

Keynote Speech
by
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I am thankful to Mr. Stefan Tangermann to provide me this opportunity to participate in this Trade Policy Dialogue on Globalisation and Emerging Economies. I look forward to learning a great deal from our interactions here today and tomorrow. I will attempt to provide an independent non-official macro perspective from India on this subject.

India, as you know, has been unilaterally liberalizing its economic environment now for over two decades. Slowly but surely, the Indian economy has been integrating with the world economy for the past decade and a half. Much the same is true of the other South Asian countries.

Today, better than earlier, we in India appreciate the opportunities presented by globalization. With an average growth rate of close to 9 per cent per annum in the past five years, and an investment rate of 36.3 per cent and a saving rate of 35.6 per cent in 2007-08, India's own perception of its strength is changing. The private corporate sector in India is gearing up for a two-way engagement with the world economy. As Indian MNCs emerge, they are less apprehensive of other MNCs operating in India.

It is worth noting that the high growth in the Indian economy has been driven mostly by private investment. Domestic demand expansion has been the principal source of demand, while exports have also been growing rapidly. But this is only one side of the story. It is important to recognize that while India was a latecomer to market-oriented reforms, and while our growth performance in recent years clearly shows that the reforms are yielding rich dividends, India still faces the multiple challenges of poverty, illiteracy and under-nutrition, to name only a few.

At one level, the challenges appear more difficult in a pluralistic, diverse society which has opted for democracy and a federal framework. But I believe that this is the only sustainable and durable framework within which we can overcome the challenges of underdevelopment. India needs to exploit the opportunities offered by globalization to attain faster growth. At the same time, we need to ensure that growth is inclusive in order to translate this into development.

Where does this lead us in the Trade Policy Dialogue and Multilateral Trade Negotiations?

I believe that the economically weaker countries gain more from multilateral trade negotiations than from bilateral or regional deals. The Government of India has been proactive in these negotiations in recent years. This is why ICRIER has also invested a great deal in promoting research on

the WTO issues, thereby better informing the policy debate in the country. It is not surprising to see that the constraints are essentially political. Two external factors which have had a major effect on the negotiations are the impending US Elections, and the end of the Fast Track Authority of the US Administration for trade negotiations.

The biggest innovation of the Doha Round was to extend the multilateral trade negotiations to Agriculture. Its failure to agree on an adequate phase out of agricultural subsidies has been the greatest disappointment. The perception in India today is that far too little is being offered by the developed countries in the Doha Round. It is much lower than what is economically justified. It is not in line with the Doha mandate, i.e., that trade distorting agricultural subsidies must be reduced. With the end of the Fast Track Authenticity in the US, there is also the apprehension that the Agreement can be reopened.

More than 50 per cent of India's population is dominantly dependent on agriculture for their livelihoods. Indian agriculture is predominantly 'subsistence' agriculture. Both in the US and the EU, agricultural subsidies are distorting world trade in agriculture. As our Commerce Minister often says, "the Indian farmer is willing to compete with the American farmer but he cannot compete with the US Treasury".

It is hard to disagree with a position which says that not only trade-distorting domestic support of industrialized countries to agriculture should be reduced but strong disciplines must be imposed on product specific caps. And, then we in the developing countries are asked to abandon the only defence we have against illegitimate subsidies! This Dialogue has to become more real! Once the developing countries are convinced that the industrialized countries are making some concrete offer on subsidies, there will be movement on the rest.

Often the plight of net food importing countries is invoked to make the case for the agricultural subsidies by the developed countries. The solution is to give them aid, but not to distort world trade in agriculture. Similarly, the Special Safeguards Mechanism is very important for developing countries.

As far as the industrial sector is concerned, the seemingly low tariffs in the developed countries co-exist with high tariff peaks and tariff escalations on products of export interest to the developing countries. However, the developing countries have agreed to a non-linear Swiss formula. But what kind of developed Round would it be if the coefficients are so chosen that

developing countries end up having to cut tariffs by a higher percentage than developed countries?

As for services, the principal engine of India's economic growth in recent years, India should have a high level of ambition. India's main interest in the services negotiations at the WTO is to get additional market access in the Movement of Natural Persons (Mode 4) and Cross Border Supply of Services (Mode 1). In Mode 4, India has been pushing for creation of a separate category of visas for Contractual Service Suppliers/Independent Professionals. The developed countries need to address existing asymmetries of commitments in Mode 4 (movement of natural Persons) especially in categories de-linked from commercial presence where developing countries have a comparative advantage. In Mode 1, India is looking for binding commitments to impart predictability and certainty in the public policy environment of our trading partners. An indication of liberal commitments from developed countries in Modes 1, 2 and 4 will strongly incentivize negotiations of India.

I will end by saying that our governments in India both at the center and in the states are used to negotiations at multiple levels even for domestic policy making. Today, we have tasted success in certain sectors not only in services but also in manufacturing, e.g., IT, pharma and auto-components. We are ready for more. But we still need to make structural transformation from agriculture to industry. We still need to reform our labor laws, and the financial sector.

Reformers need all the support they can get from those who believe in the positive sum game of globalization. We have to keep the Trade Policy Dialogue better informed with good quality research.