

## Book Review

**India's Relations with the International  
Monetary Fund: 25 years in  
Perspective 1991-2016  
Shri V.Srinivas  
New Delhi: Vij Books and Indian  
Council of World Affairs  
pp. XIV+260, Rs 995**

Before I started to review Shri V.Srinivas's scholarly and well researched book on *India's Relations with the International Monetary Fund: 25 years in Perspective 1991-2016*, I must frankly confess that as a political scientist, I too had viewed IMF with suspicion in my younger years, perceiving it to be a Rich Man's club, infamous for its "conditional" aid to poor countries. This narrative had become even more vocal after 1991 when India pledged gold to manage her "balance of payments" crisis and IMF gave support. The fact that by 2008, India was ready to buy IMF gold went largely unnoticed by the Indian public because the media's earlier narrative of IMF "exploiting" poor countries through its pro globalization policies is what had come to stay in the public mind. Popular perceptions in India die hard, therefore a book like this was long overdue to place objective facts in the public domain about India-IMF relations, both for scholars and the general public, if the older narrative had to change.

So, it was with a degree of curiosity that I started reading Shri Srinivas's book. By the time I finished reading, I was amazed at the overwhelming wealth of evidence before me, enough to dispel my home grown myths. I did not know that IMF as an institution has grown, changed and evolved so much with time! It has come to be much more democratized today through its growing developing country membership, as also by its internal debates led by visiting Finance Ministers,

Governors of Banks and other outstanding economists among its staff, who, sometimes with contrarian views, unknowingly perhaps, act as spokespersons of the developing world.

The book has thirteen chapters including the concluding one. Chapter one deals with the evolution of the IMF for promotion and maintenance of monetary and financial stability in individual countries and at the global level. This chapter also provides an introduction to the mandate and functions of the IMF as lender of the last resort in handling intra state economic crises. We all know that India is one of the founding members of the UN, but how many of us know that India is an original member of the IMF too and that we have always received support from the Fund management. As a member of the G-20 and G-24 group with a chair at the IMF since 1944, India's contribution to the IMF has been very substantive. India is active and vocal in its support for African member states in the IMF Board, we have acted as a bridge between the G-7 member countries and Emerging Market economies, supported reforms in the CIS member states and above all was a voice for development in all of South Asia. India's "quota" was the fifth largest in 1945, today China has the third largest quota on the IMF and India has the eighth position.

Controversies on IMF have erupted on issues such as a) ideological biases inherent in its governing and decision making structures b) differentiated "conditionality" prescribed as between borrowing countries region wise c) its incapacity to resolve sovereign debt restructuring issues and finally d) evolving a system to replace the US Dollar as a de-facto global currency e) US predominance till date. Recent controversies relate to its failure in anticipating the global financial crisis of 2008 and its operations in South America. IMF was severely criticized for its stricter "conditionality" requirements in Asia. Its involvement in the Euro Zone

crisis and making available resources to advanced economies with certain political overtones was, perhaps, the most controversial of its recent programmes.

The third chapter of the book analyzes India's eco-financial programmes during 1966-1981, while the fourth chapter provides an analysis of the serious trade and current account deficit confronting India during 1985-1986 and thereafter. During 1987-1988 and subsequent years, India experienced huge amount of outflow in its foreign exchange reserves, besides negative net withdrawals on IMF. These scenarios took a positive turn after Dr. Manmohan Singh took over as the Finance Minister in 1991, particularly due to stand-by arrangements between IMF and India. The post-1991 upswings in the Indian economy was facilitated largely by the IMF dictated Structural Adjustment Policies.

Chapter eight mentions IMF's Article IV on consultations as a part of IMF's surveillance mandate for member nations. Even though provisions of Article IV are not mandatory for India, the Government of India tried to keep its deficits (budgetary as also trade related) well within control. In 1997-1998, IMF noted that the overall performance of Indian economy had remained favourable; growth and trickle-down had started and economic reforms were finally yielding the expected results. The author analyzes certain evolutionary changes in India-IMF realities, there was a pressing need to realign quota shares, but not much progress could be made on this front, notwithstanding the repeated assertions made by the Indian delegates at various meetings.

From the second chapter to the eighth, the book takes you through a comprehensive analysis of several landmark events that provide critical insights to India's post colonial economic history, its journey as an independent democracy and a non-aligned nation, struggling to develop with least foreign aid. The Indian model of mixed economy was a stand-

alone experiment even among its peer group in Asia, Africa or Latin America. India's IMF programs of 1966, 1981 and 1991, India's gold purchases from the IMF in 2010, the rise of G-20 and India's emergence as the fastest growing major economy in the world by 2016, have all impacted on its economic weight and decision making power in the IMF. The author also reminds us that Indian Finance Ministers largely stayed the course with the IMF's themes of fiscal integrity, monetary restraint and structural reform with support for trade liberalization and exchange rate management after 1991. One of the major reasons for the seamless implementation of the 1991 reforms, was the synergy between India's senior civil servants and the IMF staff. There was an intellectual convergence of ideas on structural reforms and Fund conditionality which made for consistency in India's economic policies in the post 1991 period.

It is interesting to note that in the discussions on globalization in the Executive Board meetings which the author participated in, the IMF's policies of reduction of tariffs and global free trade, recommended as a growth model for developing economies, were often not followed or approved of even by developed economies, many of whom had adopted protectionist policies at home. We further get to know from the book that India was never a recipient of exceptional financing like Korea or Argentina or Brazil. India's great track record of never having defaulted on IMF loans unlike many other borrowing countries was never quite rewarded or appreciated by the IMF.

The book could have ended with the chapter on the author's years in the IMF. But the need to add two more chapters was very well advised and absolutely necessary to understand the IMF today. In these two chapters the author talks of the rise of China in the international monetary system and G-20's 'multilateral' or 'plurilateral' economic diplomacy in global fora.

Shri Srinivas's book is not only a pioneering attempt to deal with India - IMF relations from 1991-2016 but offers deep insights into an institution that despite controversies, has come to stay because it has evolved and reformed with the changing times. The book records this institution's relationship with a member country (India) whose economic philosophy and policies have also grown and evolved over time. Between 1947 and 1991, India had to approach IMF several times to tide over the balance of payments difficulties. We often criticized the IMF but took its Structural Adjustment Policies seriously after 1991. Though IMF influenced our macro-economic policies thereafter, we too moved from a position of weakness to that of strength which enabled us to influence IMF policies in later years.

A lot has been written about this complex relationship, but not from an insider's scholarly perspective. The book has been written by a civil servant who spent five years in the IMF (participant observer) attending the IMF-World Bank Spring and Annual Meetings in dual capacities as Private Secretary to the Indian Finance Minister and subsequently as Advisor to the Executive Director (India). He had attended an average of 17 Executive Board Meetings every month for 38 months in his tenure in Washington DC. I am convinced after reading the book that the collective intellectual acumen of distinguished macro economists from all parts of the globe that the IMF carries, is perhaps unmatched by any organization. This explains why the Fund's views are taken by Governments and Central banks of member countries with the seriousness it deserves. India has had the unique distinction of having some of its top economists as IMF Staffers, who were, by sheer merit, part of an international bureaucracy in an organization otherwise dominated by Americans and Europeans. India has been a Borrower as well as a Creditor nation and I do believe, contrary to popular opinion

that the continuous engagement with the IMF, has been mutually beneficial. India has consistently stood for multilateralism and democratization of decision making in IMF.

The concluding chapter of the book looks at the new priorities for the Fund which are not very different from the pronouncements of the IMF in the post Covid era. The internal key policy priorities of the International Monetary Fund are to enhance resilience, rebuild policy space and implement internal structural reforms, besides addressing shared multinational challenges with its members. The IMF has stated that it would continue efforts to complete the 15<sup>th</sup> general quota reforms to maintain a strong quota based and adequately resourced Fund at the centre of global activity. After Covid-19 it has become imperative to adopt an open and rules based multilateral trade system that works for all and steadily reduces global imbalances. India should play a key role in the IMF restructuring, given its in-creasing economic strength which may lift India to the top 10 shareholders in IMF. Its future policy priority should be to improve its growth rates and HDI rankings (to reduce inequality) so that its economic recovery after Covid-19 should act as a role model for other developing countries.

In fact, it is my surmise, that the 21<sup>st</sup> century, has been called an Asian Century by US think tanks (including insiders in the IMF) for several reasons. India and China are the only two countries, which have withstood the 2008 Recession and are both on a post Covid recovery path that has been quite remarkable. It is the IMF that has projected India as the world's would-be third largest economy and after 2050, India may well surpass China! Among the IMF recommended macro-economic reforms of which democracy and economic liberalism are two major structural components, it is India that has more or less followed the IMF path and not China.

China's growing governing influence in the IMF has been very well sketched in the book and I agree with the author that China's meteoric rise to become the second largest economy in the world, represents the greatest economic transformation the world has ever seen. I think this signals the rise of the South in world history which will change 21<sup>st</sup> century world politics for ever. The book further tells us how China has been using its growing economic clout to enhance its role in world organizations, a fact, less known than other aspects of Chinese foreign policy. Greater the economic might, the more is your decision making power, as per IMF's charter. So India's role and position can only improve, not decline in the IMF in the future. In all global bodies today, its only rival is China. But IMF cannot advocate the Chinese model, (specially after its post Covid global unpopularity) a fact, which goes to the advantage of India.

This is truly India's moment to lead. The conditions are ripe for India to reap the demographic dividend and become a key engine for global growth. India should become more active on global bodies like the G-20 and the IMF. For decades, India had lent its voice to the IMF promoting the twin values of democracy and multilateralism. It had joined the Fund despite grave reservations from its delegation members at the Brettonwoods conference in 1944. The IMF was an institution that India has sustained and helped to grow and evolve to the global institution that it is today.

Shri V.Srinivas, in this pioneering book, with meticulous documentation and research, has historically essayed the long journey of India-IMF relations (1991-2016) with critical insights as a participant observer, filling a serious gap in the existing literature on the subject. In the process he has helped to dispel many myths in the public domain based on abysmal ignorance about this relationship. This will be of great

interest to academia, policy researchers, scholars, economists and anyone interested in knowing more about an institution that has greatly influenced the global economy in a seminal way since 1945. The book is a serious and much recommended read.

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