, mercantilists still wield substantial influence over policymakers and the public. The recent protests in the United States (by the members of auto and agricultural sectors) and Japan (by agricultural sector) against TPP exemplify it.

Furthermore, mercantilists will also oppose these trade deals because they do not agree with free trade advocates that trade benefits everybody and even when it does, the gains from trade are unequally distributed and favour those with greater economic and political power (O'Brien and Williams 2013, p. 10). The US is estimated to gain \$77 billion out of the total 'global' income benefits of \$223 billion per year (Botsford 2014). Given that the US is expected to disproportionately benefit from the TPP, other member states may not share the same enthusiasm in reaching such ambitious agreements as these mega-RTAs. Domestic producers, be it in the agricultural, manufacturing or service sectors, will be hurt because of these free trade deals. The so-called benefits to be accrued from them will benefit only the Big Businesses i.e. TNCs.

Liberals, by contrast, do not see the world as being a zero-sum game and stress on the possibilities and benefits of cooperation. They argue that the alarm over the emergence of mega-RTAs is unwarranted. This phenomenon does not render the WTO obsolete. Both regional and multilateral modes of trading can coexist without harming one another. What we are witnessing is a new phase in the global trading system where it has become a two-speed game which benefits everybody. There are efficiency gains to be made arising out of economies of scale, and reduction of costs due to regulatory barriers. Furthermore, these kinds of mega-trade deals will have a positive 'spill-over' effect on those who are not part of them at this stage. The standards and rules they establish will soon spill-over into every other trade agreement in the future and thereby set up universally harmonized or mutually recognized regulations (as the case may be), facilitating ease of business for all. The \$400 billion expected to be added to the global output because of Bali agreement coming through plus \$223 billion because of TPP will definitely make everyone better off.

TNCs will benefit greatly from these agreements. However, this should not be viewed as a problem. Rather, this should be seen in a more positive light. TNCs offer advantages to both home and host countries. They not only help in enhancing growth and wealth, but will also disseminate it across the globe (O'Brien and Williams 2013, p. 14).

At this point, however, it would not be fair to project the liberal perspective as being unitary. Liberals are divided over the issue of mega-RTAs and their impact on the global trading system. Free trade theorists like Jagdish Bhagwati who have always argued for 'global free trade' have criticized the increasing preponderance of regional trade deals because of their potential discriminatory effects. They argue that these Preferential Trade Agreements (PTAs) are obstacles to a global free trade regime. What economists like Bhagwati are finding problematic about RTAs is the fact that all RTAs are Preferential Trade Agreements i.e. they lower the costs for insiders but increase the costs for outsiders ('trade diversion'). Once they are ratified, developing countries will have to comply with these 'global' standards ('global' because the parties account for more than 50% of global trade). Countries like Vietnam (which is party to TPP), which are heavily export dependent, have a lot to gain by entering into such agreements. However, this gain will occur at the expense of other countries like Bangladesh (exporting textiles, footwear etc.) which would not have preferential access to US and EU markets (Elliott 2014). Brazil has called these mega-RTAs as just 'old-fashioned trade protection in disguise' (ibid), whereas India has expressed concerns over the establishment of new, global standards and rules without discussing them with all WTO members.

Critical theorists vehemently oppose these deals on grounds that the global trading system is inherently exploitative. The OECD countries which are parties to the two major mega-RTAs, TPP and TTIP, will grow richer at the expense of the LDCs.

More specifically, they point to the significance of these deals in radically transforming the way the global trading system functions. Although the WTO is not ideologically neutral, it is a multilateral trade body which provides space for all countries to voice their concerns. Lamy also makes a note of this when he says that ‘WTO is particularly reassuring for smaller countries in that it has provisions for grouping of complainants’ (Lamy 2015, p.66). By taking trade negotiations out of the WTO, the OECD countries have not only made the process opaque but also have excluded more than 160 member states of the WTO who constitute about 80% of the world’s population. These trade deals are definitely going to have an impact on them. The fact that the US, the EU and their allies are now writing new rules of the game which everyone will have to abide by in the future clearly demonstrates that the rules they are going to formulate and agree upon will be to their advantage, highlighting the rigged nature of the game.

Considering that estimates indicate that the US is likely to disproportionately benefit from the TPP, the mega-RTAs can be seen as a demonstration of the US and EU’s reassertion of their global economic and political supremacy. Given the rise of BRICS and US and EU’s own decline following the 2008 global financial crisis, these mega-RTAs may be interpreted as an attempt on the part of the global North to reiterate its dominance in the international political economic system by setting the agenda and rules for future trade agreements, and the countries which are now excluded from these agreements will be ‘rule-takers’ in the future. The vast majority of the countries including the biggest emerging economies i.e. the BRICS will also have to adhere to the rules set by the global North.

The RTAs are inherently exclusionary and thereby discriminatory, which goes against the very ethos of what the North has been preaching all these years – non-discrimination, reciprocity, and transparency. The developed countries negotiated at the WTO level as long as it was favourable to them (Cerny 1995). But, when developing countries led by the BRICS started asserting themselves and made demands that agreements ought to be more favourable to the developing world, they gave up negotiations at the WTO level and resorted to what was more convenient and profitable for them – RTAs. Because the existing rules are not convenient, they are now changing the rules.

TNCs, who are the main players in the global production networks, push for mega-RTAs while small and medium domestic producers oppose it. They would be hurt by these RTAs whereas TNCs would benefit because of the lowering of costs as a result of streamlining of regulatory standards across countries. They also have an important role in setting the agenda for these mega-trade deals – market regulation and competition policy. With tariff levels being already low, it is the regulatory differences which push up costs for TNCs. With regulatory convergence almost always implying a lowering of health, safety, and environmental standards, these mega-trade deals potentially lead to a situation where wages, working conditions, and environmental conditions become depressed (O’Brien and Williams 2013, p. 151). TNCs will move their production processes to countries like Vietnam where they exploit the low-skilled and unskilled labour because of the low-wage conditions. They also greatly benefit from the minimal health and safety standards that are in place, and reap the benefits of working with a largely non-unionized workforce (ibid, Cerny 1993).

For all the concerns expressed by different actors for valid reasons, empirical evidence seems to suggest that RTAs do not cause much harm. Much in line with Lamy’s statement that RTAs have broadly been consistent with the multilateral framework, Freund and Orenlas (2010), in their meta-analysis of studies investigating trade creation and trade diversion arrive at the following conclusions: trade creation tends to be the norm in RTAs, trade diversion being the exception. When trade diversion does occur, its magnitude is often quite small. They further argue that, insofar as rent-holders were the ones hampering the multilateral negotiations at the WTO and RTAs destroy rent-seeking behaviour in the economy, RTAs can prove to be a boon/blessing to multilateral negotiations (Freund et al 2014). To quote Baldwin (1994), ‘liberalization (regional or multilateral) begets more liberalization’. With respect to the effects of these mega-RTAs on global trade governance, two dominant positions have been taken by scholars: one section argues that the WTO could be rendered obsolete unless this trend stops and major reforms are undertaken within the WTO i.e. these RTAs are stumbling blocks; the other section argues that mega-RTAs do not render the WTO irrelevant i.e. RTAs are building blocks. The WTO will remain at the centre of the international trading system.



Some argue that it's not stalling of WTO negotiations (Doha talks) which have fuelled the dominance of RTAs. Rather, it's the other way around i.e. multilateral negotiations at WTO are stuck because RTAs are spreading. If countries are busy negotiating RTAs, they will be unable to focus on evolving multilateral negotiations. In this section we will elaborate on what these mega deals mean for the WTO and trade governance.

Economists like Bernard Hoekman contend that the mega trade deals are not a threat to the existing multilateral trading system precisely because they exclude the majority of the countries, notably the BRICS. They just reflect a desire on the part of the concerned countries to make further progress in trade liberalization after the Doha Round's failure. Some see it as the best hope for restarting a *global* push for trade liberalization after more than 20 years of stagnation (emphasis added, Alden 2015). Hoekman also points out that the steady expansion of WTO membership since 1995 and the dynamic use of the WTO's dispute settlement mechanisms illustrates how the WTO fulfils functions that RTAs do not (Hoekman 2014).

The mega-RTAs shall not replace bilateral or multilateral trade negotiations either. The regulatory frameworks and measures that are ultimately agreed upon are often applied in a non-discriminatory fashion. Consequently, this benefits the excluded countries also. Moreover, these Preferential Trade Agreements do not cover 'sensitive' police areas which are discussed only at the WTO level. The institutional apparatus of the WTO is also superior to any of the RTAs. The latter will depend on the WTO to enforce market access commitments (Hoekman 2014, Lamy 2015). Furthermore, notwithstanding the increase of PTAs in recent times, 84% of trade flows still fall under the multilateral principle of Most Favoured Nation status. For most traded items, the MFN tariff rates are already low or near zero, which limits the scope for granting preferences (Lamy 2015).

At the same time, economists like Richard Baldwin voice their concerns over these mega- RTAs and view them as a problematic development. On the one hand, they do admit that ever since the Doha Round talks were suspended, there has been no consensus at WTO level among all members on new rules or on-board trade agreements (with the exception of Bali and IT Agreement) (Wolff 2015). On the other, they are concerned that these mega deals undermine the WTO in that these agreements are power-based not rule-based. For the globe as a whole to be better off, multilateral cooperation is needed, not just on trade but all issues. This is not possible without a single, world forum (Baldwin 2014). Some argue that, to avoid increased tensions and fragmentation of the global trading system, countries should 'engage decisively' in reviving the dialogue over reforms at the WTO, but provide no specifics on how that should be done (Elliott 2014).

With the TPP members' trade alone accounting for more than \$2 trillion in 2012 (World Economic Forum 2014), these mega-RTAs will take over the world trade governance. Instead of pushing for reforms within WTO and modifying rules in accordance with changing realities, US-EU and allies are looking for and probably have found solutions outside of the WTO at the expense of the rest of the world. Moreover, concerns are not totally unwarranted considering that there is no guarantee that the new rules and standards that the mega-RTAs establish will be consistent with one another and with the WTO's regulations. If that happens, then what happens to the global trading system?

### **Conclusion**

From the two case studies, we can see that what we have defined in this paper as 'economic globalization' has not been a straightforward process which benefits everybody. It is a nonlinear process or set of processes with mixed results, making it contestable and subject to a lot of criticisms. Although one might get a sense that the contestations are primarily between the developed and developing worlds, it is not always so. It is our choice of case studies which might tempt one to such conclusions. For instance, our arguments with respect to economic globalization can be applied to the case of EU as well, whose evolution has had its ebbs and flows. One could not find a better example than the Eurozone crisis which has split the EU in an unprecedented fashion. For instance, one struggle is between pro-Europeans and Euro-sceptics, demonstrated by UK's referendum proposed for 2017. Another struggle is between the Mediterranean EU member states (the poorer states) and the

Northern states (the richer states), best exemplified by the protests against the austerity measures and related financial conditions imposed on PIGS (Portugal, Italy, Greece, and Spain) countries by Germany and other dominant EU powers.

The contestations are not only over what kind of economic globalization should take place but also what its impact is on the countries involved, illustrated by the Doha negotiations which have not been settled after 15 years. Unlike the IMF and World Bank (whose Stabilization Policy and Structural Adjustment programs have also been criticised), WTO has met with widespread protests across the globe because of its advocacy of a particular kind of economic system. The future depends on to what extent countries, the vast majority of whom are developing, can form a coalition and make sure that they get fair treatment from the global North. A united stance is needed from the South if it wants to make sure that the North does not engage in arm-twisting individual LDCs into signing trade agreements which may not benefit them, if not harm them outright. We have already seen this with the formations of groups like G-20 and G-77 (Narlikar et al 2004). Nation-states need to unite not only with respect to trade but also other 'global' issue such as climate change and terrorism. However, this unity cannot and should not occur when the playing field is uneven.

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## **New Delhi to Beijing with Different Ideologies: The Concept of Make in India and Look East Policy**

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### **Abstract**

This paper examines diplomatic relations between New Delhi to Beijing in the context of recent thrust on 'Make in India' and 'Look East Policy'. The paper provides descriptive facts in political, trade, foreign direct investments etc., between both India and China and also provide a brief analysis of disputes and bilateral cooperation issues with China. India-China relations have made progressive diplomatic strides in the recent past, but there still remains a perennial asymmetry in their relations.

**Keywords:** Make in India, Bilateral Relations, Ideologies, Chinese Trade, Look East Policy

### **Introduction**

It is crucial for India and China to explore new ways in order to enhance bilateral political, economic, and cultural ties, which are likely to be drivers of global economic growth (Maini, 2015). To achieve this, it is important that the two countries look beyond New Delhi and Beijing. Bilateral trade between India and China has risen to nearly \$70 billion from merely \$2.92 billion in 2000, even the level of people-to-people interactions has witnessed a significant increase, though, of course, both the level of bilateral trade and people-to-people contact is far below its potential (Rajamohan, 2015). Incidentally, both the governments have been making concerted efforts not just to boost bilateral trade, but also enhance tourism. Indian Prime Minister Narendra Modi's announcement, during his visit to China in May 2015, regarding the e-Tourist Visa facility for Chinese citizens visiting India, is a positive step (Haidar, 2015). The stringent visa regime is one of the major impediments to greater interaction between citizens of both countries. Apart from the alteration in visa regime, 2015 and 2016 have also been designated as 'Visit India' and 'Visit China' years respectively. States like Kerala and Andhra Pradesh have already begun to woo tourists. Only recently, Kerala held a show in Beijing to showcase traditional martial arts of the state and the historical linkages between the southern Indian State and China.

There is also a strong political consensus with regard to the need for greater economic ties, people-to-people contact and the importance of sub-national interactions between India and China. Both during the earlier Congress regime and the current Modi-led BJP government, these issues are being accorded high priority (Business Standard, 2015). While there have been studies on the participation of sub-national governments from both countries in foreign policy, it is encouraging to see that in recent times there are studies on some direct comparisons of the role of Indian and Chinese sub-national actors in foreign policy. The most interesting study that makes such a comparison is by Antholis (2014). This brings to the fore, the increasing importance of provinces in the foreign policy

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of both countries, and has sought to explain the reasons for participation of state governments and provinces in foreign policy.

While efforts towards strengthening links at the local level, such as sister province and sister city agreements, can only be lauded, it is important to ensure that they have substance to them and are not just mere agreements. While the Kolkata-Kunming agreement is important because of the BCIM corridor and engagement, other existing agreements should be strengthened, and both sides should seek to ensure that such relationships are mutually beneficial. It is not just policy makers and the business community in both countries that are stakeholders in this process of greater engagement at the local level between Chinese Provinces and Indian states. Scholars too need to make a positive contribution. While certain Indian scholars like Kurian and Jacob have done some significant work on the importance of sub-national cooperation between both countries, the Track II exchanges, such as the Kunming Initiative between institutions in India and China, have helped in increasing awareness about each other's views. Greater collaboration is needed between scholars from both countries. They should devise new models of sub-national cooperation based on the Indian and the Chinese experience and add to the existing literature that is predominantly Western. Asia should not just drive economic growth, but should also influence scholarship on important issues, including the role of sub-national actors in economic relations.

### **Literature Review**

Kumar & De (2005) in their paper "Bilateral Cooperation Between India and China: Issues and Ways", highlight the importance of cross-border trade in economic cooperation between China and India. It gives information about the significance of transport facilities in expanding bilateral trade between North-East India and South-West China. The paper deals with some basic problems such as geographical factors in facilitation of border trade. The article also highlights policies of both governments to expand trade through these regions. However, the authors of this article have failed to look beyond border trading in bilateral trade.

Ganasemurthy (2009) in his book "India China Relations: Dimension and Prospective" examines Indo-China relations from various angles including regional and global perspectives. The book also describes cultural exchanges, share perceptions during freedom struggles, post-independence and during post revolution concern of the two countries. The book also highlights obstacles in the way of India-China relations. The author suggests that these problems can be removed through promotion of bilateral economic relations between the two countries. But in this study, author has not covered bilateral trade between India and China.

Lam Peng Er. and Narayanan Ganesan (2008) observed that in the midst of the unprecedented global financial crisis triggered by the US sub-prime mortgage problem in 2008, China is a rare major economy which is seeking to achieve an impressive growth rate of at least eight percent in 2009 (though below the phenomenal double digit growth rates of the previous few years). It may well be the first major country in the world to enjoy a strong economic rebound. Indeed, the Chinese mainland is poised to overtake the stagnant Japanese economy within the next few years and emerge as the second largest economy in the world.

### **India's Economic and Trade Profile**

**Exports:** Exports recorded a growth of 4.06 per cent during Apr-Mar 2013-14. The Government had set an export target of US \$ 325 billion for 2013-14. The merchandise exports have reached US \$ 312.61 billion in 2013- 14.

**Imports:** Cumulative value of imports during 2013-14 was US \$ 450.07 billion as against US \$490.74 billion during the corresponding period of the previous year registering a negative growth of 8.29 per cent in \$ terms. Oil imports were valued at US \$ 167.62 billion during 2013- 14 which was 2.2 per cent higher than oil imports valued at US \$ 164.04 billion in the corresponding period of previous year. Nonoil imports were valued at US \$ 283.32 billion during 2013-14 which was 13.3 per cent lower than non-oil imports of US \$ 326.7 billion in previous year.



Table 1: Trade Data for period 2004-05 to 2013-14

(Rs crores)

Sl. No.	Year	Exports	%Growth	Imports	%Growth	Trade Balance
1	2004-2005	3,75,340	27.94	5,01,065	39.53	-1,25,725
2	2005-2006	4,56,418	21.6	6,60,409	31.8	-2,03,991
3	2006-2007	5,71,779	25.28	8,40,506	27.27	-2,68,727
4	2007-2008	6,55,864	14.71	10,12,312	20.44	-3,56,448
5	2008-2009	8,40,755	28.19	13,74,436	35.77	-5,33,680
6	2009-2010	8,45,534	0.57	13,63,736	-0.78	-5,18,202
7	2010-2011	11,42,922	35.17	16,83,467	23.45	-5,40,545
8	2011-2012	14,65,959	28.26	23,45,463	39.32	-8,79,504
9	2012-2013	16,34,319	11.48	26,69,162	13.8	-10,34,843
10	2013-14(P)	18,94,182	15.9	27,14,182	1.69	-820,000

Source: DGCIS, Kolkata

India is among the fastest growing economies of the world & has registered 9.4% growth in GDP in the year 2006-07 (Source: Press Information Bureau, Government of India). It is the world's fourth largest economy in terms of purchasing power parity (Source: World Bank, Yr. 2006). India is the 7th largest country by geographical area and second most populous country of the World (Source: UN Database, Yr. 2007 est.). India's foreign exchange reserves have risen from US\$ 5.8 Billion in March 1991 to US\$ 208 Billion in June, 2007 (Source: Reserve Bank of India). India's GDP (Official Exchange Rate) is US\$ 805 billion while its GDP per capita (purchasing power parity) is US\$ 3800. During the last 10 years, India's total trade has risen by more than 4 times from US\$ 72.60 Billion in 1996-97 to US\$ 316.90 Billion in 2006-07.

A major shift in India's export destinations has been observed during the last 10 years. Top 5 export destinations of India in 1996-97 were USA, UK, Japan, Germany and Hong Kong with 43% share. In 2006-07, top 5 destinations were USA, UAE, China, Singapore and UK with a share of 40.17%. India's exports registered significant growth in case of UAE and China at 39.84% & 22.7% respectively (Year 2006-07 over year 2005-06). India's trade with Commonwealth of Independent States (CIS) Region has risen by 19.41% in the year 2006-07 over the previous year with total trade worth US\$ 5 Billion. Major trading partner of India in the CIS region is Russia with 61.2% share in exports & 59.8% share in India's total imports from the region. Ukraine with a share of 25.8% in India's total trade with CIS region is the second most important trading partner. India's major export commodities to the CIS region are Pharmaceuticals, Coffee/Tea/Spices, Readymade Garments, Iron & Steel & Machinery whereas major import commodities from the CIS region are Iron/Steel/Nickel, Fertilizers, Mineral Fuel, Cereals & Rubber.

#### India's International Trade Statistics

- India's total merchandise trade increased from US\$ 467 billion in FY2010 to US\$ 757 billion in FY2015
- Exports from India have increased at a CAGR of 11.6% from 179 billion in FY2010, to US\$ 310 billion in FY2015
- India's Export to GDP ratio increased from 13.3% in FY2010 to 15.6% in FY2015
- Share of India in world merchandise export – 1.7% in 2014; Rank– 19 (up from 29th in 2005)
- Foreign Trade Policy 2015-2020 aims at increasing India's merchandise and services exports to US\$ 900 billion by FY 2020
- Direction of exports moving towards Developing countries

- Share of Asia, Africa and LAC regions increased sharply from 58% in 2004-05 to 66% in 2014-15; Of this, share of Asia region rose from 48% to 50% during this period
- Future trade flows to be geared towards the developing nations (buttressed by GOI policies)
- Direction of imports also moving towards the Developing countries, particularly Asia, Africa and LAC
- Share of Asia, Africa and LAC regions increased sharply from 41% in 2004-05 to 74% in 2014-15; of this, share of Asia region rose from 36% to 59% during this period
- FDI inflow into India increased to US\$ 45 bn in 2014-15, as compared to US\$ 36 bn in 2013-14
- FDI outflow from India stood at US\$ 30.9 bn in 2014-15, against US\$ 36.9 bn in 2013-14

[Source: Exim Bank (2015). 'Export-Import Bank of India: Catalysing India's Trade and Investment,' July 01, 2015]

### China's Foreign Trade Statistics

China is becoming a prominent outbound investor, making use of its large foreign exchange reserves and seeking to reduce its excessive levels of investment in the domestic market. Chinese global outbound investment flows grew from just over \$34 billion in 2003 to \$525.7 billion in 2013. The combination of rising outbound FDI and a slowdown in foreign investment into China has led to a rapid reduction in China's net FDI surplus, from \$46 billion in 2006 to \$11 billion last year.<sup>6</sup> At the same time, global FDI in ASEAN has been on the rise, increasing from just over \$300 billion in 2003 to over \$1.5 trillion in 2013 as we can see from the Table No.2.

However, China contributed a mere 2.3 percent of total FDI into ASEAN in 2013. According to Ministry of Commerce People's Republic of China (MOFCOM), Association of Southeast Asian Nations (ASEAN) accounted for 6.7 percent of China's global outbound investment stock at year-end 2013, a total of \$35.7 billion. The actual rate is likely quite a bit higher when taking into account investments not notified to the Chinese authorities in order to avoid administrative red tape; investments originating in Hong Kong; reinvestments by companies already based overseas; and other technical issues regarding investment reporting.

**Table 2: China's Bilateral Trade with ASEAN Countries**

(US\$ billions)

		US\$ billions				Share of ASEAN (%)			
		1998	2003	2008	2013	1998	2003	2008	2013
<b>ASEAN Total</b>	Exports	10,919	30,935	114,139	244,133	100%	100%	100%	100%
	Imports	12,589	47,350	117,012	199,402	100%	100%	100%	100%
	Balance	1,670	16,415	2,873	44,731	100%	100%	100%	100%
<b>High-Income</b>									
<b>Brunei</b>	Exports	560	34	130	1704	5.1%	0.1%	0.1%	0.7%
	Imports	0	311	83	87	0.0%	0.7%	0.1%	0.0%
	Balance	560	277	47	1617				
<b>Singapore</b>	Exports	3901	8873	32325	45886	35.7%	28.7%	28.3%	18.8%
	Imports	4226	10486	20092	29969	33.6%	22.1%	17.2%	15.0%
	Balance	325	1613	12233	15918				
<b>Middle-Income</b>									
<b>Indonesia</b>	Exports	1172	4482	17210	36947	10.7%	14.5%	15.1%	15.1%
	Imports	2462	5754	14387	31479	19.6%	12.2%	12.3%	15.8%
	Balance	1290	1272	2823	5469				
<b>Malaysia</b>	Exports	1594	6142	21383	45941	14.6%	19.9%	18.7%	18.8%
	Imports	2675	13998	32131	60068	21.2%	29.6%	27.5%	30.1%

	Balance	1080	7856	10748	14128				
<b>Thailand</b>	Exports	1170	3829	15521	32738	10.7%	12.4%	13.6%	13.4%
	Imports	2423	8829	25636	38518	19.2%	18.6%	21.9%	19.3%
	Balance	1253	5000	10116	5780				
<b>The Philippines</b>	Exports	1499	3094	9088	19836	13.7%	10.0%	8.0%	8.1%
	Imports	517	6309	19508	18205	4.1%	13.3%	16.7%	9.1%
	Balance	982	3215	10420	1631				
<b>Low-Income</b>									
<b>Burma</b>	Exports	n.a.	908	1979	7349	n.a.	2.9%	1.7%	3.0%
	Imports	n.a.	170	645	2810	n.a.	0.4%	0.6%	1.4%
	Balance	n.a.	738	1335	4540	n.a.			
<b>Cambodia</b>	Exports	n.a.	295	1095	3411	n.a.	1.0%	1.0%	1.4%
	Imports	n.a.	26	39	361	n.a.	0.1%	0.0%	0.2%
	Balance	n.a.	268	1056	3050	n.a.			
<b>Laos</b>	Exports	n.a.	98	268	1721		0.3%	0.2%	0.7%
	Imports	n.a.	11	149	1021		0.0%	0.1%	0.5%
	Balance	n.a.	87	119	701				
<b>Vietnam</b>	Exports	1024	3180	15139	48599		10.3%	13.3%	19.9%
	Imports	217	1455	4343	16886		3.1%	3.7%	8.5%
	Balance	806	1725	10797	31714				

Source: China Ministry of Commerce, via CEIC database.

### Perceptible Improvements in China-India Relations

From 1991 to the eve of India's nuclear tests in 1998, there had been "a steady and substantial improvement in India-China relations". (Annual Report 1995-96: 4) Frequent exchange of high-level visits helped reinforce understanding and expand cooperation between the two countries. A series of Confidence-Building Measures (CBMs) were instituted to promote peace and tranquillity in the China-India border areas. Increasing bilateral contacts in various areas such as trade, technology and culture provided China-India relations with a multifaceted character.

### New Stage of China-India Relations (July 1999-December 2004)

Coming out of the shadow of India's nuclear tests, China-India relations have entered into a new stage since mid-1999. Irrespective of their specific expectations from this relationship, as the twin rising powers, China and India converged at the point that stable and cooperative relations between them would best serve their own national interests in the new century. If the last decade of the 20th century represented the "initial stage" of the transformation of China-India relations, in which the two countries reengaged with each other after a gap of nearly three decades, the first years of the 21st century witnessed "a steady consolidation" of their long-term constructive and cooperative partnership which would lead to "a qualitatively new relationship" between them. (Ranganathan and Khanna 2004: 182; Sino-Indian Joint Declaration 2003).

### China's India Policy

Given the fact that even the Indian nuclear tests were not able to shake China's resolve to befriend India, China unwaveringly continued its India policy which had been fashioned since the end of the Cold War. As the China-India relations were put back on track after Jaswant Singh's Beijing visit, China started to introduce some new steps into its efforts to strengthen mutual ties. In sum, China's India policy at this stage was characterised by the following features: to avoid any reference to the nuclear issue, even as it continued to maintain that India should sign the NPT and CTBT and refused to accept India as a nuclear weapon state; to put focus on economic cooperation; to explore new fields of cooperation; and, to maintain an even-handed approach towards India and Pakistan.

Although their differences on the nuclear issue itself were not the main cause for the deterioration of China-India relations after Pokhran II, they have become a new challenge to the bilateral ties anyhow. As far as China is concerned, it appeared to be very difficult to work out a balance between China's



position that India should sign the NPT and CTBT and India's request to be accepted as a nuclear weapon state. To resolve this dilemma, China reasserted Deng Xiaoping's initiatives in early 1980s and the consensus reached between China and India in 1988 which suggested the two sides to set contentious issues aside and concentrate on improving the relationship in other areas. During Indian President K. R. Narayanan's visit to China in 2000 and Li Peng's visited to India in 2001, China chose to avoid any reference to the unpleasant memory of the recent past. In fact, there was no mention of the nuclear issue at all. (Acharya 2000: 2093; Acharya 2001: 437-438) This was seen as "the Chinese approach that nothing would be allowed to mar the general air of goodwill and the future prospects of the relationship." (Acharya 2001: 438). Another significant gesture by China was its mild reaction to the Agni II missile test which India conducted just prior to the conclusion of Li Peng's India visit. In a "rather cautiously worded" statement by the Chinese Foreign Ministry, there was no direct criticism of this intermediate range ballistic missile test but warning against an arms race in the region.

After mid-1999, China started to lay more stress on its economic engagement with India. It was obvious that China expected economic cooperation to be the engine and the stabiliser of China-India relations pending the final solution of the border problem which would take more time. In each high-level contact during this period, China made economic cooperation a focus of the bilateral talks. On the occasion of Narayanan's China visit in 2000, China suggested that the two countries should expand their economic cooperation from bilateral to the regional level. During Narayanan's short stay in Kunming, the capital of China's south-western province of Yunnan, the provincial authorities formally sought India's support to the so-called "Kunming Initiative". (Acharya 2000: 2094-2095) The "Kunming Initiative" was originally put forward by scholars at Kunming's Institute of South Asian Studies in 1999. It called for sub-regional cooperation among south-western China, north-eastern India, Myanmar and Bangladesh. Accompanied by a large trade and business contingent, Li Peng made it a major focus of his 2001 visit to India to "explore new avenues for increasing economic exchanges and trade in the new century". (Acharya 2001: 438). By visiting Hyderabad and Bangalore, India's major IT centres, Li Peng conveyed China's keenness on cooperation with India in such fields as IT sector and software where India had made great strides. During the Chinese Premier Zhu Rongji's visit to India in 2002, it became clear that China "preferred to concentrate on the business of strengthening bilateral economic ties" (Cherian, 2002). Five Memoranda of Understanding and contracts worth more than US\$1 00 million were signed during this visit. According to the Chinese Ambassador Hua Junduo, China believed that "the orientation of future relations between the two countries would depend on the level of economic interaction."

Apart from strengthening economic cooperation, China also contented to explore the avenues for building diversified cooperation with India. The two major fields in which China showed great interest were bilateral cooperation on non-traditional security issues and coordination in multilateral fora. As China attached greater importance to the non-traditional security issues such as terrorism, transnational crimes, environmental degradation and drug trafficking, it started to explore the possibility of cooperation with India in this field. During Narayanan's visit, China for the first time brought up the subject of international terrorism and the need for India and China to cooperate at the global level to combat it. In 2001, in a conversation with the Indian media, Li Peng made "the most forthright statement" of China's desire for cooperation with India to combat terrorism (Acharya 2001: 438). Since then, the need for combating terrorism has become a routine topic of the bilateral talks. Moreover, China expected a joint contribution by China and India in fashioning a new world order. In his Four-Point Proposal on Sino-Indian relations, which was put forward during his meeting with his Indian counterpart Narayanan, the Chinese President Jiang Zemin called for strengthening the bilateral "coordination and cooperation in international affairs, and make(ing) joint efforts for the establishment of a just and reasonable new international political and economic order" (Acharya 2000: 2095). During Li Peng's 2001 visit to India, he again expressed China's desire to join hands with India to promote multi-polarity for world peace and "ride the tide" of globalisation for common development, in order to bring about a "just and fair" new political and economic order (Acharya 2001: 439). During Zhu Rongji's 2002 visit to India, it was announced that the two countries would hold regular dialogue on this subject and constitute an anti-terror consultation mechanism (Cherian, 2002).

### **India's China Policy**

Taking a more comprehensive security perception since the mid-1990s, India saw more opportunities than challenges in its relations with China after the bilateral ties came back on track in mid-1999. India was convinced that a constructive cooperation with China would serve its national interests at the juncture of the new century. India's China policy in this period reflected its comprehensive approaches to its national security. With territorial security still on top of its security agenda, India tried its best to keep the border talks at the core of its bilateral contacts with China. Having upgraded economic security to the same level as military and political security, India was committed to solving its difference with China through dialogue in order to keep a peaceful and stable relationship with its largest neighbour. As a result, India initiated a security dialogue with China, hoping that most of its security concerns regarding China could be discussed and solved under such a mechanism. At the same time, India made serious efforts to establish and develop new partnership with other major powers which could be construed in terms of balance-of-power politics and thereby counterbalance China.

From India's perspective, "the border continues to be the centrepiece of the relationship" before the final solution is reached, although "it is no longer a stumbling block to further progress" (Acharya and Deshpande 2003a: 2941). The sooner a final settlement is reached, the earlier would considerable military and financial energies of India be released for other more purposeful activities? Dissatisfied with the "static" nature of the border talks till then and suspicious that China might not be "very forthcoming or desirous of accelerating the pace of the discussions" (Acharya 2000: 2094), India has invested more efforts since mid-1999 to keep the border issue at the centre of its interaction with China. In each high-level contact between India and China, the border issue was always one of the first things brought up by the Indian side. During his 2000 visit to China, the Indian President Narayanan told his Chinese counterpart, Jiang Zemin, that although it was nobody's case that the contentious border could be easily resolved given the extremely complex dimensions, it ought not for that reason be left to later generations to tackle. (Ibid) To speed up the border talks, India worked for more political initiative and intervention at the highest level on both sides. The appointment of special political representatives in 2003 could be seen as an achievement of India's efforts in this regard.

### **Logic of Better Bilateral Ties**

Refining upon Adam Smith's Theory of Absolute Advantage, another classical economist David Ricardo gave the concept of 'Comparative Advantage Model'. According to Ricardo even if the countries did not have absolute advantage in any line of production over the others, international trade would still be beneficial, bringing gains from trade to all the participating trading countries. The Theory of Comparative Advantage suggests that a country should specialize in the production and export of those goods in which either its comparative advantage is greater or its comparative disadvantage is less. And it should import those goods, in the production of which its comparative advantage is less or comparative disadvantage is greater. Thereby, a country would be able to maximize its production and its consumption (Adams John; 1972).

In contrast to Adam Smith for Ricardo, if a country has absolute advantage over the other country in both the lines of production and the other country has absolute disadvantage in both the lines of production the gainful trade is possible for both the countries. Ricardo assumes that a country (which has absolute advantage in both the lines of production) has greater comparative advantage in one line compared with the other line, in which its comparative advantage is smaller, whereas the other country's (i.e. the one which has no absolute advantage in either line of production) comparative disadvantage is smaller in the second line compared with the first line of production where its comparative disadvantage is greater.

In a nutshell, one country's comparative advantage is greater in one line of production, and the other country's comparative disadvantage is smaller in the other line of production. If these two countries enter into trade with each other, it would result in production and consumption gains for both the countries. Hence it makes sense for both India and China to strengthen long-term bilateral ties.

### **Conclusion**

China is perhaps the best example of the positive connection between openness and economic growth. Reforms in China transformed it from a highly protected market to perhaps the most open emerging market economy by the time it came into the World Trade Organization at the end of 2001. The focus of this paper has been on manufacturing, but China's WTO commitments are also leading to a very significant opening in services. For example, the chief U.S. negotiator on China's WTO accession has characterized China's commitment to liberalize its distribution system as "broader actually than any World Trade Organization member has made." Thus the positive stimulus that international competition provides for technical change and managerial efficiencies will not be limited to manufacturing but will extend increasingly to the services sector as well, where China's commitments to increased openness go beyond those made by most other members of the World Trade Organization.

The history of Indian foreign policy and Sino-Indian relations suggests that India will not concede to live under Chinese dominion in a unipolar Asia. John Garver is correct to point out that the success of national revitalization policies by Narendra Modi in India and Abe Shinzo in Japan will do much to determine the degree of multi-polarity in 21st century Asia. The decisive variable will not be the trajectories of India and Japan, but the future role of the United States as the region's (offshore) primary power. Yet, acknowledging the important potential roles to be played by South Korea, Russia, and Southeast Asia, within Asia, we should recognize that the triangular relationship among the region's three leading states will do most to determine the constellation of power and the nature of regional order.

Having put economic resurrection at the top of his prime ministerial agenda, Modi sees the East as being as, if not more, important to India as the West. The large pools of surplus capital of China and Japan, their willingness to invest long term in infrastructure and attach less strings and conditions makes the Asia-Pacific an attractive and potentially preeminent economic partner. East and South-east Asia policy are also much more crucial to Modi's foreign policy focus on the smaller Indian neighbours: Nepal, Sri Lanka, Bangladesh, and Myanmar. Indeed, recent thrust of the government on 'Make in India' (Jha, 2015), necessitates a stronger focus on cooperation with China so that both the countries can benefit from a surge of manufacturing opportunities likely to come from European and American transnational corporations in the years to come.

There is the perception that China needs a minimum economic growth rate of 8 percent to provide employment and resource distribution to ensure social stability. However, a case can be made that the law and order capacity of the Chinese state appears adequate to snuff out and prevent any local protests from snowballing across major cities and provinces even if economic growth were to dip below 8 percent. Insofar as a majority of its population believe that the system in China holds the prospect of a better life for themselves and their offspring, it is unlikely for any nation-wide movement to emerge and challenge the rule of the Chinese Communist Party (CCP). Moreover, the CCP has never allowed any alternative and autonomous organizations to emerge as a potential challenger to its rule. Whether it is the quasi-religious Falungong or the pro-democracy movement of Tiananmen in 1989, they have been ruthlessly nipped in the bud. Apparently, the CCP has the iron will, confidence, resources and coercive capacity to rule in the years ahead.

In conclusion, it would be fair to say that the political class in the two countries, both at the national and state/provincial levels, have displayed maturity and foresight in seeking to strengthen the bilateral relationship. The business community and intellectuals from both countries have also contributed to the improvement in relations and the removal of misconceptions and misunderstandings. It is imperative for all stakeholders, not just political players, to play their part in bolstering this very important relationship. The role of sub-national political entities is crucial in this context. Apart from this, it is important that the regional leaders' forum that has been begun does not focus merely on a few states which have close economic links, but seeks to expand the partnership to build linkages between states and provinces which have historical links, and are keen to promote greater people-to-

people contact, or those which have commonalities in areas like agriculture an example being Punjab and Jiangu.

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## Creating Spaces for Women: Inclusion through Reservation in Urban Local Governance

Shakun Sharma\*

### Abstract

Inclusion of women in local government through reservation is a major tool for empowering women in politics. Reservations for women have undoubtedly changed the face of India's town halls and municipal committees. Providing an inclusive growth through urban local governance, this issue needs to be examined in the sense- whether 33 percent of reservation for women in local politics can yield the expected output? This paper examines the factors that facilitate the entry and participation of women in the political field, how these women shape urban local politics and create a space for themselves in that realm through reserved seats, thereby, serving the community and society at large. It has been found that the provision of one-third of reservation of seats for women in the State Act has enabled several women who had never been in a position to enter into politics.

**Keywords:** Reservation, Women, Politics, Urban Governance, India

### Introduction

Political empowerment of women is the need of the hour to ensure inclusive growth in contemporary society. Women empowerment in local governance is recognized as an important requisite for the fulfilment of inclusive growth and sustainable development in the country. Unfortunately, not many women are coming forward to occupy the public institutions. There might be certain reasons for this reluctance. Yet not enough scholarly work has been done on this theme. In fact, urban research is essential for solving urban problems and urban local government in India, particularly in Jammu and Kashmir State. However, it has not yet attracted attention of the political and social scientists. At the grass root level urban women still need to be effectively mobilized.

This is possible only by a 'woman to woman contact'. It is now widely accepted that to be effective, governance should be pluralistic: authority should be spread across many levels and across multiple centres of authority (Hooghe and Marks 2003). Decentralized forms of governance are believed to make the process of local democracy more inclusive by creating spaces for increased participation and wider representation by various marginalized or excluded groups from main stream political processes. The Indian Constitution introduced in 1950 adopted adult franchise, thus, creating a political resource for all citizens. Indian Parliament passed 74<sup>th</sup> Constitutional Amendment Act (CAA) in 1993 reserving seats for women belonging to all caste categories, creating another resource through reservation in the hands of these women to enable them to acquire some power.

This paper tries to examine a. how far does the provision of reservation in the CAA lead to the political empowerment of women? b. What is the role of urban local government (in the form of municipal institutions)? c. Is the functioning of these municipal institutions truly participatory and inclusive especially in the context of women? All these questions need to be addressed because cities are becoming more and more urbanized and women are getting involved in this process to a great extent causing concern not only to the policy makers but also to the urbanites.

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One of the reasons why the urban situation is so important –compared to the most accounts of the experiences of women in rural panchayats –is that it includes many more dimensions of the political arena. These include the dominance of political parties in the electoral process, the high stakes of municipal governance with large financial outlays, the significance of various local organizations, leaders and localities, and displays of power on the part of councillors (John, 2007).

The significance of this paper underlies in the fact that greater attention has been paid to rural local institutions, neglecting urban local institutions because of the larger population, widespread poverty and lack of resources in rural areas. Political participation of women in urban areas is also difficult. The critical challenges faced by women in urban areas make them more vulnerable. They have to bear the brunt of the increase in poverty, crime and environmental problems associated with rapid urban growth. To generate this concern, women inclusion in the political decision making process at the city level is particularly important.

### **What is urban local governance really all about?**

Recent concern with governance in urban areas stems from a more general attention being paid to "good governance" as a development issue. One approach sees governance as essentially preoccupied with questions of financial accountability and administrative efficiency. An alternative approach is one more interested in broader political concerns related to democracy, human rights and participation (Robinson 1995). P. Stones (1963) defined Local government as that part of the government of a country which deals with those matters which concern the people in a particular locality. He points out further that it acts as the communities' housewife, in that it makes our surroundings fit to live in, keeps the street clean, educates our children, builds our houses, and does all those other similar jobs which enable us to lead a civilized life.

The urban local government in India operates in towns and cities through municipal institutions which include municipal corporations, committees, councils, cantonment boards, town and notified area committees. It somewhere serves as a reservoir of talents for local and national leadership. It was only during 1980s that the central government took momentous decisions in setting up the Ministry of Urban Development, appointing National Commission on Urbanization, and introducing *Nagarpalika Bill* in 1989 and 1991 to rejuvenate urban self- government institutions in the country (Sachdeva, 2011).

Thus, the essential characteristics of a local government are: (a) its statutory status (b) its power to raise finance by taxation in the area under its jurisdiction (c) participation of local community in decision making in specified subjects and their administration and, (d) the freedom to act independently of central control. The significance of urban local governments in India has considerably increased in the post-independence era with the inauguration of the constitution embodying the principles of democracy and a welfare state, and emphasizing upon the governments in urban areas to promote social and economic development. It also reinforces right to development for communities living on the margins of urban landscape (Jha, 2012).

### **Is provision of reservation in 74<sup>th</sup> CAA truly inclusive for women in India?**

In general, women are better represented at the local rather than at state or national level, although they still remain a minority at all levels of government. This has led some to view the process of decentralization as positive for women (for example recent amendments to strengthen the *Panchyati Raj* in India, and the various efforts towards decentralizing government in countries of Latin America) given the fact that they are most likely to enter local politics when going into public office (Beall, 1996). Reservation for women in local government is not just a question of getting certain number 'in'; it also nurtures their capabilities to play their rightful roles in the development process and makes an important difference as the local government deals mostly with the quality of life for citizens. Municipal responsibilities relate both to women's practical needs and their strategic needs (Kumari, 2006).

Quotas are seen as a way of empowerment and introduced to give women the opportunity to make their voices heard. Quotas in institutions of governance are expected to give women more power (Dahlerup, 1998). He further argues that quotas for women represent a shift from one concept of equality to another. The classical liberal notion of equality was a notion of 'equal opportunity' or 'competitive equality'. Removing the formal barriers, for example, giving women voting rights was considered sufficient. The rest was up to the individual women. Following strong feminist pressure in the last few decades, a second concept of equality is gaining increasing relevance and support- 'the notion of equality of result'. The argument is that just reforms removing formal barriers do not produce real equal opportunity. Direct discrimination as well as complex pattern of hidden barriers, prevents women from getting their share of political influence. Quotas and other forms of active equality measures are thus a means towards equality of result.

Quotas guarantee women a certain number of seats in the local government independent of the electoral result (Dahlerup and Freidenvall, 2003). In India, seats are reserved for women by law, the country has a quota system which means that there are certain seats for women to whom only women are allowed to contest (Frankl 2004). Drage (2001) in a study on women's participation in local government across the Asia- pacific region found that women have gained greater access to local government positions than to those in central government mostly due to quota provisions.

Role of women in political structure had virtually remained unchanged. Their broad based political participation has been severely limited due to the nexus of traditional factors. As a result, they were left on the periphery of the political process. Therefore, the need for the reservation of seats for women in the rural and urban local bodies stemmed largely from the fact that, even after few decades of independence, political parties in our country failed to politically educate and mobilize women and the parties still reflected the traditional values of a patriarchal society where women are viewed as inferior to men physically, mentally and intellectually. Rajiv Gandhi introduced in Parliament the decentralization bill that would become the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts in 1992 under the Narasimha Rao Government, so that women become politically empowered at least at the grass root levels. So from this discussion it can be said that local government is a first step into a political decision making arena in which real differences can be made and provision of reservation (introduction of quotas) is only a starting point in this process.

The Constitution (Seventy- fourth) Amendment Act is a watershed in the history of local government in India. Since the late 1980's, the Indian Government had consistently tried to uplift local bodies from their inconsequential and insignificant status to economically and politically viable units of self-government. The 74<sup>th</sup> Constitutional Amendment Act (CAA) provides several measures to ensure decentralization and empowerment of urban local-governments in the country. With the passage of this amendment, constitutional status was conferred on urban local bodies in India for the first time. In the new dispensation, municipalities are the institutions of self-government, with regularly elected bodies, devolution of additional powers and functions, planning responsibilities and new system of fiscal transfers. One of the important provisions of the 74<sup>th</sup> Constitutional Amendment Act (CAA) is to make city government more inclusive by ensuring the representation of women in local bodies through the introduction of quota system. Not less than one-third of the seats in any municipality are now reserved for women, and such seats are to be allotted by rotation to different constituencies of the municipality. Seats are also reserved for SCs and STs in every Municipality in accordance with their share in the total population of the town and city. There is also a provision of one- third reservation for women at the level of chairpersons of these local bodies.

The 74<sup>th</sup> Constitutional Amendment Act (CAA) provides local bodies with a certainty of tenure: an elected council's tenure will be of five years. If it is dissolved due to atypical circumstances, fresh elections must be held within six months from the date of dissolution. For dissolution of Municipalities, strict rules have been imposed, so that state government cannot dissolve them on flimsy grounds and have to conduct elections at regular intervals. Each State has to constitute an Election Commission which is a statutory body with a definite mandate to conduct local elections on a regular basis (Ghosh and Rewal, 2005). Therefore, this act has served as a major breakthrough

towards ensuring women's equal access and their participation in the urban governance in a meaningful manner.

**Status of women in urban local politics: Indian context**

The issue of women's status and role in politics needs urgent attention because politics is central to everything in a democratic society. All important decisions are made at the political level. Politics reflects and molds the social and cultural conditions of a society. As such, the percentage of women's representation in politics is important. South Asia can proudly boast of giving the first and the second women Prime Minister to the world. Good urban governance is a participatory and inclusionary approach which calls for engagement of all groups, including women in the decision making process. Political participation and representation of women is one of the key elements of good governance. Unless women are involved in the decision making processes of the state, changes in women's political, social and economic status, will continue to be marginal (Drage, 2001).

Jo Beall (1996) argues that urban governance must be gender sensitive if it is to be equitable, sustainable and effective. Participation and civic engagement are critical determinants of good governance, a concept which addresses issues of social equity and political legitimacy and not merely the efficient management of infrastructure and services. The different ways in which women and men participate in and benefit from urban governance are significantly shaped by prevailing constructions of gender, whose norms, expectations and institutional expressions constrain women's access to the social and economic, and political resources of the city. Getting women themselves into the mainstream of public office and the bureaucracy is a vital part of engendering urban governance. When democratic process prevails, women in public office give meaning to the representative nature of democracy and institutionalize and legitimize women's voices in the sites of power.

The status of women in cities is of concern given that women are in a much more vulnerable position than men. In both North and South, women remain unequal to men in terms of employment opportunities, access to resources and representation. Enhancing the role of women in urban governance is a pre-condition for good urban governance. Therefore, a policy on women and urban governance should address two specific aspects. One is women's increased participation and representation in local decision making. The second is greater attention to issues of concern to women to foster gender awareness and competence among both men and women in the political arena and planning practice (UNCHS, 2001).

The question of women's participation in decision making process got the attention of the Committee for Status of Women in India (CSWI) in 1974. It was the status report by Committee for Status of Women in India titled 'Towards Equality' which realized that even after 27 years of independence, women had no role in the decision making process in any spheres of life. Though the report highlighted the need of participation and representation in political institutions to overcome the peculiar problems faced by women, the need for local bodies, especially urban and the role of women in these institutions has not been given due recognition. Nonetheless, in the Indian context women empowerment remained a distant dream for a good five decades till the 74<sup>th</sup> Constitutional Amendment Act (CAA) began to be implemented (Ghosh, 2010). Women in India are not treated as political entity in their own right. Even the few who are elected are side lined and often allotted 'soft portfolios' such as welfare, education, etc. In both cases, women lack access and control over the apex bodies where decisions and policies are formulated.

There are no specific laws or policies so far, that can strengthen the grounds for political and economic empowerment of women. The Government has attempted to empower women politically through affirmative action by providing one-third reservation for women in local bodies, to ensure their participation at the local and district levels of governance. While studying the status of women in the Municipal institutions, it was found that many women are least educated and do not know much about the political procedures, rules or their rights. Such underlying discouragement works toward an unsuccessful attempt to introduce women into politics, even if they are being forced to enter politics by their family members. To counter these problems, women need to be educated about the



importance of their role and influence in politics, how the system works and which rules are prevailing.

### **The Ground Reality**

This paper is derived from the study conducted in Jammu division of Jammu & Kashmir state in India. The empirical evidence is mainly based on interviews with women who have been Municipal Corporators and Councillors in the urban local governing bodies, that is, Municipal institutions. Jammu and Kashmir is a state in northern India and located mostly in the Himalayan mountains. The state has special autonomy under Article 370 of the Constitution of India, according to which no law enacted by the Parliament of India, except for those in the field of defence, communication and foreign policy, will be extendable to Jammu & Kashmir unless it is ratified by the state legislature of Jammu & Kashmir. The state of Jammu & Kashmir has a tradition of government at the local level. In 1886, two Municipalities were established, one for Jammu and another for Kashmir under J & K Municipal Act No. 16 of 1886. The municipality of the state of Jammu & Kashmir was formed as a result of the reform measures which were undertaken by Lord Rippon. This act was again amended in the year 1889. Later, when the J & K Municipal Act was passed in the year of 1941, the municipalities of the state of Jammu & Kashmir were placed under the control of ministers. They were assisted by the secretary, revenue officer, health officer, etc.

On the 51<sup>st</sup> Republic Day of India, the State Legislature passed a legislation known as J & K Municipal Corporation Act 2000, incorporating the functions and duties enshrined in the 74th Amendment Act, for the capital cities of Jammu and Srinagar. Municipalities and Municipal Corporations are the two major forms of urban local government. The Municipal sector envisages classification of the following three:

- A Municipal Committee for a small town (with a minimum population of 5000);
- A Municipal Council for a medium town (with a minimum population of 25000);
- A Municipal Corporation for the capital cities (with a population of more than 400000).

Thus, in this context, Municipal institutions, here, means all the three categories as stated above. In India, some states have a unified legislation covering both Municipalities and Municipal Corporations. But, in most of the States, the laws are different for the two categories of municipal bodies. In Jammu and Kashmir, Municipal Corporations are governed by J & K Municipal Corporation Act 2000, whereas Municipalities (Committees and Councils) are governed by J & K Municipal Act 2000. Both the Acts have the provision of reservation of seats for women and for SCs and STs. Statutory provisions such as holding of regular elections, reservation of seats of chairpersons, the Constitution of State Election and Finance Commissions, District Planning and Metropolitan Committees and so forth, have not been implemented by the J & K State. The municipal elections in the state were due in 2010 after the term of bodies elected in 2005 ended. The Government is yet to finalize the dates for the municipal elections in Jammu & Kashmir which have already been delayed by 10 years.

The twelfth schedule in the 74<sup>th</sup> CAA provides eighteen functions for urban local bodies. It includes all traditional municipal functions relating to the provision of civic amenities (like water, sanitation, waste disposal, etc.) to the local population; in addition, it includes functions like urban planning, including town planning, planning for economic and social development, safeguarding the interests of weaker sections, slum improvement, poverty alleviation, etc. In J & K, although these functions are enlisted in both the acts, decentralization of functions has not yet been achieved and is being performed by the municipalities in consultation with respective state government departments. In J & K, there are 62 Municipal Committees, 6 Municipal Councils and 2 Municipal Corporations.

In Jammu division, there are 30 Municipal Committees and 3 Municipal Councils and 1 Municipal Corporation. These are further divided into various wards. For example, under Jammu Municipal Corporation, the city has been divided into 71 wards. After Independence, elections for the Municipal

bodies were held only four times. The first election was held in the year 1956, then in 1972, followed by the election in 1980 and the last one was held in 2005.

**Municipal bodies in Jammu & Kashmir**

<b>Division</b>	<b>No. of Municipal Committees</b>	<b>No. of Municipal Councils</b>	<b>No. of Municipal Corporations</b>
Jammu	30	3	1
Kashmir	32	3	1
Total	62	6	2

[Source: Directorate of Urban Local Bodies, Jammu]

In Jammu & Kashmir, out of total 858 wards, elections were held for 853 wards. In Jammu division, elections were held for all 446 wards, in which 140 wards were reserved for women (on the basis of 33%) in 2005. It is important to emphasize that the councillors are directly elected from the city's administrative wards. The elected members meet under chairpersonship of the Mayor or President to decide on city related issues. The executive functions are performed by Commissioner, appointed by the state. In Municipal Corporations, elected members are known as Corporators and in Committees and Councils, they are called Councillors. In 2005 elections, 140 women gained seats due to reservation of similar number of wards reserved for them. However, only two women gained seats from open ward without reservation. These elections were mainly conducted on party basis. Political parties play a legitimate role in increasing the women's engagement with politics by extending information and knowledge about municipal elections.

Through reservation in the Act, these elected women members in Jammu Municipal institutions have sensed a positive change in their attitude and have become more confident and independent. By contesting and getting elected to urban local government, women have shattered the myth of their own passivity that women are not willing to enter politics. They have gained a sense of empowerment by asserting control over resources, officials and most of all, by challenging men. They have vested interests in those areas which are the responsibilities of local government namely, schools, water supply, street lighting, parks, and sewerage, etc. They play active role in handling local problems.

**Factors that facilitate entry and participation of women: Evidence from the field**

Women elected as representatives of people in local bodies were so active in making meaningful contribution at the urban local level because it was for the first time after 26 years that they were given the opportunity to come forward for the development of the community. The reservation system has also effected positively on women's confidence, which is an important sign, not only for politics but for the overall empowerment of women. It was only after the enactment of seventy-fourth constitutional amendment act, women are seen as key actors in the process of development and reservation for them is a great move towards the emergence of leadership at the grass root level. As women are more aware about the basic needs of the society, given the kind of roles they perform in their daily lives, they are in a better position to perform the functions of the municipal local bodies involved in urban governance. This study aims at analysing whether the use for changes in consciousness and self-perception for women is a key instrument to promote women's participation in the decision making process, not just as beneficiaries, but as active agents of change and it can be well understood through their experiences.

It is largely the young and middle aged women who have entered in municipal bodies after the enactment of 74th Amendment Act and became municipal corporators and councillors for the first time. Majority of them are educated (up to matriculation), married and housewives and did not have a paid occupation and depend on their family for a living. This can be attributed to the fact that maturity in age and honour attached to marriage are the yardsticks to be acceptable to the members of the community. The more representation of housewives illustrates that the presence of husband is a source of great support and resource for them. With the implementation of reservation of 33 % seats

for them, women belonging to all caste categories have been given an opportunity to occupy political space in these institutions and that too, through direct elections. Most of them stated that – *“Being a councillor or corporator is ideal for women; it’s a work that looks like that of housewives, where you have to take care of water, drainage, power supply, etc...”*

Reservation for women is the most important factor that motivates and facilitates women to come forward into political life. Most of the women contestants in Municipal bodies were the first time entrants not only in politics but even in the public life. In 2005 elections, 140 women gained seats due to reservation of similar number of wards reserved for them. However, only two women gained seats from open ward without reservation. A woman councillor from Municipal Committee, who belonged to a scheduled caste, stated that –

*“I was socially very active and I always wanted to join politics but was not able to get any chance. But when my constituency was reserved for women I thought that it is a good chance to fulfil my desire. Now I can do something for the people. It gives me satisfaction. Thus reservation is the most helpful factor and I support reservation for the reason that without this system women like me could not come into politics and now as I can see that due to reservation, women from SC/ST family are coming in municipalities.”*

Most of the elected women representatives stated that they have got motivation from their family members and other people to come into politics. Those who have come to power in Municipal bodies, belong to two categories—a) family where a male has a political linkage and cannot contest from that ward when it is reserved for women and b) those who are encouraged by the male members of the family. Therefore, family on the one hand, acts a guiding resource to provide support, information to these newcomers, but on the other hand, controlling and dominating them indirectly. A corporator from Jammu Municipal Corporation said that –*“My husband gave me his full support, both financially and morally. During the election campaign he went with me from home to home and helped me a lot. I never felt that I could not come forward in politics.”*

And another respondent stated that – *“The support from your family is very important. I am very happy and lucky in this matter that my family supports me and trust me. No member of my family interferes with my work and decisions and I always get support from them.”*

The political profile of these women shows the influence of patriarchal structure in the urban areas too. These elections were mainly conducted on party basis. Every political party has a women’s wing to encourage women to join politics either at national or local level. It has been found that political parties in urban areas play a legitimate role in increasing the women’s engagement with politics by extending information and knowledge about municipal elections. Most of the national and state level political parties participated directly by giving support to their respective candidates, allowing them to use party symbols in the campaign and on the ballots. Majority of the corporators and councillors showed their affiliation with political parties, while getting tickets and contesting elections.

It has been found that all elected women were aware about the one- third reservation of seats in municipal bodies, but they had least knowledge about 74<sup>th</sup> CAA and its basic provisions. But these women mentioned that with the passage of time, they had acquired new knowledge about politics in general as well as about local issues important to their people and constituencies. One of the councillors from Udhampur Municipal Council stated that – *“Now I have become more aware of political and local issues. Thanks to the reservation which gave me a chance to participate in the political life. I am learning politics and I think it is good for everyone to be aware about their surroundings. It helps us to be a responsible leader and citizen.”* This statement shows that if women get chance to participate in the political field they can know more about the issues and consequently perform for the betterment of the people. Most of the women cited that inadequate funds and resources always hampered their operations and development plans in wards. Women as a group exert pressure in the council or corporation on a variety of issues confronting the city particularly those relating to environmental cleanliness, water and sanitation, pre-school education, preventive health care, etc. and the women specific issues including implementation of schemes related to education

and skill development programmes for females. The issues raised by women were not taken up seriously by Municipal bodies except for pension and family benefits. These issues were generally overlooked because of unfavourable political climate in the meetings dominated by men.

One of the Corporator said – “*Women are born Home ministers. At home, a woman takes care of all problems, so why not on a large scale?*” This shows that these women who were independent of party affiliation had to struggle on their own to establish their rights and get things done because their voices were hardly considered in the local level meetings. It was found that earlier these women were shy and hesitant to come out of the homes but gradually they gained confidence and participated in the resolution of many problems related to their area. Most of the women considered introduction of specific quotas as helpful to women in many ways especially for welfare, development and social, political and personal empowerment. These women presented greater awareness of their roles as women and desired for more education and opportunities for their daughters. They claimed that their husbands and family members have gained prestige in the society as well. In some of the cases, these women found a new personality as they come to be known by their own names rather than of their husbands. For example, a woman Councillor stated that – “*Before the election nobody knew me outside the house and I was a wife, a daughter-in-law and a mother. But after the election people started recognizing me. I am very happy and confident because now I am identified by my name not any other’s name*”. This indicates that the reservation system has a very good effect on women’s confidence.

### Conclusion

This paper illustrates the fact that positive discrimination in the form of reservation of seats in the local governance structures resulted in spaces being created for better and increased participation by women as a group. Reservation of seats provides women a chance to participate in political field. It has created an opportunity for women to attain confidence, visibility and knowledge of the political sphere. Moreover, it is clear that by virtue of their participation and effecting changes in decision-making, these women are, and will be, role models for the future generations and act as agents of transformation and change, with a quest to create a more gender-friendly local government. Thus, if women were politically empowered, they would be able to participate in the planning, execution and implementation of development schemes. But still more needs to be done in this area in order to make these women truly accountable for the delivery of municipal services.

### Notes

*All the information related to the field was obtained through the interviews and discussions with the higher officials of Directorate of Urban local bodies.*

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## Curious Case of Urban Slums: The Way Forward

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### Abstract

The binge of urbanism, seen as a by-product of industrialization has led to the modern problem of urban slum settlements. With 863 million people in 2012 living under its suffocating ruse, tackling and controlling its spread remains a vital political and administrative issue. Governments have tried to combat this in multiple ways –broadly falling under the two categories of in situ slum development and resettlement. This paper tries to critically analyse the debate between these two modes of rehabilitation of slum dwellers using two distinct case studies. It tries to argue that stakeholders being a part of the rehabilitation project give in situ development an edge over the alternatives, and largely determine the success of the project. The paper specifically deals with the resettlement project of Kannagi Nagar located on the outskirts of Chennai and rehabilitation project in Kathputli Colony of Delhi. It is important to tackle the issue of slum-dwellers in tactical manner lest they create problems for the city in any big way. Resettlement of slum dwellers should be carried out in way which is not only reassuring for them in terms of their livelihood and income security but also basic amenities such as sanitation, water supply and electricity.

**Keywords:** Urban Slums, Rehabilitation of Slum-dwellers, Chennai, Delhi, India

### Introduction

A slum is defined as a ‘heavily populated urban informal settlement characterized by substandard housing and squalor’.<sup>1</sup> According to UN-HABITAT, around 33% of the urban population in the developing world in 2012, or about 863 million people, lived in slums.<sup>2</sup> Davis (2006) sees the ‘slum’ as the global prototype of a warehousing of the rural-urban poor, marginalized by structural adjustment and deindustrialization.<sup>3</sup> Slums while largely believed to be a product of 20<sup>th</sup> century urbanization, have been present in USA and Europe before the early 20<sup>th</sup> century. In fact, the evolution of New York into a large urban settlement in 1825 led to the world’s first slum –Five Points.

The creation of slums can be attributed to multiple factors, which are rapid rural-to-urban migration, economic stagnation and depression, high unemployment, poverty, informal economy, poor planning, politics, natural disasters and social conflicts. There have been various measures taken around the world, with varying degree of success like public housing planning, in situ slum development, and a combination of slum removal and relocation to stem the growth of slums. Urbanization is prominently linked to the formation of slums today, especially in the developing world, with the UN Habitat report estimating that 43% of urban population in developing countries and 78% of those in the least developed countries are slum dwellers. Inadequate planning, lack of experience and insufficient funds can be attributed for inability to manage the side-effects of urbanization.<sup>4</sup> Two of these, namely in situ slum development and resettlement of slum dwellers will be taken up for a comparative study in this paper.

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### **Resettlement**

One of the ways governments around the world have tried to deal with the problem of urban slums is by resettlement of the slum-dwellers to free semi-rural peripheries of cities, sometimes in free housing. I will be using the example of Kannagi Nagar in Chennai, built as a housing society meant for the resettlement of slum dwellers in various parts of Chennai by the Tamil Nadu Slum Clearance Board (TNSCB) in the early 2000s, as a part of the Chennai Metropolitan Area Development Plan. According to PUCL-TN (2010), it currently comprises of 15,656 tenements with around 8,048 under construction. In 2004, 15,000 families affected by the Tsunami were shifted here, along with other such housing colonies in various parts of the city.

Situated a little off Rajiv Gandhi Salai (formerly known as OMR), Kannagi Nagar is further away from all the main occupational sources in the city. Fortuitously, the region is now home to the IT corridor, which has given the urban planners and people in power a convenient guise to shift the slum dwellers under the pretence of increased employment opportunities, even though the construction of the colony predates the IT corridor. Another interesting fact also pointed out by Coelho et al. (2012) is that the corridor in fact, offers low employment opportunities to the residents of the colony partly due to their lack of local networks in a labour market that rely heavily on recommendations and contacts, and partly due to the strong stigma associated with their residential addresses'.<sup>5</sup>

The social stigma attached is strong enough to necessitate the residents to take up jobs below their skill level, as it affects their self-esteem. A sample survey by Coelho et al. (2012) showed that most residents of Kannagi Nagar take up jobs at the lower end of the occupational spectrum. The white collar jobs are insufficiently available in the area, and even then a very small percentage of the population in the colony, mostly those under the age of 25 are willing to take those up. Furthermore, jobs in the IT corridor require skilled labour which is lacking in Kannagi Nagar. Blue collar jobs are in fact being preferred over white collar ones, Coelho et al. points out, in spite of them being considered qualitatively inferior over them. This is probably an impact of the segmentation effect, as the settlement itself is being characterized as home to low-skill and low-wage workers.

### **Analysis**

According to newspapers reports over the past 5 years, Kannagi Nagar is in a deplorable condition. It is in fact just a spatial reproduction of an urban slum, albeit financed by the government. The sample survey results (Coelho et al., 2012) indicate clearly that not much has changed in employment opportunities, but unemployment rates were as high as 17%. While domestic constraints were the major reason for this number, the social stigma attached to the nature and location of Kannagi Nagar also hindered opportunities in the market. Also, jobs in the formal sector (mostly those located within the inner confines of the city) were given up, and there was an added increase in employment in the informal sector, characterized by zero job security or benefits. I am not conclusively saying that jobs in the informal sector are regressive because they aren't supervised by the government.

In fact, I agree with (Roy, 2009) that the informal sector should be seen as deregulated instead of unregulated and something which fosters innovation and entrepreneurship amongst the poor. However, I don't think this is happening in Kannagi Nagar, as the average income of a resident is still lesser than Rs 6000 per month, in spite of the increase in employment in the informal sector. In the case of Kannagi Nagar, even jobs in the formal sector, like those in the factories, are qualitatively poor and incomparable to formal sector jobs elsewhere in the city. Companies did their best to side-step labour laws and routinely fired people so that they couldn't avail the benefits of being a permanent employee. It can be conclusively stated that moving to Kannagi Nagar, or any slum resettlement society doesn't offer any added employment benefits or opportunities. In fact, as we see here, it just acts a deterrent for the same. Social conditions of Kannagi Nagar aren't exemplary either.

Law and order being a pivotal issue, as unemployment and other regressive factors have led to the formation of gangs, and around 5-10 petty cases are reported every day.<sup>6</sup> Garbage disposal in another problem which has to be combated, as dumping sites have emerged in multiple places near the tenements, and are just a disaster in making, pathologically speaking. Multiple NGOs are working in

the area teaching the residents skills which could be useful in employment generation. One such NGO, Asha Nivas helps find women jobs in housekeeping and men in security. Vocational training is the need of the hour to ensure that the percentage of unemployment in Kannagi Nagar is brought down. Frankly speaking, Kannagi Nagar has the elements of a socio-economic disaster waiting to happen.

### **In Situ Slum Development**

The other way forward, adopted by some governments is to provide the slum with basic services and tenure security –that is, the slum will not be destroyed and slum residents will not be evicted, then the residents will rebuild their own housing, engage their slum community to live better, and over time attract investment from government organizations and businesses. It is here that we can consider the case of Kathputli Colony, Delhi's first slum redevelopment project undertaken by the Delhi Development Authority.<sup>7</sup>

The Rajiv Awas Yojana (RAY) was launched in the eleventh five-year plan to achieve the idea of a slum-free India. The mandatory requirements under RAY include granting full property rights to slum dwellers and enacting state legislations in this regard, except in regions with control and ownership of land by the community. Displacement hence happens only in the case of 'untenable' slums. However, a big city bias, poor planning, and the failure to standardize criteria for implementation have hampered the programme's efficacy and reach (Kundu, 2007).

Delhi's slum policy until the arrival of RAY was to follow large scale relocation in resettlement colonies developed in the urban peripheries of the city equipped with basic civic amenities. However, the drawbacks of this included a large physical distance between the colonies and the city's resources and consequently its networks, leading to lesser utility for the residents. This isn't too different from the case study of Kannagi Nagar viewed earlier. The case study of the colony of Kathputli –home to migrant workers and artists from the states of Rajasthan, Uttar Pradesh, Bihar, Maharashtra, Haryana and Gujarat, encompassing a total population of 15000 can be taken up here. This settlement has expanded both horizontally and vertically with the influx of new residents leading to a high density. This combined with poor sanitation outlets, lack of adequate water connections and other amenities ensured that the DDA had to step in, and initiate some sort of a change.

The slum rehabilitation process was a private-public partnership one, and the contract was granted to Raheja Developers, who ironically announced their plans to build the capital's largest tower- Raheja Tower on the land meant for the urban poor (Banda et al, 2014). The slum residents would be moved to a transit spot, decided to be Anand Parbat equipped with housing and basic amenities, and employment opportunities till the work of the developers gets finished. The slum redevelopment project is expected to finish by 2016, after which the residents will be given tenure over the land.

The very advantage of in situ slum development projects is that it involves people's participation directly and they don't have to shift their lives completely. Yes, there is a transit period, but there doesn't seem to be any way to avoid that, especially when you bring in private players. Private developers will try to make up for the low productivity value of their work on the slums by coupling it with commercial buildings which have high value, as seen in the case of the planned Raheja Tower. However, in the case of Kathputli Colony, people's participation was circumvented in most parts of the plan and only the local leaders were heard. According to RAY, people's consent is pivotal in the slum rehabilitation process but private-public partnerships leave a lot of room for corruption and mismanagement. It was only after the local leaders were held accountable for the entire program, and threatened that they couldn't avail of their houses till everyone else got theirs, did the entire program regain some semblance of order (Gowda et al., 2014).

This case study shows us the negative sides of the in situ slum development process. Corruption is rampant especially since it is a government controlled process majorly, and execution is filled with delays. It cannot be made completely private either, as exploitation of authority and resources for the sake of profit will be inevitable then. Conflicting politics also has a role to play in this, especially



when the number of communities increase. A skirmish was caused in the Kathputli community because the Rajasthani community thought that only they would reap the benefits of the development (Dupont et al, 2014). This method by no way takes care of poverty, low paying jobs from informal economy, and other characteristics of slums.

### Conclusion

As we have seen, both the measures of dealing with the issue of urban slums are riddled with numerous problems, and in some cases do more harm than good. However, if I had to pick, I would choose in situ slum development over resettlement, primarily because it depends on people's participation to be successful. People have a choice to decide, even if it means that they will not take care of their newly acquired facilities, as has happened in the case of Philippines and Brazil. Resettlement comes across as convenient measure for the government and private players to make good use of the commercial urban land, but is a raw deal for the slum residents, who are suddenly deprived of livelihood and now have to face an uneven access to urban resources.

The greater question here is how to prevent the expansion of slums. Better urban planning certainly is the primary solution for this. Urban planners have to estimate the influx into the city and provide an alternative to slums for these people. This seems plausible to me, though (Roy, 2009) doesn't seem to agree. This might seem like a long shot, especially in a rapidly developing country like India, but a more planned industrialization/urbanization approach, in the long run, is bound to help stem the growth of slums. If enough livelihood opportunities in the secondary and tertiary sector are awarded to rural areas, people will be less inclined to seek their luck in the city, and the country's growth will be far more equitable.

### Endnotes

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