

INDIA AND THE FUTURE OF WORLD TRADE TALKS

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3 May 2007

GEG Special Address 2007



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The Hon. Mr Shri Kamal Nath is the Minister for Commerce and Industry for India with Cabinet Rank. He is a member of the Congress Party, which leads the United Progressive Alliance (UPA) government. Mr Nath took over as the Union Minister of Commerce & Industry on May 24, 2004. His tenure has witnessed major trade policy initiatives. For the first time, a comprehensive Foreign Trade Policy (2004-09) was announced, outlining a twin focus on exports as well as employment. India's merchandise exports rose to approximately US\$80 billion, registering over 24 per cent growth in 2004-05 compared to the previous year. Major bilateral trade initiatives have been signed with countries such as China and Pakistan and there has been significant progress in the area of regional trade agreements. In the multilateral trade context, India has played an active and constructive role in WTO, with Mr Nath leading the consolidation of the G-20 alliance.

He joined the Indian National Congress in 1968 as a Youth Worker, and was elected to Parliament from the Chhindwara constituency for the first time in 1980. He has subsequently won Parliamentary elections from the same constituency again in 1985, 1989, 1991, 1998, 1999 and 2004. Chhindwara, situated in India's largest state of Madhya Pradesh, is predominantly a tribal district with large tracts of lush tropical forests. Mr Nath was also the General Secretary of the Indian National Congress and a Member of the Congress Working Party, the highest decision making body of the Congress Party, during September 2002 to July 2004. As a Member of Parliament, Mr Nath represented India in the United Nations General Assembly in 1982 and 1983. He also attended the International Parliamentary Union Conferences held in Nicaragua (1987), Guatemala (1988) and Cyprus (1990). For sometime he served on the Board of Directors of the Housing and Urban Development Corporation (HUDCO), a Government of India Undertaking.

India and the Future of World Trade Talks

It is a privilege and an honour for me to be here, speaking to you at University College in Oxford – an institution that has been hallowed by time and history.

I come from a culture that so values knowledge that it treats seats of learning as places of pilgrimage. In the century before Christ, Takshashila and Nalanda were to Asia what, a millennium later, Oxford and Cambridge became to Europe.

I come to Oxford with awe, with respect and with pleasure. I come to you to speak to you of my country and how it engages with the world of commerce, how we perceive the new globalised world, how it perceives us, and how we confront the challenges of the new economic architecture.

It is not just that the world's perception of India is changing; India's own perception of herself is changing. How an ancient culture engages with the New Economy is one of the most fascinating and exciting developments of the past decade.

There are two worlds: one is the world that is viewed through 'screens' – the laptop, the TV, the mobile phone. But there is another world – the *real* world beyond the *virtual* – a world whose many realities do not succeed in seeping through the many screens that have so become part of our lives.

When we talk of the WTO negotiations and the challenges this poses for India, we need to look at the flaws, the inequities and the opportunities in the current global trading system. It is important to understand the many nuances of India and its changing economy, its changing society – its successes as well as its continuing socio-economic problems; its giant strides as well as the chains that continue to hinder its footsteps. Only then will you be able to see India's position in the WTO negotiations in perspective.

To the generation of Europeans and Americans who grew up soon after the Second World War, India was a mystic land of snake-charmers, where tigers roamed the streets and maharajas wore fabulous jewels and rode on elephants.

Then a few years after Independence, in the fifties and sixties and even up to the eighties, we were seen increasingly as a land of dire poverty, famine, disease and ignorance. Doomsayers constantly predicted that we would either fall under the Soviet yoke or break up or both.

And since the nineties, and more especially in the new millennium, we started to surprise the world. Suddenly everyone seems to think that our marvellous economic progress and amazing achievements mean that India is no longer really a developing country, and so should have no problem in opening its markets, both agricultural and industrial, to the world, and that we are unnecessarily making a big fuss in the WTO.

Ladies and Gentlemen, you as scholars, learned and aware, know as well as I do that each of these three views is one-dimensional – the third, as much as the earlier two. But not everyone appreciates that no reality is one-dimensional, least of all the Indian reality. India, with one-sixth of the planet living within its boundaries. India, with a diversity greater than that which exists in all of Europe, and an underlying unity stemming from a shared history and culture, that is more fundamental than that shared by the countries of Europe. An India, which for sixty years has been, in spite of its poverty and illiteracy, a vibrant democracy. Someone said that every time India votes in a general election, it is always the largest democratic exercise in the history of the world.

Democracy has paid rich dividends to India. A vibrant spirit of openness and transparency pervades our body politic. We have nurtured and developed rock solid public institutions: a totally independent and universally respected judiciary, a free and animated press, a sophisticated banking system, financial markets, stock exchanges – in general, a political, economic and financial network that is, if not state-of-the-art, certainly resilient and dependable.

A few years ago we sensed the dangers that rapid growth without ‘inclusive’ development can pose to the social polity. For the last three years we have been moulding policies such that while growth continues unhindered, indeed while it is speeded up, the fruits of growth are more evenly spread, and reach the common man – what we in India call the ‘*aam aadmi*’.

This is not always easy, I admit. Sometimes it may seem to an outside observer that these attempts run contrary to a liberal and open free economy. But our commitment to both – inclusive growth as well as liberalization – is undiminished. I am convinced that there is no dichotomy between these, and I believe that the challenge of governance lies in reconciling them. Countries have to seek their own solutions. I agree that the problems of poverty are universal – but their social contexts differ. In India we have specific contexts, and the solutions we seek also need to be India-specific; and that is what a strategy of calibrated reforms is all about.

One measure of India’s economic openness and engagement with the world economy is her trade. Surprising as it may seem, share of trade in goods and services as a percentage of GDP is higher in India than in the US or Japan. We have recently achieved a feat unprecedented elsewhere – we have more than doubled our merchandise exports within three years. Coupled with our expanding imports, our total merchandise trade is of the order of 300 billion dollars annually. With our export and import of services each at 75 billion dollars, our engagement with the global economy is 450 billion dollars. Foreign Direct Investment last year was 19 billion dollars, and our foreign exchange reserves exceed 200 billion dollars (up from less than a billion 16 years ago). Our GDP is more than a trillion dollars in real terms – in PPP terms it is four times as much.

In the past, India has been called a caged tiger, a lumbering elephant, and various other exotic animals in the zoo. I think it would not be boastful to say that today we have moved out of the zoo – and on to the race-course. Year on year, we have recorded an economic growth rate of over 8% for the past three years. Last year it was 9.2%.

I am acutely conscious that these fine figures cannot gloss over social problems. While there still is a great deal of illiteracy in India, we have got around the hump of the problem. We now have a 70% literacy rate, and the gender imbalance and rural-urban imbalance in this is far less pronounced. Another remarkable achievement is that we have got a handle on our population growth rate; it is now 1.8%, comparable to that in some developed economies. And because this has not been the result of coercion, the drop is not sudden and sharp. This means that the age-distribution of our population is proving an advantage. Whereas greying populations are the bane of Europe, in twenty years time even China is going to face that problem. India will be reaping the population dividend for another half century, during which she will have the largest and youngest workforce on the planet.

The economic reform process in India is irreversible. A succession of governments during the last sixteen years, representing a spectrum of political alliances, have all conceded that. This is because economic reform has found resonance with the people. There is popular support for the process. People are impatient for prosperity – not for their children or grandchildren, but for themselves.

What has all this got to do with the WTO? If India is doing so well, then why is it perceived as ‘being difficult’ in the negotiations? The answer is that it is precisely because we cannot afford to jeopardize what we all are seeking: a more balanced, a more just and a more development oriented outcome in the WTO; an outcome that does not perpetuate the structural flaws in global trade, but redresses them.

There are many realities that co-exist in India. Just because Indian industry has matured to the extent of aggressively pursuing acquisitions abroad, and we are witnessing an outward flow of FDI, does not mean that we have reached first world status. Sixty percent of India’s people are dependent upon agriculture for their livelihoods. Indian agriculture is characterized by small holdings of less than five acres. Ninety percent of landowners are also tillers. Indian agriculture is predominantly ‘subsistence’ agriculture, not ‘corporate-for-profit’ agriculture. In spite of this, the Indian farmer is willing to compete with the

American farmer. But he cannot compete with the US Treasury. We cannot allow what has happened to West Africa, to happen to our farmers.

The cotton issue is a bleeding sore on the conscience of the world. It is tragedy of a proportion equal to the war in Rwanda or famine in Ethiopia. Whole populations of some nations in West Africa have been reduced to abject poverty through unfair trade. And we are still ‘negotiating’ about it. Let us not mince words: however much we may want a world without tariffs, we must admit that tariffs are legitimate economic instruments. Subsidies, on the other hand, are not. How fair is it to ‘trade off’ legitimate instruments against illegitimate ones? *Quid pro quos* are all very well. We understand that. But when we are asked to abandon the only defence we have against illegitimate subsidies, and that too on the basis of a promise that these illegitimacies will be dismantled at some point in the future (and that too, not entirely), don’t you think it’s a bit rich?

Even the window of Special Products and the Special Safeguard Mechanism that was devised in the July Framework as a means of safeguarding livelihood security and rural development needs – even this is being sought to be tied up in knots so as to render it ineffective. Low-income or resource-poor rural households have little ability to absorb price fluctuations and a flood of subsidized imports of agricultural products. If developing country governments are not able to provide a safety net – a safety net for livelihoods, mind you, not for corporate profits – then it would be the surest recipe for social disaster and instability.

On the industrial front, developing countries have agreed to a non-linear Swiss formula. We have agreed to this, only in the hope that developed countries, which in spite of their seemingly low average industrial tariffs continue to maintain high tariff peaks and tariff escalations on products of export interest to developing countries, will be forced to reduce these peaks and escalations. India has not been averse to high ambition levels, provided the mandate of less than full reciprocity in percentage reduction commitments is met. Coefficients are only numbers. What is important is the outcome of those numbers: the reduction commitments. What kind of development round would this be if the formula

coefficients chosen are such that developing countries end up cutting tariffs by a higher percentage than developed countries?

We must not lose sight of the fact that unrestrained tariff liberalization can have disastrous effects on a country's industrial economy. The former Trade Minister of Zambia told me that his country actually experienced de-industrialisation after its membership of the WTO. The harsh truth is that the most vulnerable in any re-adjustment are women and artisans, small scale industries run by local entrepreneurs and those that are located in geographically disadvantaged pockets of the country. Flexibilities in the application of a NAMA formula remain an inviolable essential to ensure balanced regional and sectoral development.

Does all this mean that India is aiming for a 'low ambition' outcome? Of course not. We are as ambitious as any one else. But ambition can mean different things to different people. I believe that the only way to qualify ambition is to measure it against the goals we have set for ourselves. The goal of this round of negotiations is development, and so our ambition ought to be oriented towards achieving it.

Ladies and gentlemen: I believe that the mandate and the principles of a Development Round hold the promise of the most ambitious interface between national economies and the international environment ever undertaken by governments across the globe. Though development was enunciated as the centrality of the Round, some seek to weave it in a mesh of ifs and buts. The current freeze we are witnessing is because the debate is being deflected from an unconditional delivery of the development dimension to conditionalities that expose what seem to be the real intentions of some. We have engaged in this Round in the belief that it is a Development Round. And we shall continue to proceed on that premise.

The need for delivering on the development dimension rests not merely on fairness and equity and justice – though that would be reason enough. But healthy economics itself demands it. Where would Europe and America sell their goods if Asia and Latin America and Africa were sick and poor and floundering? An economically healthy developing world

is important to the continued prosperity of the North, as it is also the only guarantor of international peace.

Over three billion people on this planet continue in the clutches of poverty. Yet they are imbued with a vision of hope. They do not know what International Economics is, they have not heard of the WTO or the Doha round. But what they *do* know is that there is a world out there in which a privileged few consume twenty times more oil, fifty times more energy and a hundred times more electricity than they do. That is the 'virtual' world. The WTO negotiations are relevant only insofar as they can answer the question: *How and when will the virtual and real converge?*

Thank you.



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- to create and develop a network of scholars and policy-makers working on these issues
- to influence debate and policy in both the public and the private sector in developed and developing countries

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