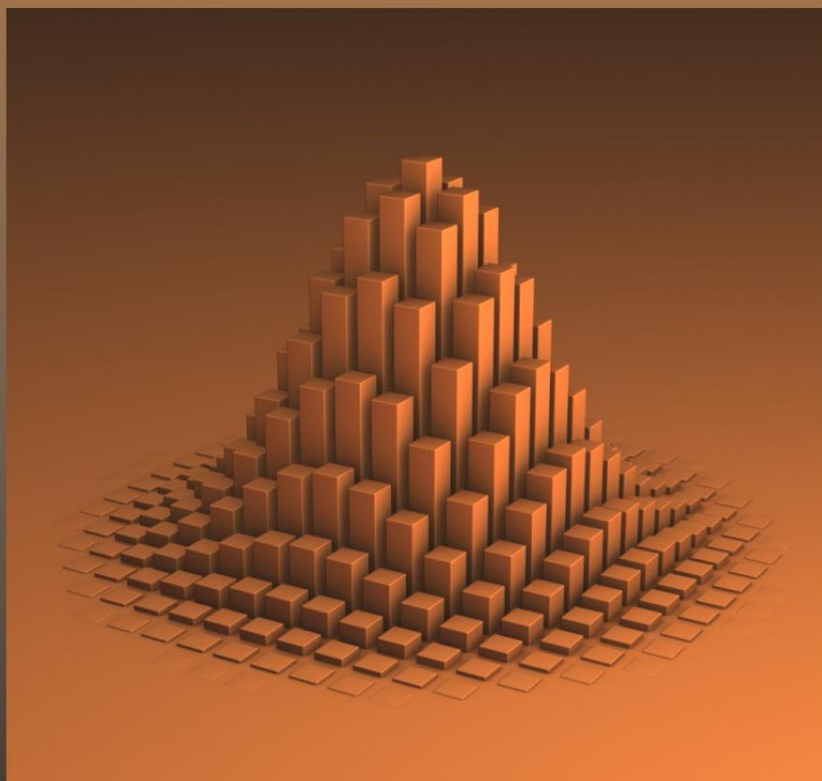


# Better Governance for Inclusive Growth

CUTS 30th Anniversary Lecture Series 2013-14



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*CUTS 30th Anniversary Lecture Series 2013-14*



Better Governance for Inclusive Growth  
*CUTS 30th Anniversary Lecture Series 2013-14*

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## Key Messages

“Consumer organisations have focused on the problems relating to consumer credit and banking and insurance services. They have emphasised the need to focus on transparency, fair treatment and effective redress...our current focus will not in itself help address the systemic flaws in the system. The current institutional structure for financial services regulation itself needs to be reformed”

***Sothi Rachagan***

*Vice Chancellor, Perdana University of Malaysia*

“It is not mandatory to have an Aadhaar card (like the enrollment under national population register, which determines citizenship), the UID number will be a gateway to number of services like opening bank accounts, applying for passports, driving licences or LPG connections as the service providers will accept it as proof of KYC (know your customer) documentation”

***Nandan Nilekani***

*Chairman, Unique Identification Authority of India*

*(2009-March 2014)*

“The government has come out with twenty-five monitoring indicators to chart the country’s inclusive growth over a period of time, the same will soon be available on the Planning Commission of India’s website for public access”

***Montek Singh Ahluwalia***

*Deputy Chairman, Planning Commission of India*

*(2004-May 2014)*



“There are parallels between the evolution of CUTS and the growth of the multilateral trading system over the last thirty years, in their quest to develop truly global organisations that are open to organic growth, reflecting the ever-changing global economy”

***Pascal Lamy***

*Director General, WTO (2005-2013)*

“Emerging markets which have successfully adopted the market economy have done so concurrently with the creation of strong competition regimes”

***Supachai Panitchpakdi***

*Secretary General, UNCTAD (2005-2013)*

“Globalisation saw little reversal during the recent crisis mainly because of WTO, the role of social safety nets and the success of emerging economies in global trade, among others”

***Martin Wolf***

*Chief Economics Commentator, Financial Times*

“UK government and DFID firmly believe that trade will play a key role in poverty reduction and the developing countries should be helped to reap the benefits of free and fair trade”

***Justine Greening***

*UK's Secretary of State for International Development*

“India needs to have a cognitive and accommodative conversation with China and called for an integrated approach towards engaging Asian countries to face the various economic, political and social challenges. The conversation should be accommodative from time to time with domestic need. India and China would work together one day but not today, as it's too early”

***Salman Khurshid***

*Minister of External Affairs, India (October 2012-May 2014)*

“Regional integration is one critical factor in efforts to achieve sustainable development in East Africa. This sustainability does not mean the maintenance of the *status quo* but should look at the long term development needs of the region. The region should integrate because it is the right thing to do at this time”

***Richard Sezibera***

*Secretary General, East African Community*

“The short term pain that we have to bear in our bid to overcome the challenges of regional integration would lead to long term gain for everyone...We welcome the opening of the CUTS Centre in Accra and look forward to its active participation in providing research support to Ghana and the West African region on critical economic policy issues”

***Hanna S. Tetteh***

*Minister for Foreign Affairs and Regional Integration,  
Ghana*

“Recruitment of the right people and the right level is one of the key ingredients to ensure success of a competition agency”

***Bill Kovacic***

*Professor, George Washington University*

“By 2030, China’s economy and by 2060, India’s economy could be much larger than the economy of United States, if one goes by current projections. The rate of change that has been predicted, if it does come around, it would be quite dramatic in the next 20 years. These changes do indicate that changes at the level of global governance to have to happen, for example the emergence of G-20 countries, which is more participatory”

***Rakesh Mohan***

*Executive Director, IMF*

“The multilateral trading system is dead and the Doha round is in trouble largely because of lack of US leadership”

**Jagdish Bhagwati**

*University Professor, Columbia University*

“Barriers can be created by various means and mechanisms, such as cartelization, public and private restraints and thus, it is important to empower the institutions to tackle such barriers. This, is one the key roles played by Competition Policy, which empowers people and institutions to access and benefit from economic opportunities, by bringing down such barriers”

**Eleanor Fox**

*Walter J. Derenberg Professor of Trade Regulation, NYU*

“Neighbours and boundaries cannot be changed, but mind sets will need to be changed...trade between India and Pakistan is a win-win situation for both the countries, as supported by studies done undertaken by CUTS and SDPI”

**Khurram Dastagir Khan**

*Minister of State for Commerce and Textile Industry,  
Pakistan (2008-December 2013)*

“The Planning Commission is the biggest obstacle in the path of federalism. It should be restructured to do perspective planning and implementation without being empowered to micro manage the states’ financing and functioning, which is the task of the Finance Ministry”

**Yashwant Sinha**

*MP & Chairman, Parliamentary Standing Committee on  
Finance (2010-March 2014)*

“After its many failures, the centralised state everywhere has lost a great deal of legitimacy...A major dilemma of governance institutions in a developing country is a trade-off between autonomy and accountability, that is inevitably involved in most governance, including in the centralisation vs. decentralisation debate”

***Pranab Bardhan***

*Professor of Economics at the University of California,  
Berkeley*

“Economic Governance cannot be seen in isolation and would need to go hand in glove with political governance”

***Rajiv Lall***

*Executive Chairman, IDFC Ltd.*

“One can change a country by changing trade and industrial policy...Through a sustained domestic reforms programme for an open, market-driven economy, Australia has attained greater competitiveness and prosperity”

***Peter Varghese***

*Secretary, Department of Foreign Affairs and Trade  
Government of Australia*

“India needs to mainstream its foreign trade policy with the governance system of the country so as to enhance its competitiveness in a holistic and dynamic manner”

***Rajeev Kher***

*Commerce Secretary, Government of India*

“Regional integration is an important factor in fostering competitiveness and ultimately efficiency among small and medium businesses”

***Caleb Fundanga***

*Former Governor, Bank of Zambia &  
Currently President, Institute of Finance and Economics*



## About the Speakers

**Montek Singh Ahluwalia**

**Inclusive Growth: *What Does It Mean?***

*New Delhi, June 04, 2013*



Montek Singh Ahluwalia is former Deputy Chairman of the Planning Commission, Government of India. For his outstanding contribution to economic policy and public service, he was conferred the prestigious 'Padma Vibhushan' by President of India in 2011. He joined the Government of India in 1979 as Economic Adviser in the Ministry of Finance after which he held a series of positions. In 2001, he was appointed as the first Director of the newly created Independent Evaluation Office of the International Monetary Fund.

**Jagdish Bhagwati**

**Whither the International Trading System**

*New York, September 25, 2013*



Jagdish Bhagwati is an India-born, naturalised American, economist. He is a Professor of Economics and Law at Columbia University. Bhagwati is notable for his researches in international trade and for his advocacy of free trade. He currently serves on the Academic Advisory Board of Human Rights Watch (Asia) and on the board of scholars

of the Centre for Civil Society. Bhagwati has previously served as an External Adviser to the Director General of the WTO in 2001, as a special Policy Advisor on Globalisation to the United Nations in 2000, and as an Economics Policy Advisor to the Director-General of the GATT. He is also a member of the International Advisory Board of CUTS Centre for International Trade, Economics & Environment.

**Eleanor M. Fox**  
**Why People Fail in the Struggle**  
**with Poverty**

*New York, September 25, 2013*



Eleanor M. Fox is the Walter J. Derenberg Professor of Trade Regulation at New York University School of Law. She has served as a member of the International Competition Policy Advisory Committee to the Attorney General of the US Department of Justice and as a Commissioner on President Carter's National Commission for the Review of Antitrust Laws and Procedures. She is also a member of International Advisory Board of CUTS Centre for Competition, Investment & Economic Regulation. Fox received an honorary doctorate degree from the University of Paris-Dauphine in 2009. She was awarded an inaugural Lifetime Achievement award in 2011 by the Global Competition Review for "substantial, lasting and transformational impact on competition policy."

**Caleb M Fundanga**

**Regional Trade: A Catalyst for Growth  
and Sustainability of Small Businesses in  
the Southern African Region**

*Lusaka, March 10, 2014*



Caleb Fundanga is currently President, Institute of Finance and Economics. He served as Governor of the Bank of Zambia after serving as Senior Advisor to the President of the African Development Bank in Abidjan, Cote D'Ivoire. He is a Member of the African Export and Import Bank Board and Executive Committee. He also serves as Board member and Vice Chairman of the Zambia Revenue Authority. He is the Chairman of the Junior Achievement Zambia Board and is also served as Chairperson of the Programmes Committee of the African Research Consortium.

**Justine Greening**

**Global Trade Can Help us End  
the Need for Aid**

*London, July 15, 2013*



Justine Greening was appointed Secretary of State for International Development in September 2012. She is the Conservative MP for Putney, Roehampton and Southfields. Justine was a finance manager at Centrica plc before being elected as a Member of Parliament in May 2005. Following her election she was appointed as a Vice Chairman of the Conservative Party, with responsibility for youth. She was Economic Secretary to the Treasury from May 2010 to October 2011 and Secretary of State for Transport from October 2011 to September 2012.



**Rajeev Kher**  
**India's Export Competitiveness,**  
**Prospects and Challenges:**  
***The Role of Trade Policy***

*New Delhi, April 04, 2014*



Rajeev Kher, a senior IAS officer, has been appointed Secretary in Department of Commerce. Kher, a 1980-batch IAS officer of Uttar Pradesh cadre, was Special Secretary, Department of Commerce under Ministry of Commerce and Industry.

**Salman Khurshid**  
**India's Economic Integration with Asia**

*New Delhi, August 13, 2013*



Salman Khurshid is an Indian politician and presently the Cabinet Minister of the Ministry of External Affairs. He belongs to the Indian National Congress. He is a lawyer, and a writer who has been elected from Farrukhabad Lok Sabha constituency in the General Election of 2009. He became the Union Deputy Minister of Commerce in June 1991, and later became the Union Minister of State for External Affairs. He started his political career in 1981 as an Officer on Special Duty in the Prime Minister's Office under the Prime Ministership of Indira Gandhi.

**Bill Kovacic**  
**Capacity-Building in New**  
**Competition Systems**

*Washington DC, September 23, 2013*



Bill Kovacic is currently the professor of Global Competition Law and Policy at George Washington University, where he is also Director of the Competition Law Centre. Before joining the GW Law School in 1999, he was an FTC Commissioner and served as Chairman. Previously, he was the FTC's General Counsel, and also worked for the Commission initially as a staff attorney in the Bureau of Competition's Planning Office and later as an Attorney Advisor to former Commissioner George W. Douglas. Before he became a Commissioner, Kovacic was the E.K. Gubin Professor of Government Contracts Law at GW University Law School.

**Rajiv Lall**  
**Economic Governance in India:**  
**Quality of Political Leadership Important**

*Mumbai, January 21, 2014*



Rajiv Lall is the Managing Director and Vice Chairman of IDFC Ltd. Before joining Warburg Pincus in 1997, he was the Head of Asian Economic Research with Morgan Stanley Asia Limited. During his career spanning over two decades, he worked with the World Bank, Warburg Pincus, Morgan Stanley and Asian Development Bank. He was also an Assistant Professor with Florida Atlantic University. Lok Foundation, along with Lall's Lok Capital Group, provides Social Venture Capital to promote Social Entrepreneurship in education, healthcare & low-cost housing segments. He is also a member of the Governing Council of CUTS International Public Policy Centre.

**Pascal Lamy**  
**30 Years that have Changed**  
**the Face of World Trade**

*Geneva, July 09, 2013*



Pascal Lamy is a French Political Adviser and Businessman. He served two terms as Director General of the World Trade Organization (WTO) from September 2005-September 2013. Lamy was also European Commissioner for Trade and is currently the Honorary President of Paris-based think tank Notre Europe. He received honorary degrees from eight universities as well as several awards and decorations from the French government and other countries world-wide.

**Rakesh Mohan**  
**Emerging Powers of Global**  
**Economic Governance**

*Washington DC, September 23, 2013*



Rakesh Mohan is Executive Director at the International Monetary Fund, Washington, DC, USA representing India, Sri Lanka, Bangladesh and Bhutan since November 2012. He is also Chairman, National Transport Development Policy Committee, Government of India, in the rank of a Minister of State. In addition, he is Vice-Chairman, Indian Institute of Human Settlements. Prior to his current position at the IMF, Mohan was Professor in the Practice of International Economics of Finance, School of Management, and Senior Fellow, Jackson Institute of Global Affairs, Yale University from July 2010.

**Nandan Nilekani**

**The transformatory potential of Aadhaar:  
*Providing empowerment,  
choice and convenience***

*Jaipur, January 24, 2013*



Nandan Nilekani is an Indian entrepreneur, bureaucrat and politician. He was former Chairman of the UIDAI. After a successful career at Infosys, he headed the Government of India's technology committee, TAGUP. He is a member of Indian National Congress since March 2014. He is the President of the governing body of NCAER. He is also a member of the board of governors of the ICRIER. In 2006, Nilekani received the Padma Bhushan.

**Supachai Panitchpakdi**  
**Trade, Competition and  
Consumer Protection**

*Geneva, July 09, 2013*



Supachai Panitchpakdi was Secretary-General of UNCTAD from September 01, 2005-August 31, 2013. Prior to this, he was the Director-General of the WTO during September 2002-September 2005. In 1986, he was appointed as Thailand's Deputy Minister of Finance, but when the parliament was dissolved in 1988 he left politics and became president of the Thai Military Bank. In 1992 he returned to politics and became Deputy Prime Minister until 1995. In November 1997 he returned to be Deputy Prime Minister and also became Minister of Commerce.

**Sothi Rachagan**  
**Consumer Financial Services**

*Kuala Lumpur, December 18, 2012*



Sothi Rachagan was Professor and Dean of the Faculty of Law University of Malaya till 2000 when he became Consumers International's Regional Director for Asia and the Pacific. In 2005, he became the Vice President (Academic Affairs), Nilai University. In 2013, he became the Vice Chancellor of Perdana University. He is a Commissioner of the Malaysia Competition Commission and Chairman of its Working Committee on Advocacy. He was elected President of the IACL in 2011.

**Richard Sezibera**  
**Regional Integration and Sustainable  
Development in the East African  
Community**

*Nairobi, August 19, 2013*



Richard Sezibera is a Rwandan physician, politician, diplomat and civil servant. He is the current Secretary General of the East African Community. He was appointed to that position by the East African Community Heads of State in April 2011 for a five-year term. In 1999, he was appointed Ambassador of Rwanda to the United States of America, with concurrent accreditation to Mexico, Argentina and Brazil. In 2008, Sezibera was appointed Minister of Health in the Rwandan cabinet.

**Yashwant Sinha**

**Fiscal Federalism: *An Unequal Balance***

*New Delhi, December 18, 2013*



Yashwant Sinha is an Indian politician and a former Finance Minister of India under Prime Minister Chandra Shekhar and Prime Minister Atal Bihari Vajpayee and Foreign Minister in Atal Bihari Vajpayee's Cabinet. He is a senior leader of the Bharatiya Janata Party, currently the largest Opposition party in India. He joined the Indian Administrative Service in 1960 and spent over 24 years holding important posts during his service tenure. He served as Sub-Divisional Magistrate and District Magistrate for four years. He was Under Secretary and Deputy Secretary in the Finance Department of the Bihar government for two years after which he worked in the Ministry of Commerce as Deputy Secretary to the Government of India. He was also Principal Secretary to Chief Minister of Bihar.

**Hanna S Tetteh**

**Regional Integration as a Tool for Poverty Reduction in West Africa**

*Accra, August 26, 2013*



Hanna Serwaa Tetteh is a Ghanaian barrister and politician. She is the current Minister for Foreign Affairs of Ghana. She is also the Member of Parliament for the Awutu-Senya West constituency. Tetteh is a Director of Accra Hearts of Oak SC. She worked as a Legal Officer with the International Federation of Women Lawyers. Over the next year, she worked in private legal practice at the Ansa-Asare and Company Hencil Chambers in Accra, Ghana. In 1995, she served as a legal officer with the Commission on Human Rights and Administrative Justice in Ghana.

**Peter Varghese**  
**Trade and Domestic Reforms:**  
**The Australian Experience**

*Canberra, February 03, 2014*



Peter Varghese is Secretary of the Department of Foreign Affairs and Trade, Australia. Prior to this appointment, he was Australia's High Commissioner to India and Director-General of the Office of National Assessments. Varghese was Australia's High Commissioner to Malaysia and also served overseas in Tokyo, Washington and Vienna. He was appointed an Officer in the Order of Australia (AO) in 2010 for distinguished service to public administration. He was awarded a Doctor of Letters honoris causa by the University of Queensland in July 2013 in recognition of his distinguished service to diplomacy and Australian public service.

**Martin Wolf**  
**The Future of Global Trade Policy**

*London, July 15, 2013*



Martin Wolf is a British journalist, widely considered to be one of the world's most influential writers on economics. He is the Associate Editor and Chief Economics Commentator at the Financial Times. Wolf was joint winner of the Wincott Foundation senior prize for excellence in financial journalism in both 1989 and 1997. He won the RTZ David Watt memorial prize in 1994. In 2000, Wolf was awarded the CBE (Commander of the British Empire). In 2012, he received the Ischia International Journalism Award.

## Foreword

Thirty years ago Pradeep Mehta set off to establish an organisation that would serve the interest of the ordinary consumer. Over these years, under his dedicated and inspiring leadership, an extraordinary institution has grown from its base in Jaipur, India to several centres in India and to Lusaka, Accra and Nairobi, Geneva and Hanoi. Pradeep Mehta is a familiar figure at trade and development oriented international gatherings and CUTS has built up a reputation as an intelligent and articulate interlocutor in multilateral institutions. It has also broadened its agenda to cover not just consumer protection but also trade, competition policy and regulatory design, amongst other things, so that it could speak with authority not just on consumer protection measures but on a wide range of policies that affect the choices available to consumers. In the spread of its influence globally and the breadth of its agenda CUTS is a unique star in the universe of development NGOs.

This volume brings together the lectures that were delivered by eminent scholars and policy makers in five continents, to celebrate the thirtieth anniversary of CUTS. The geographical spread of the events demonstrates the global reach of CUTS and the eminence of the lecturers testifies to the respect that CUTS and Pradeep Mehta command in the corridors of power and the groves of academe. The lectures cover four broad themes – governance & reforms, regulatory issues, trade & development and regional integration. These themes illustrate the broadening of the consumer protection agenda that CUTS



has pursued. The choices that a consumer faces are influenced far more by the state of competition nationally and globally and trade policies, competition policies and the independence and effectiveness of sectoral regulators than by consumer protection policies on labelling, information, fair advertising, redress of grievances, etc. CUTS has pioneered the view that fair and open trading systems and a vigorous maintenance of a competitive environment are absolutely central to the protection of consumer interests. The lectures included in this volume bring this out quite clearly.

Certain themes stand out in the lectures. One is the role that open trading systems can play in narrowing the gap between developed and developing countries. Another is the connection between trade policies and domestic competition policies—one cannot reduce trade barriers and allow open access to foreign suppliers while retaining barriers to entry for domestic producers through measures like reservation of sectors for the public sector or small industries. One can also argue that a vigorously competitive domestic environment that encourages new entrants and stimulates innovation will make it easier to open trade possibilities. Regional integration appears in this scenario as a half way house that makes the process of a complete opening up of trade options more manageable.

The theme of governance that is prominent in several lectures is a very broad one. In some ways it is even more central to the consumer interest than even trade and competition policies. Governance that is corruption-free, transparent, non-discriminatory, fair and equitable in its treatment of all citizens is the sine qua non for all other policies to work effectively. The contributions in the lectures touch on several dimensions of this theme.

Thirty is an age at which an individual changes from being a bright and promising player to a seasoned professional in his

or her chosen space. CUTS at thirty started this transformation some time ago. In its chosen space of consumer affairs in the broadest sense it is recognised as an authoritative voice, not just in its home country, India, but in many others and in multilateral institutions like the WTO and the World Bank. The respect that it commands is the reason why so many eminent scholars and policy makers have joined in celebrating its thirtieth anniversary and contributed their ideas on the policy space that CUTS covers in its work. This is a volume that is not just celebratory but also instructive and will be read with attention by many. May CUTS continue to serve us with analysis, advocacy and training to serve the interests of the largest interest group in the world-the consumer.

**Nitin Desai**

Former Under Secretary General  
United Nations



## Foreword

To commemorate its 30<sup>th</sup> Anniversary, CUTS organised a series of public lectures by eminent persons around the world including India on themes in which CUTS is engaged. These lectures broadly fall under the rubric of good governance for inclusive growth and have been put together in this publication under the title ‘Better Governance for Inclusive Growth’.

The speakers for these lectures were chosen carefully spanning geographies, disciplines and their rich experience in corporate and public sector. In sync with CUTS engagement, themes for these lectures ranged from trade and development, competition and economic regulation, governance and regional integration. Each speaker has great eminence in his/her domain and so carried conviction with the audience for what he said in his oration.

The public discourse on development process in India got greatly polarised between votaries of growth and social justice. The debate has been joined by leading economists such as Amartya Sen and J. Dreze on one side and Jagdish Bhagwati and Arvind Panagariya on the other side.

The votaries of growth insist that the policies must focus on growth first so that there are resources available to bring up the poor. The proponents of social justice and welfare insist that basic entitlement of the poor for quality education, health and other HRD constituents must come first and then growth would pick up by the interplay of the dynamic forces generated

by the process and outcomes of human resource development. Looking at the ecology of contemporary development process, CUTS has tried to highlight through these lectures the importance of trade and development in an interdependent and globalised world. The lectures also highlighted importance of economic reforms, role of competition and regulation and governance and regional integration of trading blocs.

CUTS has been working on these issues for over three decades with the range of its activities spanning from grass roots level to the regional, national and international level. It has focused on development of good field practices through village level work with the rural communities, on policy issues, trade and competition at national and international levels through quality research, documentation and participation in exchange of views at various forums.

Any articulation by CUTS is based on evidence based research and good grass roots experience and clear academic understanding. It has steadfastly endeavoured at maintaining high academic rigour in its work and publications. The same thread runs through the public lectures included in this publication. I do hope that readers would find its contents of this publication very provocative and thought generating.

**M L Mehta**

Former Chief Secretary of Rajasthan and  
President, CUTS

## Preface

As we progress into the next decade of CUTS International's 30 years of work as a think and an action tank promoting consumer welfare, new challenges and opportunities in global development will emerge. These are to be collaboratively addressed by international organisations, governments, and civil society. Because, the global economy is ever more inter-connected and cross-cutting, impacting not only markets, but local communities and ordinary consumers. It will become more so because of an increasing connect between real and financial economies.

To move positively into the future, we urge various communities – from local to international – that inclusive and sustainable growth must be an established universal goal for human development. Ensuring that while trade relations build larger and more complex agreements, governments grow their economies, and goods and services breach national boundaries, it should be a universally agreed axiom that consumers, those impacted the most, are empowered. Inclusive growth will thus not only bring all stakeholders together to deal with future challenges, but will also provide opportunities for sustainable solutions through a stronger connection with the development of human beings.

As such, serious consideration is needed with regard to the resources required to deal with the emerging development challenges, the current situation of political will and how it

can be harnessed to create better governance for inclusive growth, and bridging the macro-micro gaps ahead of us.

The history of this century will judge us, the community of citizens, in what manner and how far we have been able to address these challenges. There is an imperative on our part to anticipate the vicissitudes of history by looking at it as a dialogue between the past and the present while addressing the future. The purpose of this anthology is to provide food for thought and actions for this dialogue to happen in a pluralistic sense – not as this *or* that but as this *and* that.

From its modest beginning in 1983, CUTS has grown significantly as a local and global action group in addressing challenges to enhance consumer welfare. From a non-governmental organisation working locally to inform consumers of their rights, CUTS has progressed to policy research and network-based advocacy on various issues pertaining to trade, regulations and governance.

Furthering its Mission – Consumer Sovereignty in the Framework of Social Justice, Economic Equality and Environmental Balance – CUTS has also grown geographically with offices in Geneva, Hanoi, Nairobi, Lusaka, and Accra. It is from this considerable expansion that CUTS has become a leading voice for consumers of the South and beyond, working with numerous organisations and partners at the international, national, and local level.

As CUTS continuously keeps an eye toward these and other future challenges, in order to commemorate its 30<sup>th</sup> Anniversary, a series of lectures was organised in cities around the world. Building from its extensive experience promoting consumer rights and welfare, they addressed issues relating to CUTS' future interventions to promote inclusive growth from the point of view of their impact on consumer welfare in light of the contemporary policy discourse on trade, regulations and governance.

Importantly, this lecture series not only provided a platform to state and non-state actors academic and practical development discourse but it helped strengthening relationships among governments and civil society; thus instilling CUTS' core approach to consumer sovereignty through policy research, advocacy, and networking. In short, it helped in broad-basing our messages to a huge audience all over the world –Value for People – our credo.

Pursuant to these beliefs, this lecture series was comprised around four areas of discussion, viz. trade and development; competition and economic regulations; governance; and regional integration.

It is evident that the future of trade is inescapably linked with development. As Martin Wolf, Chief Economic Commentator of the Financial Times said: “The most important economic and political consequence of contemporary globalisation has been the ‘great convergence’ of average incomes between the high-income countries of today and the emerging countries. A hyper-globalised world will need a greater degree of global governance”.

In addition to the core focus on research, networking, and advocacy, CUTS strives to be a leader in capacity building in the global development system. In the sphere of competition and regulations, CUTS has developed key knowledge components such as on the importance an effective competition regime for both market efficiency and societal equity. Providing his testimony, William Kovacic of George Washington University noted: “CUTS has its deep roots inside emerging market environments which has brought much more attention to local conditions.” This will help furthering the agenda for inclusive growth as CUTS builds the capacity of its partners through its rooted knowledge of local communities and economies.



Governance, whether at the international, regional, national, or local level, is facing greater challenges from decreasing trade barriers, increased competition, and a deeper connectivity between societies. All of which will require an inclusive approach to development that is sustainable. As Rajiv Lall, Executive Chairman, IDFC Ltd., pointed out: “[g]ood economic governance depends on political governance [...] The success or failure of governance in India cannot, should not, must not be gauged only in terms of our economic performance. Such an evaluation must also take into account what else we have achieved since independence”.

As leaders look toward the future challenges of effective governance, CUTS will work with all stakeholders to encourage openness in considering all areas of governance - economic, political, and social - and their consequences on development and the impact on consumers.

In the more immediate vicinity to India is the growing South Asian region. India, as a critical player in economic and social development, should create more opportunities to guide the region forward through inclusive growth that will be sustainable from the regional level down to the national consumers. CUTS has and will continue to enhance its close relationships with India’s neighbours for promoting greater trans-boundary cooperation leading to more regional integration. Salman Khurshid, former External Affairs Minister of India, commented: “I do believe that the greater example we give to the world and our region, the more successful we will be seen as having contributed and fulfilled our destiny and our responsibility to Asia.” For more integration with its neighbours, India should not wait for perfect moments but make them perfect. A new model of South-South cooperation should emerge.

In short, the key message of this anthology is: achieving better governance for inclusive growth will require a multi-

disciplinary approach, including building the capacity of stakeholders for good governance, effective regulations and rules-based trade. In the framework of inclusive growth, responsibility should be shared and no one should be left behind. As we create better links between social, political, and economic development, the advantages from job creation, infrastructure development and investment will be better realised. Better governance will also make institutions more accountable and operate more effectively. Finally, the regional and global partnerships forged in the emerging development discourse and through inclusive growth will be able to tackle new and upcoming challenges such as climate change and its consequences on food-water-energy security.

I hope that this anthology will provide a fresh set of thinking on how the new dashboard of inclusive growth should look like, particularly in respect to the Post-2015 Agenda for Sustainable Development Goals. We should not get bogged down to a few indices of growth. Unless all elements of this dashboard work in tandem we will not be able to move forward effectively.

Finally, I would like to thank all the contributors and speakers for agreeing to come on our platform, and sharing such a vast knowledge and experience on the various important topics. CUTS International will take this knowledge as a vital tool for moving forward in its interventions on future challenges in development and will expand its cutting-edge work to ensure sustainable inclusive growth for consumer sovereignty.

**Pradeep S Mehta**  
Secretary General  
CUTS International



## Synopsis

To mark its 30<sup>th</sup> Anniversary, CUTS International organised a series of lectures around the world, including India, of eminent scholars and practitioners on topics of interest and in line with CUTS' work agenda. Earlier in 2003, when celebrating its 20<sup>th</sup> Anniversary, CUTS Partnership Conclave took a close look at why and how governance matters in poverty reduction. On its 25<sup>th</sup> Anniversary in 2008, it looked at issues relating to development of global partnerships as many of the emerging challenges were, and still are, of the nature of global public goods. This helped the organisation in its strategic planning for the next 25 years.

The lecture series examined whether the resources are adequate in meeting contemporary and emerging development challenges; is political will lacking and why it may be so and what are the macro-micro gaps and how these may be bridged. These were analysed in the context of the fact that the rest of this decade will experience a number of international events to shape and reshape the future direction of global development discourse. While that will be state-led, the lecture series not only provided a much-needed platform to non-state actors to express their views and concerns on contemporary development discourse but also, and more importantly, to strengthen the state and civil society relationship through historical evidence, and not just views.

The aim of the lecture series was to shape CUTS' future interventions which would help in promoting inclusive growth.

The lectures are grouped in four sets dealing with governance & reforms, regulatory issues, trade & development; and regional integration.

### **Governance & Reforms**

Montek Singh Ahluwalia, Deputy Chairman of Planning Commission of India acknowledged that inclusive growth is a multi-dimensional concept and giving it a single definition would not be easy. Tracing the history of the Indian thought process of growth, he made the point that the concept of inclusive growth has now evolved into the concept of inclusive and sustainable growth, but there is first the need to grapple with growth *per se*, without ignoring the sustainability dimension. Touching upon the regional inequality, he stressed that the issue of inclusive growth has graduated from being inter-state to intra-state with animated discussions on the urban-rural divide, jobless growth, inequality across socio economic groups, etc. Inclusiveness is no more confined to two or three dimensions which has prompted identification of '25 monitorable indicators' that would by the mid-term appraisal of the 13<sup>th</sup> Plan give a better picture of how much inclusive growth we managed (see page no 219).

Carrying the discussion further, Nirupama M Rao, India's Ambassador to the US spoke on how inclusive growth is the *sine qua non* of the Indian development paradigm. Citing the Food Security Act, 2013, the Rural Employment Guarantee Scheme, the Right to Education and the Right to Information, she reiterated the national commitment to ensure that the fruits of growth and progress reach out to all the citizens. She, however, cautioned that we need to be conscious that there is no leakage or siphoning off of resources and the government agencies are held accountable to their actions (see page no 239).

The lecture by Yashwant Sinha, MP & Chairman, Parliamentary Standing Committee on Finance on cooperative federalism relied on the Indian Constitution that created a 'Union of States' and not a 'Federation of States.' This is now being differently interpreted as states are asserting themselves making the central government cede more and more powers. This resulted in changes of our system of devolution of funds particularly after 1967 when the first non-Congress governments were elected in some states; discussions in the case of APMC and Essential Commodities Act since the former is a state legislation and the latter is to be implemented by the states; current debate over the Goods and Services Tax since the power of taxation have been given directly to the states under the State List and so on. Further the Planning Commission, instead of engaging in perspective planning is micro-managing the state's finances. He concluded by saying that for unity of purpose at the state level, a more liberal approach by the Government of India and co-operative federalism is the way forward (see page no 251).

Pranab Bardhan, Professor of Economics at the University of California, Berkeley spoke on the related issue of decentralisation and development, *inter alia* bringing out the dilemmas and trade-offs. He said that the centralised state, after many failures, has lost a great deal of legitimacy. However, decentralisation has also evinced much scepticism and voices of potential pitfalls. He defined decentralisation as devolution of political decision making to local level small scale entities at village or municipal levels below provincial or even district levels. Citing an example of dilemmas, he mentioned the one between autonomy and accountability which necessitates creation of arms-length institutions to insulate the system from political interventions on the one hand while too much insulation often results in too little accountability on the other. There are similar dilemmas between local and

supra-local knowledge; capture versus exit by the local elite; intra-regional versus inter regional disparity in access to benefits, etc (see page no 254).

The *Aadhaar*-based direct cash transfer scheme may have generated criticism for glitches in its implementation, but its architect, Nandan Nilekani, Chairman of Unique Identification Authority of India is optimistic about its chances, calling its benefits multiple and far-reaching. Speaking on the transformatory potential of *Aadhar*, he said that it would not only be a first identity card for many people in rural areas but would also work as a proof of identity for a host of services, which can be electronically verified within seconds, saving people time and money, and avoiding inconvenience (see page no 217).

Rakesh Mohan, Executive Director, IMF opined that by 2030, China's economy and by 2060, India's economy could be much larger than the economy of US, if one goes by current projections. The rate of change that has been predicted, if it does come around, it would be quite dramatic in the next 20 years. These changes do indicate that changes at the level of global governance to have to happen (see page no 239).

Rajiv Lall, Executive Chairman, IDFC Ltd. stated that economic governance cannot be seen in isolation and would need to go hand in glove with political governance. He suggested that we must experiment with new institutional structures ('national institutions' like the Election Commission) that facilitate and support policy making from outside the traditional and very partisan parliamentary legislative process. Giving an example, he said that there is a need to refurbish the Planning Commission of India so that it becomes a true national level institution, such as the RBI to deal with evolving economic governance challenges. Another possibility is to build autonomous regulatory authorities that have legal powers to

make policy decisions. For this to happen, a statesman in the country is needed to take lead (see page no 256).

Kevin Davis, Vice Dean, Beller Family Professor of Business Law, New York University briefly spoke about the importance of tackling corruption. He highlighted the actions being taken at the international level with the passing of the Anti-Bribery Law in the UK followed by a large number of countries, OECDs efforts, International Anti-Money laundering law, UN Convention on Corruption, etc. Investors use indicators such as global indicators on corruption when taking decisions on whether to invest in a country or not (see page no 243).

Sothi Rachagan, Vice Chancellor, Perdana University of Malaysia focussed on economics of consumer financial services that permit the providers to treat consumers with disdain; lack of coherence in regulation of such services; and the misguided tendency to present financial literacy as a substitute for regulation. Arguing that we need to adopt a consumer focus, he suggested that we go back to the basics to analyse purposes for which consumers access financial services and the problems faced by them. His contention is that the current focus will not in itself help address the systemic flaws in the system. The current institutional structure for financial services regulation itself needs to be reformed.

## **Regulatory Issues**

Speaking on trade, competition and consumer protection, Supachai Panitchpakdi, Secretary General, UNCTAD mentioned the work UNCTAD and CUTS have been doing together on the subject. Picking up threads from the 1990s that witnessed a series of mega mergers like Boeing, McDonnell Douglas, GE, Honeywell and also Microsoft he traced the concerns of the competition agencies, different interpretations on these mergers and the concurrent movement of Europe into a single market entity where the theme of competition



was predominant. Today, there is proliferation of competition rules and the number of countries using them is up to 122 as against 50 in the 1990s including countries in transition that have emerged as market oriented economies. However, while framing rules for competition, the economic rules need to be compatible and, therefore, there must be some balance between economic regulation, enabling state and the need to enhance competition. Similarly, sectoral policies are emerging that need regulatory bodies which have to coexist with national competition policies. Finally cross-border mergers and the increasing size and activities of transnational corporations call for national policy makers to be working together (see page no 223).

Bill Kovacic, Professor George Washington University spoke about the need for capacity building in the new competition systems by sketching six types of knowledge that make the difference between an ineffective institution and a less effective institution: concepts of competition law and economics; local economy and business; skills; agency administration; agency leadership; and competition system life cycle phenomena. Referring to CUTS' micro economic research projects across the world such as the 7Up project, he acknowledged its contribution in adoption of competition policies by focussing on the local conditions inside emerging market environments (see page no 239).

Eleanor M Fox, Walter J. Derenberg Professor of Trade Regulation, New York University spoke about the vicious circle that keeps people poor in developing countries and offered solutions of a virtuous circle that can save them. Nations succeed when they develop inclusive political and economic institutions that unleash the potential of each citizen to innovate and develop and they fail when institutions extract resources from the many by the few. Summarising why people fail, she said that it is because children do not have enough to

eat; corrupt leaders and national legislators build perverse state barriers through self-interest or lack of concern and the developed nations exploit the vulnerable populations. Referring to good competition policy as the unnamed, under-appreciated ninth MDG, she said that it helps nations achieve inclusive economic institutions (see page no 243).

## Trade & Development

Pascal Lamy, Director General, WTO stated that there are parallels between the evolution of CUTS and the growth of the multilateral trading system over the last 30 years in their quest to develop truly global organisations that are open to organic growth reflecting the ever-changing global economy. Talking about changes over the last 30 years in world trade, he mentioned the rise of the emerging countries and the attendant shifting balance of economic and political power and maturing of global trade; how today trade is less about products and services and more about trade along value chains which span not just across countries but also continents; how Doha presented an opportunity to address barriers to trade; how WTOs dispute settlement system brought about time efficiency and quality judgements and finally how the negotiating dynamics have witnessed a huge change (see page no 223).

Martin Wolf, Chief Economics Commentator, *Financial Times* spoke on the 'great convergence' of average incomes between the high income countries and emerging nations being the most important economic and political and political consequence of contemporary globalisation resulting from openness to trade and investment; dematerialisation of trade and rising importance of services; decline in barriers to trade in goods but continued high barriers to trade in services; widespread embrace of globalisation; similarity of North-to-South trade and investments flows to South-North flows and

rise of China. He touched upon challenges from outside the trading system such as the link between trade and exchange rates, climate change and inequality of trade and wages. Talking about challenges from within the trading system, he mentioned failure to complete the Doha Round and consequent loss of legitimacy, mega-regional negotiations (TPP and TAP) and the need to bring in the new hegemonic trade power of China fully into the system. While the march of globalisation demonstrates the triumph of the global trade regime, the difficulties it now faces shows that the triumph is a troubled one needing a greater degree of global governance (see page no 225).

Justine Greening, Secretary of State for International Development, Government of the UK mentioned that the firmly believes that trade is the most important driver of growth and, therefore, keeps development at the heart of its approach to international trade, not by sheltering poor countries from competition but by opening markets to them. The main reasons for many developing countries not trading enough include: lack of access to markets; lack of enabling environment, particularly poor infrastructure and weak regulatory system; and not being able to be part of global value chains that can create more and better jobs (see page no 225).

Jagdish Bhagwati, Professor Columbia University stated that the multilateral trading system is dead and the Doha Round is in trouble largely because of lack of US leadership. He said that the multilateral negotiations are crippled and they received another blow by the formation of the regional and bilateral deals (TPP and TAP) with trade unrelated issues. What is needed is retention of the multilateral trade negotiations aspect of the WTO to prevent international trade from degenerating into a chaotic, hegemonic, power-led kind of a system (see page no 243).

Khurram Dastagir Khan, Minister of State for Commerce and Textile Industry, Pakistan is of the opinion that India needs

to address Pakistan's concerns with regard to tariffs and non-tariff barriers, especially in the textiles and agriculture sector, and until market access is provided let us call it a level playing field again. Pakistan exports products of these sectors. A large section of Pakistani businesses remain apprehensive about opening up Pakistani markets to India (see page no 247).

TCA Raghavan, India's High Commissioner to Pakistan said that such discussions are very important for bilateral relations and the stability of those relations for the future. He congratulated SDPI and CUTS International because apart from academic rigour what is most important is the commitment and public advocacy which these institutions have shown that in full measure (see page no 247).

Peter Varghese, Secretary, Department of Foreign Affairs, Australia spoke on trade and domestic reforms and drew comparisons relevant to India from the Australian experience. He emphasised on the fact that domestic industry policy and trade liberalisation are two sides of the reform coin. These are, often, technical economic discussions. Reform is a permanent challenge, the ingredients for successful reform remain the same: recognising the need to adapt; policy that is anchored in clear evidence, and a political leadership willing to make the case for change. Commenting on Australia's ability to trade with and invest in India, he felt that it would inevitably be driven in part by decisions of the Indian government on economic reform and financial opening (see page no 258).

Speaking on India's export competitiveness, Rajeev Kher, Commerce Secretary, Government of India felt that India needs to mainstream its foreign trade policy with the governance system of the country so as to enhance its competitiveness in a holistic and dynamic manner. Exports should no longer be considered as a function of surplus generated over and above domestic consumption. Further, States need to get mainstreamed into the export objectives by looking at

incentivisation, promotion and encouragement in the context of their contribution to exports. It should be an intrinsic part of a vibrant economy. Imports also play a very important role because more than 60 per cent of our imports are intermediaries to manufacturing. Intra-industry trade is growing (see page no 263).

### Regional Integration

Speaking on India's integration with Asia, Salman Khurshid, Minister for External Affairs, India feels that the criticality of the issue comes in concentric circles. The closest and the tightest circle is within the country itself and is about the way we approach the opportunities and challenges. The larger circle brings in the immediate neighbourhood of SAARC nations that have a shared destiny in many ways. Then there are other neighbours such as China and Central Asia and at the end is the largest circle of the Indian Ocean. All of these give a pivotal role to India. This role comes with the onus of setting an example for the world to be seen as having contributed and fulfilled our destiny and our responsibility to the world (see page no 229).

Richard Sezibera, Secretary General of the East African Community (EAC) mentioned that regional integration is one critical factor in efforts to achieve sustainable development in East Africa. This sustainability does not mean the maintenance of the *status quo* but should look at the long term development needs of the region. We must integrate to expand our markets and productive capacities. In East Africa, the Customs Union and Common Market have shown promise and now we look forward to a Monetary Union Protocol and an eventual Political Federation. Mention was made of the EAC-CUTS collaboration through initiatives such as 'Promoting Agriculture-Climate-Trade Linkages in the EAC' and the EAC-Geneva Forum (see page no 231).

Hanna S Tetteh, Minister of Foreign Affairs and Regional Integration, Ghana stated that we our bid to overcome the challenges of regional integration would lead to long term gain for everyone. She welcomed the opening of the CUTS Centre in Accra and looked forward to its active participation in providing research support to Ghana and the West African region on critical economic policy issues. While applauding the efforts of CUTS, she opined that it has developed a successful methodology of connecting grassroots to the policymakers especially through applied research, advocacy and networking (see page no 235).

Caleb M Fundanga, Former Governor, Bank of Zambia & currently President, Institute of Finance and Economics spoke on the issue of regional integration, which is an important factor in fostering competitiveness and ultimately efficiency among small and medium businesses. He said that it is important that Zambian products must be of high quality because they will have to compete against similar products from the rest of the region. Aggressive marketing and proper branding and packaging are also key ingredients. He, however, observed that Zambia's external trade was being hampered by trade barriers and anticompetitive practices by other countries/firms within the region (see page no 260).

*\* Page numbers indicate the Press Releases of the Lecture*

**Rajeev D Mathur**  
Executive Director, CUTS International



# I. Governance & Reforms





# 1

## Inclusive Growth: *What does it Mean?*

*Montek Singh Ahluwalia*

*Deputy Chairman, Planning Commission of India*

The title “Inclusive Growth: What does it mean” in the Indian context, has multiple meanings, each of them quite genuine and underlining the questions being raised. I intend to explore the underlying multi-dimensional nature of the questions, that may relate to some of the concerns we have not only in India, but all over the world. In some ways, the world is becoming as concerned about a number of things which we were earlier concerned with, so we are actually in good company from that point of view.

These days we also refer to “Inclusive and Sustainable Growth” because sustainability is a very important dimension. But I am going to talk more about “Inclusiveness” as other simple categories like “Growth with Poverty Reduction” or “Growth with Justice” or “Growth with Equality”, suggest a uni-dimensional aspect, other than growth. I think when we talk about Inclusive Growth we are trying to give an impression that actually what you call Inclusiveness is a kind of Growth which addresses very large number of different concerns.

In the history of Indian thinking on planning, we have never pushed for growth as some kind of strengthening-the-nation kind of a concept, which though relevant, ignores the question “why do we want growth.” The Indian thought process has addressed the need for raising the level of living to acceptable levels of the people at large. This can be traced to 1938 when Subhash Chandra Bose, who was then the President of the Indian National Congress, appointed a Committee under Pandit Jawaharlal Nehru, later to be our first Prime Minister. This Committee basically argued for the need to improve levels of living. We are a very poor country, and to bring everyone to a reasonable level of living, we need to increase national wealth. The idea was to expand the pie as there isn’t enough to go around if you are only redistributing.

This is a very different situation from a rich country which may have only 10 per cent of the population in poverty, and it is possible to solve their problems without necessarily having to expand the pie. But in case of a poor country where income levels are quite low, if you want to increase the income levels, welfare, well-being, etc. of a broad mass of the population, the total GDP, i.e. production has to grow.

Earlier it was thought that with growth everybody will benefit. It was believed by many that if we achieve, say, 8 per cent growth everyone’s income would grow by 8 per cent. But it was realised quite early that this is not the way the system works. It is possible to have a growth rate which is high, but it is also possible that the same is not broadly spread raising concerns and doubts over the growth process.

In India for the first several decades the principal failure was that we never got to the growth target. Underlying growth targeting was a belief that if the growth takes place then there will be more goods that will be distributed and everybody’s income will go up. Somewhere around the 1970’s Ashok Mitra wrote a piece in the *Economic and Political Weekly*, arguing

to get rid of these growth fetishes and go for what really matters, which is poverty reduction. Maybe we could achieve poverty reduction without worrying about growth.

At the same time in 1970 Zulfikar Ali Bhutto in Pakistan was talking about “*roti, kapda and makaan*”, and in India we were pursuing the slogan “*gareebi hatao*”. The real question which was relevant was, is it that growth cannot be achieved, or is it that the policy framework that we were following was not the one that would achieve that growth? That question was not, in my view, adequately addressed.

It is, therefore, quite reasonable to say that the main focus in 1970s was delivery to the poor whatever problems we were having with growth. Around the 1990's, it was becoming quite clear that many other countries were growing rapidly. It was not just Korea, Hong Kong, Singapore and Taiwan (called the gang of four or the four tigers), but many other Southeast Asian countries. Rethinking took place in India, too, and the economic policy began to change. Many people would say, it changed too slowly, but without going into that question, it did change and led to a build-up for growth.

In India, in the early 1991 onwards a very strong systemic liberalisation and opening up of the economy etc. were outlined. Even those policies were implemented very slowly and it is interesting that when we began the process of liberalisation the growth rate was about 5.7 per cent which is not bad, but even in 1990's after the liberalisation the growth rate remained at 5.7 per cent. I think it was because the changes were done slowly and by the decade of 2000 the growth rate really began to accelerate.

I think the debate in India began to change. Earlier when the liberalisation was first introduced in 1991, the government was rightly criticised that it would ruin the economy but by the year 2000, it began to be conceded that may be these fellows know something about how to get growth going. But the attack

changed to yes you are getting growth, but what kind of growth, it's not inclusive enough.

I want to emphasise conceptually that the reason we used the term 'inclusive' in the 11<sup>th</sup> plan, (we still use it in the 12<sup>th</sup> plan), is that we recognised that the growth plus demand, is not just a demand for any one thing. I have got a list here of items, and I can list several dimensions all of which are relevant for inclusiveness. Let me just go through them very quickly. The first issue is does growth reduce poverty? There is a huge literature. At one time, other than Surjit Bhalla, nobody in this country seemed to be willing to believe that growth was reducing poverty and people were saying that growth is making the rich richer and the poor poorer etc. The second one is – is growth coming at the cost of equity? With growth we are becoming more unequal. That's a much stronger test because you can become a little unequal, and still reduce poverty a lot, but it is a separate dimension, and you can't say no-no I don't care about it.

I would say that a growth process that doesn't reduce poverty is really not worth it unless poverty is down to under 10 per cent. But the growth process I would say certainly should not be increasing inequality too much. What is important is not so much equality, but "social mobility" because the concept of equality itself can be when you describe it in terms of GD co-efficient. You can have a situation where the income inequality as measured by the usual measures – GD co-efficient etc. is roughly stable, is not actually improving or could even be marginally deteriorating. If there is social mobility, many people at the bottom are getting opportunities to get to the top and displacing people at the top who are then going lower, so it's a kind of social churn.

My guess would be that one can easily imagine a situation where people would be willing to trade off social mobility against the static concept of equality. There is something quite

depressing about the society, where if your great grandfather was in the top 10 per cent then your father was also in the top 10 per cent, and you also are in the top 10 per cent as opposed to a society where your great grandfather was actually in the bottom 10 per cent, but your father was in the next 20 per cent and you are in somewhere in the middle. It is possible to have such a social churn without affecting equality in the overall and for a highly participative and a democratic country. What is really important is for the young and growing to rise in social mobility.

I should add that we do not have any data on social mobility. It is very difficult because in its absence you cannot have transition matrixes and panel data over time. You have anecdotal data and sociological information, but it is not possible easily to determine whether over time inter-generationally we are seeing more social mobility or less.

When liberalisation was first introduced, suddenly the regional dimension of liberalisation became an issue, and people said that this liberalisation is going to help the better off states, because they are going to be able to take advantage, they are better placed, they have better infrastructure. It was in the 80's that Ashish Bose coined the phrase, "BIMARU" – Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh. Then later he added Orissa, because Orissa had the same characteristics, but he spelt it "BIMAROU". If you look at the data it is true that in the 9<sup>th</sup> and the 10<sup>th</sup> plan these states were growing slowly. But if we look at the data since 12<sup>th</sup> plan the most important achievement is that the BIMAROU states are now growing much more rapidly. One of them, namely Bihar, is actually growing very rapidly indeed, but others are doing quite well, and in fact, the Prime Minister in one of his speeches recently said that we may have to relegate the term BIMAROU to history, which is a huge achievement for the country.

So, regional inequality is important, but the concept of region is now not just limited any more to states. People say Maharashtra is clearly one of our better performing states, but what about Marathwada and Vidarbha regions? Similarly Karnataka is doing well, but what about North Karnataka? So the concept of backward parts of an otherwise non-backward state have become quite important and certainly at the district level the Government of India recognised this by introducing “Backward Regions Grant Fund”, which covers a very large number of districts (about 250 plus), which are spread over a number of states including states that are actually growing faster – Maharashtra being one, Andhra Pradesh being the other.

The regional equality concept is not just better balanced performance across states, but also within states. It is interesting that the ratio of per capita income of the richer states to the poorer states is 5:1 (if you look at Maharashtra and compare it to Bihar in terms of per capita). But within states, these ratios can also be quite high so that is yet another dimension in which growth has to be inclusive.

Then you have the “urban-rural” issue. Many people say that growth is only for urban areas, and rural areas are badly hit. This is totally different from the state issue, because every state can be growing equally, and within each state the urban-rural divide can be getting worse. It is an environment in which you cannot say that inequality is either improving or worsening. It is very easy to define a structure where inequality is not changing, because its people are moving – the richer people are moving from rural areas to urban areas, and people left behind in the rural areas are not any poorer, but relative to the urban they are. This dimension worries people who want greater equality between rural and urban areas.

Then there is the concept of “jobless growth” which is now an international buzzword. At every G20 meeting you have somebody from the International Labour Organisation (ILO) saying that you must not only have better growth, but it also a job-creating growth. Job creating growth may not necessarily be linked to poverty. The worry in places like Europe and the US is not that the new phenomena is bad for the poor, its actually bad for the middle classes because they were otherwise well off until recently but are now getting squeezed and the super-rich, (the top 1 per cent) in these countries, are getting all the gravy. This is mirrored in our own context also.

In my view, income is really not the main or only issue because there are many things that you cannot buy from your income such as health, education, sanitation, clean drinking water, etc. Such services should be available through publically funded or public delivery systems.

That is another dimension which is different from the income flow that GDP growth produces. You can have a major failure in the delivery of public services, with a direct impact on welfare. Both the National Planning Committee and the Bombay Plan said health and education will be provided by the state. So the question arises, how good a job is the state doing in providing these? You could have a situation where everything else is fine you know growth is good, inequality is OK, poverty is going down etc., but if you are failing on delivery of these services, it is a genuine failure.

Another factor which is very important in our context is the inequality across socio economic groups. Let's assume the scheduled caste, the scheduled tribes, and the minority Muslims are the lower end of the income spectrum. Any poverty reducing strategy for, say, the scheduled castes will certainly give benefits to them. One view could be that we are going for higher growth, which is poverty reducing, and



therefore the scheduled caste are benefiting. But you can turn that argument on its head; what is the objective? Is the objective to raise people above poverty, and since most people who are in the scheduled caste group are somewhere below the poverty line, they also benefit, or is the objective to equalise inter group income. I think if you look at any reasonable expression, the long-term objective must be to equalise inter-group income.

We need to be asking – is the gap between the scheduled caste and the rest of the population narrowing or not, is it narrowing fast enough? I have looked at the data and it was quite interesting that between 1993-94 and 2004-05 there is clear reduction in the gap. The gap is still there, but the gap between the rest of the society and the scheduled castes is actually narrowing; but not so much for the scheduled tribes. Then, when you take into consideration the period 2004-05 to 2011-12 even the scheduled tribes gap starts narrowing. So here's a good example where obviously affirmative action type policies have for long been focussed on the scheduled caste, but we have also referred to the scheduled tribe and actually it wasn't working very much. More recently certainly between 2004-05 and 2011-12 that seems to have begun to work.

When you say that the action has begun to work and take credit, you have to ask yourself how fast is it working. Experience of other countries in eliminating deep-seated differences does take a long time, but at least the debate is being conducted at a different level with other group issues like gender balance, etc. No society has a chief general balance, so one should be readily able to say that we haven't either.

The Planning Commission also focusses on marginalised groups, that are not the scheduled caste and tribes, but are very major parts of our population, such as the differently abled people. Three and half per cent of our population suffers from one or the other disability. Is the society looking after them or not? We all have been praying for doing something

for them and it is very recently that we have begun to focus on it. I am not saying that we are succeeding, and their expectations are also actually quite modest. I have a group coming to me and saying that we are very glad that you have mentioned this in the plan, and then they quite rightly say, what about doing A, B and C? Then there are other groups – primitive tribal groups; even these are very small groups, which were formally criminalised tribes and so on.

So what is inclusiveness? We recognised that any effort to reduce inclusiveness to one, two or even three dimensions is doomed to be unacceptable. So in the plan we have identified “25 monitorable indicators”. Each of these is very poorly measured.

It is quite conceivable that the worst statistics we produce are the statistics on employment. I will make a comment on that, because many of you will have heard people say that last 5 or 6 years have been years of jobless growth, whereas the previous period was the period when employment increased by so much. Between 1993-94 and 2004-05, it is true that employment increased, but the labour force increased much more and therefore the rate of unemployment actually increased. After 2004-05 the labour force did not increase much, so not surprisingly employment also did not increase much so the rate of unemployment actually fell.

If you want to glorify the last several years you will say this is the first time that the unemployment rate has fallen, and if want to criticise, you can argue that in our society, people cannot afford to be unemployed, and therefore if we cannot talk about the quality of employment, talking about total employment is really not all that useful. Having said that let me say I think that the problem of quality of employment is a serious one. The main point I am making is that if you are getting the growth you also have to be able to show

improvement in the 25 monitorable indicators, which have been laid out in the plan document.

Unfortunately the data which measures progress on these indicators is not available like the price index every month. It is delayed quite a bit so even by the end of the 12<sup>th</sup> plan we will not have all the data for the monitorable indicators. Probably, at the time of mid-term appraisal of 13<sup>th</sup> plan, all this data will be available and then one will be able to say, how much growth we managed, and how much did it relate to these 25 monitorable indicators. You can never achieve 100 per cent, but if you show reasonable progress on a very large number of these 25 monitorable indicators, you should be in a position to declare a modest victory. Even then it is almost impossible to be sure that you will get progress in every one of those monitorable indicators.

Now let me step back a little and say, that until recently, the whole debate was – you are getting a lot of growth, but what about inclusiveness? Of course, right now we are in a position where we are not getting the desired growth. The world also grew more slowly, but my take on the last year if I were presenting a government assessment is that yes, it is a temporary slowdown, we know why it happened, partly because of the global situation about which we can do little, but partly a lot of domestic constraints which we now have to address. Since the global economies are going to be weak, the compulsion to take care of your own backyard is that much stronger. There is lot we can do, but if you look at what has been the recent growth performance of the Indian economy, I mean the averages, and not the last year, is what matters.

We have looked at the last 10 years, and yes people will say that this period had a lot of good years for the global economy, so we have subjected the time series data to statistical filtering and when you do that, the average of the clean series is about 7.5, but not 5, so I have no hesitation, whatsoever, in

saying that if we take the corrective steps that are necessary, we will get back to about 7 per cent. I wish I could say this year, but if it doesn't happen this year, may be over a two-year period. That's the growth performance that I believe this economy is now capable of, and frankly if things turnout well, and we do even better domestically, we can do better than that.

The real question therefore is on inclusiveness. Have we got our act together on inclusiveness? There is a sort of an assumption at times, that inclusive growth means growth is not enough; you got to add some inclusion to it and that is what I would call the programme approach. Government does that and if you were to ask to government if its only interest is in growth, they will say not at all, because here are our programmes and some of those programmes are very clearly building a social security infrastructure programme. They are actually programmes that will feed into the growth process because they produce a healthier and more educated population. Not just because of social welfare, they also feed into the growth process. If you do not have health, and you don't have education, you are not going to get sufficiently healthy population to generate a sensible growth rate, and the same thing would be true of sanitation and clean drinking water. Equally on the growth side, if you do not have growth, you are not going to have the resources needed to fund these programmes.

Now I find a lot of people accept the proposition that yes growth is necessary, because it produces the resources which enable us to fund inclusiveness programmes, but I think they should recognise that growth directly impacts inclusiveness also. For example, if you have a growth rate which is based on a strong agricultural performance, which is our strategy at the moment, as opposed to a growth rate which, say, is based on mining and highly capital intensive industry, you are going

to have a very different inclusiveness outcome. People underestimate impact of a growth strategy which generates a type of growth which inherently will generate a more broad income base.

I did a little calculation, and one of the achievements of the last 10 years compared to the previous period – agriculture in the 11<sup>th</sup> plan grew at about 3.6 per cent compared to growth of 2.9 per cent in the previous period. If instead of growing, agriculture continued to grow at 2.9 per cent instead of 3.6 per cent, then agriculture income would have been 7 per cent less in the terminal year. The impact on the incomes of poor is very substantially improved if you can bring your agriculture growth rate up to 4 per cent or so which, I believe, we are now within a shooting distance of.

Where we have not done so well, I think, is in manufacturing and generating a labour intensive manufacturing growth. We have done very well on services that has generated many positive things. We have not achieved our objectives, or are even close to achieving our objectives on manufacturing and more importantly the kind of manufacturing that we have done well in is not the kind of manufacturing that produces jobs for a large number of young people, who have limited skills. Actually, for social cohesiveness, looking ahead, it only make sense if: (a) you can educate and skill them; and (b) run the economy in a manner in which you will produce enough jobs in manufacturing to take them out of agriculture.

Some people often say that falling employment in agriculture is a sign of success while others get upset. But if you accept the fact that GDP growth in agriculture is not going to be faster than 4 per cent in real terms, and if you believe that GDP growth in the economy as a whole could well be 8 per cent and if the population growth at the economy as a whole is around 1.4 per cent, then per capita GDP growth for the economy as a whole is likely to be around 6.4-6.5 per cent.

Now if agriculture is only going to grow at 4 per cent the only way per capita income in agriculture will grow at the same rate as for the economy as a whole is, if employment in agriculture falls at 2.4 per cent per year. I am not saying that people should be thrown out of agriculture, that would be terrible, but you want a growth process wherein people spontaneously move out of agriculture, it will improve inclusiveness.

Unfortunately, many of the critics of the government policy regarded it as a criticism that farmers do not want to stay in farming. I do not know what the definition of success would be, because to really succeed, we need fewer people in farming at much higher income levels and the subsistence farming has to get out of the picture. The problem is that at the moment, people are probably moving out as they are expecting to get good jobs and growth and prosperity. It is not clear that they are getting the jobs they want, and I hope, the jury is still open on this, but if it goes on for another 10 years, it would not be sustainable.

When we talk about inclusive growth, we need to get away from mouthing useless slogans and we need to analyse successes and failures. On the issue of employment most economists will tell you that the reason we do not have an employment enhancing manufacturing process is that we have labour laws are too restrictive and inflexible, and that I have talked to lots of small entrepreneurs and every one of them agrees with this. The government knows that this is a problem, but also it is a politically sensitive issue. The official position of the government is that we need labour laws to be more flexible, but we will want to generate a consensus with labour.

In my view, the time to push on that side is after we get the growth back, because this 5 per cent growth is simply not a basis for raising this difficult issue. We could just carry on a

growth process which is based on services and capital intensive industry, with no expansion of labour intensive industry.

China has the most remarkable success in absorbing people of relatively moderate skills, skilling them a bit, and then involving them into relatively simple manufacture. Chinese are going to vacate this area, and the real question is, is it going to be taken up by Vietnam, Bangladesh, and the Philippines, or is India also going to get some piece of that. To my mind, it depends on three things: (1) can we improve our infrastructure? Manufacturing competitiveness is powerfully impacted by the quality of infrastructure and therefore, this should be a very high priority; (2) can we do something about the whole skill generation process. Also, quite frankly, do something about the management of land and urbanisation, so that new manufacturing units can be setup, and not run into the kinds of constraints we notice around; and (3) do we need more flexibility in our labour laws?

In my view, we should fix the infrastructure problem first. It is tough, but whatever needs to be done should be done. When we have done that I think we should address the issue of flexibility or inflexibility of labour laws.

In the process, particularly in a democratic country, there has to be social credibility where the society has to accept that what is happening is good for it, in a broad and general sense. People feel there is governance failure with much corruption, cronyism and I say this, because people are very familiar with this issue from the newspapers as part of our public debate. But quite honestly, it is there in every country at the moment. We still have to address this but I think we need to face this very important issue.

In the western countries there is a very strong negative feeling about the corporate sector, dominantly about the corporate financial sector. It is not about the rest of the corporate sector. Here, it has got translated into a generalised

suspicion of the corporate sector, and one reason for that is the presence of crony relationships. It is really connected with the issue of how you allocate scarce resources.

I think the good news is that these issues are not being swept under the carpet. They actually are being addressed, but we are completely obsessed with how some particular thing in the past happened/didn't happen, who should be held responsible. But if we ask ourselves, are we taking the structural steps needed, so that in future the same problems will not arise, my guess is that we are. So the real issue is, how will all of this play out? I think if you take a fair look at what has happened in the last several years, the sense in which we have succeeded in many of the dimensions of inclusiveness is not adequately recognised.

If you forget about the 5 per cent growth, the numbers towards inclusiveness are actually quite impressive. There is no question that poverty is falling faster than it did before and when the latest numbers for 2011-12 become available this will be totally clear; there is a significantly faster rate of decline in poverty. If you look at agriculture, which is after all one of the determinants of faster fall in poverty, it is absolutely clear that it has grown faster than it did before. If you ask what's happening to rural prosperity it is absolutely clear that per capita rural consumption between 2004-05 and 2009-10 increased at about 4-5 times faster than it did in the previous period. If you ask about rural wages, these too increased much faster in the second period, not just because of Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), but because of more investment in infrastructure, and because of faster growth in agriculture.

One dimension where we admit that the performance is very poor, is in the areas of health. But Bill Gates mentioned in an interview that in health, India is doing lots of good things. That is not enough recognition of the fact that the glass is



definitely not full, but may be as the Prime Minister said it is filling up.

Two years ago we had not eliminated polio. Today, we have. Those who feel that the Indian system cannot deliver looking at this fact should say well you know it can. Then you can legitimately ask why on earth is immunisation stuck at 70 per cent? Well you can say earlier it was only 45 per cent. I think we can certainly ask, why cannot it be 95 per cent now. I think why people are really concerned is malnutrition, as the Prime Minister himself has said that malnutrition in India is a shame.

True, you know the latest official data on child malnutrition comes from the National Family Health Survey of 2005-2006, which is actually before the 11<sup>th</sup> plan but we don't have comparable data after 2005-2006. We do have piecemeal information coming from the Integrated Child Development Services (ICDS) and some surveys that the rate at which child malnutrition is going down has accelerated compared to the previous situation. But these are things that take a long time to have an impact. I only mention this not to say that it is not a problem; it is a problem, but I think we should recognise that when we move to a multi-dimensional standard of comparison, there is always a target you can pick to shoot at, and it's going to take a fair amount of time for the good news to come, but I think, it can be asserted that the process of growth that has been unleashed is both tending towards more rapid growth, and towards greater inclusiveness.

## 2

# Fiscal Federalism: *An Unequal Balance*

*Yashwant Sinha*  
*MP & Chairman,*  
*Parliamentary Standing Committee on Finance*

Let me begin by saying that we often make or create confusion between federalism and decentralisation and I have seen quite a number of studies where the two terms have been used interchangeably. To me it appears that federalism has to be defined separately from decentralisation. Federalism is the coming together of equal partners who come with a common goal and share powers and jurisdictions. In the case of decentralisation, it is one superior entity which is partly decentralising its powers to the units below and there is a spirit of condescension.

And N. K. Singh, in particular, will remember representing Bihar as he does in the Rajya Sabha on the question of special category states. It's up to the Government of India to give it or not. So it is not an equal partnership and therefore this unequal balance very well describes the scene as it obtains.

Now the second point is that our Constitution, our polity, is markedly and decidedly non-federal. The first Article of the

Constitution talks about India that is Bharat being a Union of States. It is not a federation of states. It is described as the Union of States and there are a number of articles in the Constitution which emphasise the overwhelming character, the unitary character of our polity. Article 3 gives the power to the Parliament of India to create a new state, to bifurcate states, to change the boundary of states, to change the name of a state. Now can you do it in a federation of states? This is a power which gives pre-eminence to the Centre, to the Union, through its Parliament.

Then there are other articles of the Constitution which are clearly unitary in nature: Article 248 with regard to residuary powers of legislation; Article 249, power of Parliament to legislate with respect to a matter in the state list in national interest; Article 257(2), giving directions to a state; Article 271, surcharge on certain duties and taxes not to be shared with the states. And two former revenue secretaries here will agree with me that this is a typical tactic which is adopted by the Government of India when you don't want to share something with the states, so you don't impose a new tax, you impose a surcharge because that money is wholly yours. Then Article 280, Finance Commission, I am referring to it because Finance Commission is appointed by the Government of India. It consults the states, but the states have no role in the appointment of the Chairman of the Finance Commission and the members of the Finance Commission. And finally, Article 356 which as we all know relates to President's rule.

Now when the Constitution was framed and given to the people of this country in 1950, all this was very well, because we had challenges and those challenges had to be met and therefore we created a Union of States and not a Federation of States because India had to remain united. Over a period of time, as these threats and dangers have receded and regional parties have emerged, states have decided to assert themselves.

The same Constitution is today being interpreted by the states in a different light and thus there is a pressure on the Central Government. This makes the Central Government cede more and more powers and jurisdiction to the state government, and therefore we are, despite provisions of the Constitution, progressing towards federalism where the states are demanding to become equal partners with a union government.

I referred to the Finance Commission. Take the case of the Planning Commission. The Planning Commission, as we all know, is not a constitutional body. It has been created by an executive order of the Union Government and it has continued all these years through decades without any statutory or constitutional position and we are all aware of the very important role that the Planning Commission plays in the devolution of funds from the Centre to the states. Now I'll have a little more to say on this later but as far as devolution is concerned, I am not talking of other informal arrangements which the Finance Ministry may make from time to time to help a state.

Under our system, the devolution of funds to the states takes place through the Finance Commission award and through the Planning Commission allocations. And again there is the National Development Council (NDC) which is a body of the Planning Commission presided over by the Prime Minister who is the Chair of the Planning Commission and presides over the meetings of the NDC. It remains a matter of opinion about the kind of role that the NDC plays or can play. But in the Constitution there is a very important body called the Interstate Council. The Interstate Council is truly a constitutional body where the centre and the states are supposed to come together and discuss issues of mutual interest and then take a decision based on consensus between the Centre and states and its not merely fiscal, it encompasses a whole range of issues and that's the reason why perhaps it has been

located in the Ministry of Home Affairs and not with the Ministry of Finance.

Now as I was telling you, long years of single party rule both at the Centre as well as the states level led to a situation where we had almost the dictatorship of the Centre operating at the state level also. But things started changing from 1967 when the first non-Congress governments were elected in some of the states and they started asserting themselves and today the situation is dramatically changed. Now there are apart from devolution as I said, a number of issues, where the centre has to necessarily work with the state governments. We are all aware of the fact that the state governments' accounts, except for Jammu & Kashmir, are maintained with the Reserve Bank of India. They are allowed certain overdraft facilities and it used to be a very live issue some years ago where the states were always hand to mouth and they would go to the Reserve Bank of India or come to the Ministry of Finance to enable them to draw more than what their limit of overdraft with the RBI was, but now the situation has changed.

The fiscal deficit of the states today is much better than of the central government and this is thanks largely to the Fiscal Responsibility and Budget Management Act that was passed by Parliament when we were in government, implemented by this government, and then through the Finance Commission we persuaded the states to adopt similar legislations. I dare say that the states have done much better in observing the tenets of this Act than the Government of India has done. We have thrown it out of the window, that's another matter.

But take for instance the case of Agriculture Produce Marketing Committees (APMCs), which is a very major issue in our agriculture because if something militates against making India a common market, it is the APMCs and you cannot abolish it because it is a state legislation, so you have to work with the states to moderate it or get it abolished. I remember

we had started a number of discussions in the Interstate Council sub-committee with the state governments on the question of abolition of APMCs without much success.

Here I will recall an incident where we were discussing the value-added tax (VAT) with the state Finance Ministers and I think the finance secretary in that meeting of the Government of India dared to suggest that the states should abolish the tax on the trade of grains, food grains which will help reduce prices. The Finance Minister of Haryana lost his temper so badly that one thought that he might even assault the finance secretary of the Government of India. He had to be restrained and as you know, the Finance Secretary had only made a suggestion.

There is another issue – Essential Commodities Act, which the states implement. Now you change Section 7 of the Essential Commodities Act as we did but you have to carry conviction with the state governments because they are the ones who have to implement the provisions of this Act. I remember a series of discussions which I had with the state governments before we were able to amend Section 7 of the Essential Commodities Act with regard to storage, hoarding, unfair trade practices etc.

But the most important issue today of course between the centre and the states is the GST. Earlier it was the VAT and I can tell you from personal experience that when I started the process of introduction of the VAT, we had already done it at the Central level through Central Value Added Tax (CENVAT) and this had to be now implemented at the state level and the states sales tax had to be replaced by VAT. We had long meetings with the state finance ministers, and again claim credit for the fact that I created a body at that point of time which has survived the test of time and has today become a very important organ of centre state co-operation and that is the Empowered Group of State Finance Ministers, not a

constitutional body, but a body which is playing a very important role today.

And I remember in those discussions, we were only acting as facilitators, getting the states together to sit down, discuss what the VAT should be like, what the legislation should be like, what the rules should be like and it was after very detailed and long meetings that some kind of a consensus was worked out between the centre and the states with regard to VAT which has been now implemented. But I remember for instance the representatives of the Government of Pondicherry came to me and they said that this was against the assurance that Pandit Nehru had given to Pondicherry, you can't impose VAT. I said we are not imposing VAT, we are persuading you to adopt VAT. And VAT is a system of taxation which can unravel very quickly if all the states do not simultaneously join it. Fortunately, VAT has happened – VAT has happened in our country, and now we are moving to the GST.

The GST has many complexities and this is the first attempt which is being made to change a very important part of our Constitution. I don't know ultimately whether some Supreme Court judge will say this is part of the basic structure of the Constitution and strike it down. I don't really know. I am very seriously making this point because there are, as we are aware the Union List, the State List and then the Concurrent List and powers of taxation have been directly given to the states under the State List.

Now what we are trying to do is to change all that and have one tax which is the GST, common to the centre and to the states. It is complex because we are taking away most of the powers of the state governments and introducing a system which will be very complex to operate. It can operate only if we have a first rate information technology platform otherwise the kind of problems that let's say NK Singh encountered as revenue secretary with regard to set-off and refunds with

regard to CENVAT. These are issues which will arise and can completely debilitate GST if we don't have a very efficient system of information searing. But GST is something which has created fright among the state governments and they are demanding that we should have some powers still left to impose taxes they wish without reference to the central government.

There are issues between states, there are issues among states and there are issues between the state governments and the Government of India. The former finance minister who now sits in the *Rashtrapati Bhavan* had introduced the GST Constitutional Amendment Bill in Lok Sabha. The Bill was referred to the Standing Committee on Finance, which I chair. We have sent our report to Parliament and through Parliament to the Government of India, but there have been statements by the Prime Minister and the Finance Minister that there is no way in which GST can be introduced within the life of this Lok Sabha and will probably have to have a look at it subsequently.

But I am on a different point – when I went through the Constitutional Amendment Bill, I noticed two things, one was we were amending, going to amend, the Constitution but the Constitutional Amendment Bill – will be an enabling legislation. After which the Government of India will pass its law, the states will pass their laws, and then there will be rules framed – that is the process of legislation. Now the Constitutional Amendment Bill is so detailed that things which should be in the rules have been included, or are sought to be included, in the Constitutional Amendment Bill. It will make life so difficult because every time you want to change a little thing you will have to come back to Parliament, go to the state legislatures to amend this part of the Constitution.

So we have made our recommendations, but the second point which I'd like to make is that while the states are afraid



of this GST and I have many concerns, nobody is airing the concerns of the Government of India. Nobody, and we have called the stakeholders, we called the Ministry of Finance, called the experts, called the others, nobody is bothered about what is going to happen to the functioning of the Ministry of Finance, and the making of the budget of the Government of India. Because this legislation has, and when it comes, will have a GST Council presided over by the Finance Minister of India but the deputy chairperson of that body will be a state Finance Minister. Decision will be taken either unanimously depending on what ultimately the Government of India decides or by two-thirds majority. Clearly the states will have a majority in the GST Council, and I was just telling you about surcharge. Can the Finance Minister of India impose a surcharge and get away with it? The GST Council will reject it, the GST council will say whatever you may do, we must have our pound of flesh.

How will you prepare the budget, will you take the budget to the GST Council and get it approved - part B of the budget, which deals with taxation. I have a feeling that the Government of India is surrendering far more authority under the GST than the states are, but in the Government of India, nobody seems to be worried so be it, but a future finance minister who takes office after the GST comes into force will encounter all these problems.

Now I refer to the Planning Commission. Planning Commission has emerged has what shall I say a new DAITYA. It is something which the Constitution does not allow. The Planning Commission instead of engaging itself in perspective planning, long term planning, is today trying to micro manage the states, micro manage the states' finances and states functions. And I remember I had worked in my civil service days as principal secretary to a Bihar chief minister who was one of the brightest politicians I have ever met, Karpoori

Thakur. Thakur came to the Planning Commission for a meeting with the deputy chairperson one day or he probably made this point in the meeting of NDC. He said where are these wise people coming from; these wise people are coming from the states. So when my officer comes and sits in the Yojana Bhawan, he acquires such knowledge and wisdom that he will sit in judgement over the officers who are working at the state level.

And the Government of India, its line ministries which have vested interests have created over period of time a plethora of schemes, centrally sponsored, which are supposed to be implemented by the state governments, and these schemes have varying funding patterns, some 80/20, some 75/25, some 60/40, 30/70, there is no prescribed rule about what the funding pattern of a certain scheme of the Government of India will be. There is no standard rule like the Americans have when they deal with the diplomats, they have a standard procedure, we don't. So what is happening, even after the present finance minister persuaded the Planning Commission and the line ministries to reduce the number of schemes, the total number of schemes which are being run by the Government of India and implemented by the states is 149 or so. You go to any district of this country and ask the District Magistrate, the Deputy Development Commissioner, the Block Development Officer, the *Panchayat*, the *Zila Parishad*, about the number of schemes are they implementing. Nobody will be able to count all these schemes because they have lost count.

This is one of the worst systems that we have perpetrated in our polity – Government of India's schemes. And therefore in the Parliamentary Finance Committee we have suggested that the total number of schemes run by the Government of India should be reduced to something like 10 or 12.

You can't have every scheme as a flagship scheme. Sheep rearing is a flagship scheme of the Government of India – and

there is one in my constituency where sheep have long vanished. There are only people, persons, who are running the sheep farm. I mean it's ridiculous in the extreme, and every time nobody is prepared to accept zero budgeting. There is no review in the Planning Commission. Every year we go on sanctioning funds one after the other, and let me also tell you that every year there is a slanging match between the Planning Commission and the Finance Ministry with regards to the gross budgetary support.

When N.K. Singh and Montek Singh Ahluwalia were in the Finance Ministry, they used to fight alongside me with the Planning Commission to say how GBS should be restricted. When they went to the Planning Commission, they became warriors of the Planning Commission. About how much GBS should be made available and every time it goes to the Prime Minister for arbitration and then he passes the final word. Then once the GBS is decided, then the sectoral allocations are made by the Deputy Chairperson of the Planning Commission, not by the Finance Minister.

So what is the plan allocation for agriculture or rural development or anything which is under plan will be determined by the Planning Commission, and the Deputy Chairperson of Planning Commission and no one defends the allocation of the Planning Commission in the Parliament. This is one of the major lacunas in our system. Once when I told a Deputy Chairperson of the Planning Commission, when I was Finance Minister, in front of the Prime Minister, that I will have to stand up and defend these allocations with which I have nothing to do, and he was not very happy with the remark.

So the Planning Commission needs to be restricted, in fact at a seminar in the Stanford University where I had gone, thanks to N.K. Singh, I had made a presentation where I had said that the Planning Commission should become a Perspective Planning and Implementation Commission and they

should stop interfering with the state governments in their day to day functioning and whatever be the allocations, you make 100 per cent allocation for these 10-12 flagship schemes and for the rest just transfer the funds to the state governments and let them decide what they want to do. This is the formula that we had followed when we had in our time started the *Pradhan Mantri Gram Sadak Yojana* – 100 per cent funding, 100 per cent monitoring, otherwise you have no monitoring. I understand that now we have an Independent Evaluation Office, and I wish the head luck because it's a difficult thing that he has taken upon himself. So if there is one body which is the biggest obstacle in the path to federalism in our system, I'll put my finger at the Planning Commission of India.

Now the Government of India is also the banker of last resort. This is the point I was alluding to earlier, that whenever despite all the chant of federalism, that the states, whatever their political complexion may be. The point remains that they come to the Government of India whenever they are in fiscal difficulties and the Government of India has to find the wherewithal to be able to help them. There are instances galore, of how often we have gone out of our way to help state governments and the most, the greatest satisfaction that I derived in my tenure as Finance Minister was not a letter for appreciation from a BJP ruled state Chief Minister but from Kerala which was being ruled by the CPM. The then Chief Minister E. K. Nayanar wrote a beautiful letter to me appreciating the fact that I had been always ready to help the Kerala government.

Finally I'll end by saying that whatever union federalism, decentralisation, now to the fourth level of our Panchayats that is taking place, is fine. But what we need in future in our polity, what we need truly is co-operative federalism. This co-operative federalism and one example of this is the

Empowered Group of State Finance Ministers, where we have co-opted them, where they have started playing a very important role and I think in various other areas where we have to deal closely with the state governments. It will be a useful thing if we created similar bodies, for instance, why not have a Standing Committee of State Home Ministers to discuss various issues relating not only to law and order but also to the overall security scenario of this country.

We have meetings called by the Central ministers but there is no appointed body to be able to fully involve itself with its own secretariat to be able to talk to Government of India on equal terms. So unity of purpose at the state level, a more liberal approach by the Government of India and co-operative federalism, to my mind is the way forward and I hope we'll have the political wisdom to create that kind of a polity in our country in the very nearest future.

### 3

## The Transformatory Potential of *Aadhar* *Providing Empowerment, Choice and Convenience*

*Nandan Nilekani*

*Chairman, Unique Identification Authority of India*

I will speak today about what the *Aadhar* project is about, what it is going to do and why do we think it is important for empowerment, choice and convenience for the common man.

We have seen dramatic changes in many areas of technology. If you remember in India in 1990s it took us two years to get a landline phone. And today we have mobile phones everywhere. In 1995, we had about 60 million landlines and no mobile phones, but today we have 900 million mobile phones. We have seen how easy and fast communication has become for everyone.

Similarly news has become real time – now everybody gets news on Twitter, Facebook, etc. We have seen the impact of social media revolution – whether it is the case of anti-corruption movement or the terrible episode of gang rape in

Delhi. It has been possible due to the rapid communication of the electronic social media.

Similarly let us look at the banking sector. We have migrated from branch-based banking to online real time banking. Now you can go to any bank, withdraw your money and you can use the Automated Teller Machines (ATMs), mobile banking, etc.

We also have electronic voting machines today and railway reservation based on a computerised system. Everywhere we have seen and felt the impact of technology. This is the background to what we are doing in the *Aadhaar* programme.

There are two mandates in the *Adhaar* programme: one is to provide a unique number to every resident of India by a one-time enrollment and allotment of a unique number; the second is to provide online, cost effective authentication of your identity anywhere in the country. The person providing the service needs to verify that you are the person you claim to be on the basis of certain documents. It will provide an online authentication capability across the country. Therefore, *Aadhaar* provides a unique and permanent number and the verification of a person's identity across the country.

*Aadhaar* would generate a 12-digit random number. For this we seek very simple information, such as the name, address, date of birth, sex. If one wishes, e-mail ID and mobile number could be recorded. Further, we record biometrics for each individual comprising of 10 finger prints and of the iris of both the eyes. The reason that we do this is for establishing uniqueness. Everyone's biometrics across these 12 attributes are unique and therefore it ensures that a person does not get more than one number.

We use a process called de-duplication. When somebody enrolls in our system with the biometric data the system compares that against the biometrics in the database of all the people to check whether it is duplicate or not. If it is a duplicate

then we reject it. This is a fairly massive exercise if you have a database of 300 million people and if one million new people enrol on a day then each of those one million has to be compared against all 300 million in the database.

Though it appears complex, but over the last 10 years there have been dramatic improvements in the computing power, thanks to Moore's law and the use of large internet applications. Today we can do millions of matches every second. *Aadhar* uses massive and modern computational technology.

*Aadhar* provides the facility of on-line authentication. By feeding any unique identification number and biometrics anywhere in the country the system through its central server would confirm instantaneously whether the person is indeed the person he/she claims to be. This kind of online ID system has not been attempted anywhere else in the world.

So where are we today? This project began in July 2009 and we launched the *Aadhar* enrollment in September, 2010. Within 14 months of the project start, we built the technology platform and rolled it out. So far 250 million *Aadhar* numbers have been issued. As of now around 300 million have been enrolled in the system across the country and the target is 400 million by sometime in 2013 and about 600 million by sometime in 2014. By 2014, one out of two Indians will have an *Aadhar* number and over time, everyone will get an *Aadhar* number.

On October 20, 2012 we marked the 2<sup>nd</sup> anniversary of *Aadhar* in Duda, Rajasthan. This was to launch services as well as give the 21<sup>st</sup> crore *Aadhar* number to a resident of Rajasthan. Now 2-3 months later, we have already hit 28 crore and 280 million *Aadhars* have been generated.

We also have an online portal. You can go to our website [www.uid.gov.in](http://www.uid.gov.in) which will give you the data as of this morning. You can also see the distribution by state. In a state, you can



go down and look at distribution by district. Basically you are choosing what is called big anonymised data to provide real time analytic source where we have all enrollments.

If you see the next couple of slides you will see the kind of enrollment centres in Andhra Pradesh, in Maharashtra and in Jharkhand. Today's *Dainik Bhaskar* carries news that there are long queues for enrollment in Jaipur. The scheme is very popular as a large number of people don't have any proof of ID. In many states a large per centage of births are not registered and people do not have birth certificates/school certificates. For such people, procuring an identity is very empowering. So there is a huge demand for this ID across the country.

The in-built authentication called an open platform or a common platform provides the facility to verify identities online which can be used for any government programme. Whether it's a financial transaction or a health transaction whether it's a food or kerosene transaction, one can conduct authentication online using the system. That ensures that only the genuine persons avail of that benefit.

Now the other important thing we offer is electronic KYC. KYC stands for "Know Your Customer." For example, the Reserve Bank of India has approved *Aadhar* in compliance of KYC norms for opening bank accounts. Data, such as, the address and identity details is sent from our computer to the computer system of the bank.

This KYC facility is today also used for mobile connections, insurance policies, stock market transactions, LPG connections, in train travel and many government services, etc. *Aadhar* is being used by more and more agencies for proof of identity and address. This ability to provide service to everyone in one go is very important strategically and can create quick adoption of many new capabilities. The KYC facility of

*Aadhar*, therefore, promotes inclusion and reduces transactional costs.

Further, *Aadhar* provides the facility to make direct monetary benefit transfer into the bank account of beneficiaries. For instance, once the unique *Aadhar* number is linked to the bank account, pensions can be directly credited into the beneficiaries' account by giving this number. The ability of *Aadhar* as payment address is something that we use in the direct cash (direct benefit) transfer that the government has just rolled out.

So in fact if you look at the direct benefit transfer, *Aadhar* has five different roles and it is important to spend some time on understanding these.

The first role of *Aadhar* is on account of its unique number that removes ghosts and duplicates from the database which is a huge source of leakages. Suppose there is a list of beneficiaries and often such lists have been found with duplicates or people who don't exist. So what we are doing now is that the government is working on many schemes and feeding the *Aadhar* number into that scheme. For example, in Rajasthan in three districts – Ajmer, Alwar and Udaipur where about 14 out of 34 schemes the *Aadhar* number has been fed in all the beneficiary lists and is being used to scrub the database of duplicates and that itself provides savings and avoids fraud and wastage of money.

The second role is that of using the number as an address when the money is sent to the number. So the money is not sent to the bank account. Somewhere the *Aadhar* payment bridges the number which becomes the bank account. This ensures that there is no fraud because first you make sure that it is a real person then you send the money to the number of real person.

The third role is that *Aadhar* is acceptable as KYC which means that once you have an *Aadhar* number, it is much easier

to open a bank account. Anyone who needs a bank account for the purpose of cash transfer, can use this KYC.

The fourth important role is that it addresses the imperative need of the beneficiary to withdraw money conveniently from his bank account. For that we have introduced a micro ATM which is essentially a mobile phone enabled device which can be given to any business correspondent (BC) in any part of country and that is connected to the mobile network. The customer of any bank can go to any BC and withdraw money. And that is really the heart of the benefit transfer system because one part of the benefit transfer system is putting the money into the account, the other part is taking the money out of the account. And because these BCs are online, they are all on the same network.

This is a very important aspect of empowerment through *Aadhar* because one of the problems with our public delivery systems is that they don't give choices to the customers or to the beneficiaries to go somewhere else if they get bad services from their suppliers. For example, if you look at the Public Distribution System (PDS) if there are 2000 beneficiaries of PDS in a particular locality, there will be four PDS shops and each PDS shop is assigned to 500 people or 500 families which means those 500 families can only go to that PDS shop. If the shop is closed or the shop does not have the required material, one cannot do anything, he cannot go anywhere else. Once you create this interoperability or portability then the customer can go to any BC to withdraw his money. So if one particular BC is giving bad service, he will just lose his customer and people will go to somebody else.

The way it works is that if I am a customer, and I get ₹1000 as pension, the same goes electronically into my bank account and the bank will send a text message to my mobile phone saying that pension has been credited. And then I walk to a neighbourhood BC who could be an *Aanganwadi* worker, a

*Panchayat* office, or a grocery shop, it doesn't really matter. On putting my finger on the system, it confirms that I am the same person. Then if I want to withdraw ₹300 rupees from my bank account, BC will give ₹300 to me and on the computer system my account will get debited ₹300 and the BC's account will get credited ₹300 to replace the money which he gave. It is an online reconciliation system. Also I can go to BC of another bank and withdraw my money which means that every BC on the network is interoperable. So if we have 10000 BCs, they are interoperable, if you have 1 million BCs, even then there is interoperability. The same principle may apply for the PDS system. So the fact that you create what is called an entitlement portability, it goes a long way to reduce corruption because now the beneficiary has choice.

And finally the fifth benefit of this system is that you have end-to-end traceability of a transaction. Right from the point money is put into an account with *Aadhar* number to the point that the person withdraws the money with his *Aadhar* number, there is traceability at every level, and that too, in real time. Fundamentally you can create a transparent architecture which allows you to do this cash transfer. This can be used for many other applications.

The system can be viewed as a pipe where at one end the government puts money into an *Aadhar* number and at the other end the beneficiary associated with the *Aadhar* number withdraws it from his bank account. Everything else is a black box.

So today if we have something like 250000 bank branches and post offices and may be 100000 ATM's and about 500000 point of sale (POS) machines, tomorrow once we have these micro ATMs and we have recommended that there should be one million of them, then there would be so many more locations for people to go and withdraw money and ultimately all this will be possible through the mobile phone. So once

people start using a mobile phone you will witness digitisation of the payment system over the next few years which will make it convenient for people to access, transfer, withdraw and pay money.

We are making payments under the National Rural Employment Guarantee Act (NREGA) through a micro ATM in Jharkhand where the beneficiary puts his thumb on a small machine that is mobile phone based, which authenticates his ID and he gets paid.

The next slide shows a PDS shop in East Godawari, Andhra Pradesh, where we are doing a project using *Aadhar* for authentication. You can see a lady putting her finger on the machine, authentication process and then receiving quota of rice for the day or for that month.

The next slide is of Tripura where old age pension is being similarly withdrawn conveniently.

Fundamentally I think *Aadhar* solves a number of problems. First, for many people it is a first ID which is on the cloud and is a national ID which means, one can enrol in Bihar and it will work in Thiruvananthapuram. The fact that it gives national mobility is very important.

Because of its acceptance as far as KYC is concerned, it becomes an instant gateway to services. Opening bank accounts, getting mobile connections, getting insurance policies, getting state government benefits, applying for a passport, etc. reduces costs and barriers for people.

Then you also make sure that the money or whatever the benefit goes to the intended person because the person withdraws the money with authentication. For example, in the recently launched programme *Annashree* in Delhi which gives a supplement of ₹600 for food to people on the BPL list, the money goes to the eldest lady of the house and only she can withdraw the money. So that's also empowering because

you can make sure that it goes only to, say, the woman of the house.

And finally it gives entitlement portability. Once you put it on this cloud, then you can go to any BC to withdraw your money, go to any PDS shop to withdraw food and so on. Portability is the heart of empowerment because once you give portability, once the beneficiary can go anywhere to withdraw, then the bargaining power shifts from the supplier to the beneficiary. There are no more monopolies and automatically you get much better services that reduce retail corruption at the point of service. But the cash transfer is just one of many applications that will come on this platform in the coming future. And fundamentally it is a tool of massive social inclusion, it is a tool for making government expenditure more efficient and more effective and it is a platform on which a wide variety of services can be provided to make life better for everybody.



## 4

# Emerging Powers of Global Economic Governance

*Rakesh Mohan*

*Former Executive Director, IMF*

I will talk about how the landscape of the global economy might change over the next 10 to 20 years as well as the attendant changes in the global economic governance. Let me start by analysing why we are talking about global economic governance today.

First, apical changes took place at the turn of the 18<sup>th</sup> Century with the onset of the Industrial Revolution. Interestingly, prior to 1800, the ratio of per capita income between the rich and poor countries was not more than 4:1. By 1950, the ratio was more like 20:1 and the world got divided into the rich and the poor. The intervening period saw colonialism and imperialism as also the ascendancy of Europe between World War I and World War II. Power then shifted from Europe or the UK, in particular, to the US. Hence, after World War II, very clearly, economic power was distinctly with the US and was accompanied by the progressive end to colonialism. Today, we are beginning to see the shift of economic power from Europe and North America to Asia and, therefore, this discussion on global economic governance.



The first phase of growth in Asia came from Japan, which grew at a rate that was never seen before. Subsequently, Korea, Singapore, Taiwan, Hong Kong often called the Tigers' Economies, in the 1970s to 1990s started growing even faster than Japan grew in its peak times. Gradually, their incomes started converging to the European and North American levels but being small countries their economic weight was also small. As a result, the world really did not notice and there was no need for any change in global economic governance.

It was in the 1990s and in the 2000s that both China and India started growing at similar high growth rates and thus some convergence was observed. China had grown much faster than India. There were other emerging markets, such as Brazil, Indonesia etc. that were becoming significant – raising demands for better representation and global economic governance whether by the International Monetary Fund (IMF) or the World Bank (WB) or by other international organisations.

The difference in per capita income levels still remains and will continue to remain in the coming years. It is only because the populations of China and India are four to five times than that of the US and that even with lower per capita income they can start equalling the weight of the US.

A remarkable occurrence of the recent times is what I call the 'North Atlantic Financial Crisis'. It is only the arrogance of Europe and the US that it is called global economic crisis/global financial crisis. Such a crisis was seen in Asia in 1990, which affected the whole world in terms of economic and financial crisis. In addition, in the recent financial crisis, to my knowledge, not a single financial institution in any one nation of Latin America or Asia has needed to be bailed out during the last five years. Therefore, 'North Atlantic Financial Crisis' is a more apt description. The North Atlantic Financial Crisis again brought into focus the question of prevailing global economic model and the superiority of North Atlantic

economies. There is much more debate at present and a balanced but mixed view on the Asian economies and some of the Asian models, etc. Hence, there is a great demand for global economic governance.

Prior to World War I, there were free capital flows and free labour movements and in that sense the world was perhaps even more globalised than that too without access to the internet and the kind of communication we have today. The world also suffered in the last 20 years with a huge number of banking crises but as in the global economic governance there were no international organisations, with countries adhering to the gold standard, silver standard, fixed exchange rates and so on. The period between World War I and World War II saw the Great Depression, policies of hyperinflation in Germany as gold standard broke down, fiscal policy gained ascendancy and a lot of protection including those related to borders, capital movements, etc. resulting in restricted trade movements and so on.

Finally, after the World War II, a huge attempt to restore or fix the whole system was undertaken and that's how Bretton Woods Conference took place – the GATT came into being along with the WB, the IMF. Even though Indian and China were present at the Bretton Woods but the discussion was basically between the US and the European powers.

The paradigm started changing in the 1960s to 1990s with the ascendance of some Asian economies, Japan and then China and then India. In the post-World War II major growth took place in Europe and Japan. The world did get divided between the socialist economies – the Soviet Union, Eastern Europe, China, on the one hand and the other remaining countries, on the other. In fact, none of those economies were actually members of the so called world organisations, so these were not world organisations, until recently.

What did happen, during the late 1950s to 1970s was the newly independent nations of Asia and Africa joining these world organisations. But per capita income continued to be low in most of these countries. Many of the countries in Latin America and Asia went through number of crises in the 1980's and 1990s and a huge number of reforms were undertaken by these countries and Latin America, in particular, and Asia specifically. Then they started growing fast as most countries grew with a rapid pace in the 2000s.

The high growth and weight of India, China, Brazil, and Russia finally started becoming significant in the 2000s although the income level still remained low. Their global trade also increased significantly and, therefore, they were demanding greater role in global governance. This growth of emerging markets can be observed in terms of industry, export of goods in services, metal consumption and mobile/cellular subscriptions in the last 15 to 17 years.

Until 1990s there was complete dominance of North America and Europe in all forms of global economic governance. The WB President as all we know, so far, is basically nominated by the US President and has always been an American and the IMF Managing Director has always been an European, mostly French. The last Managing Director came from France but the first Deputy Manager is always an American. The WTO is the first international organisation that started showing signs of change. The Secretary Generals of WTO were all Europeans till 1999 – then Mike Moore from New Zealand, Panitchpakdi from Thailand, then again European, Pascal Lamy and currently, the new Director General is Brazilian.

Regardless of these changes, the structure of the WB and IMF remains dominated by the North America and Europe as the economic weight of these regions remained dominant between 65 to 80 per cent through the period. It is only (at

present) that the growth in China, India, etc. is being felt palpably and such countries are called Emerging Developing Market Economies.

It is interesting to see the current projections. By 2030, the Chinese Gross Domestic Product (GDP) is almost certain (unless there is an unforeseen economic accident) to be much larger than the US and there is a reasonable chance that by 2050 or 2060 India's GDP will also become larger than the US. In terms of the Articles of Agreement, certainly of the IMF and may be of the WB also, the headquarters of these organisations are supposed to be wherever the largest shareholder is. If the projections come true, the building next door will have to move to Hong Kong, Macau or Beijing. If the rate of change predicted comes around, it will be quite dramatic in the next 20 years and very different from the last 20 to 60 years and the on-going changes do suggest that there is a change taking place in global governance.

Until the late 1990s it was the G-7 countries (Canada, France, Germany, Italy, Japan, the UK and the US), which got together and discussed global economic governance issues. After the Asian crises, the G-20 was founded, which is more representative and comprises more than 80 per cent of global GDP.

In some sense, G-7 has faded in its importance, and there is the beginning of change that we can expect in next 20 years.

If you take the European crisis, money for the programmes that have assisted Ireland, Greece, Portugal, Cyprus, Iceland, etc. has come from European organisations – the European Banks, the European Commission (EC) and so on. There has been a joint responsibility between European Central Bank (ECB), the EC and IMF in running these programmes. To address similar crises in future in other parts of the world, there is now what we call a regional financial arrangement, which has called the *Chanmay Initiative* for the Asian

countries. This does not include South Asia. Asian countries have got together and have put in arrangements, so that if one country needs assistance then there is *Chanmay*, which is quite large (about USD400bn).

Another initiative in process is in the BRICS countries i. e. Brazil, Russia, India, China and South Africa. They are discussing a BRICS Bank, which may be conducting similar activities that the WB does. They are also discussing a currency reserve arrangement to the tune of USD100-200bn among themselves. Just about two to three weeks back, India and Japan announced a mutual arrangement for USD50mn . Such big changes are already taking place.

Though it is difficult to predict what is going to happen in the next 5 to 20 years and whether the governance of the extant global institutions will change with more representations, according to economic weight or they will remain Europe and the US dominated but in the latter eventuality, I think other institutions will gain further speed.

## 5

# Economic Governance in India: *Quality of Political Leadership Important*

*Rajiv Lall*

*Executive Chairman, IDFC Ltd.*

There is much noise about governance, or rather the lack of it. There is also much lamentation about poor economic governance amongst the business community. It is important to step back and reflect on what we mean by the concept of governance itself and then try to evaluate where we as Indians stand.

We cannot really talk about economic governance in isolation. Good economic governance depends on political governance. The concept of economic and political governance cannot be disassociated from one another. I was struck when I re-read a very influential essay that was written in 1989 by Francis Fukuyama who, following the fall of the Berlin wall, argued that while there might be many competing forms of social and political organisation, none could claim to be superior or more effective or more durable than the idea of a liberal democracy. And he went further to make the case that for the idea of liberal democracy to remain sustainable and

alive, ideally it works better and is bolstered by free markets. In essence he made the case that the combination of liberal democracy and free markets had proved to be the most successful and durable form of social, political and economic organisation.

But a lot has happened since then. Most notably the world has seen two major financial crises: the 1997 Asian financial crisis and then the so called global financial crisis of 2008. Both of these crises have reignited the debate about how well liberal democracy and free markets work together, about the role of markets, about their efficacy, and about their contribution to growing inequality. In parallel, we have seen the spectacular economic success of an alternative model: that of state capitalism represented by the Chinese experience. Many are wondering if Francis Fukuyama was premature in announcing the “End of History”.

Turning to India, let us start with the question: are we a successful democracy? If you look at how India has delivered versus the Millennium Development Goals (MDGs) compared to China, we are way behind. Whether it is life expectancy, whether it is poverty reduction, health, nutrition etc. the empirical fact is that despite being a representative democracy we seem to have failed to deliver on the basics for our citizens. Viewed through this lens, some would argue that India cannot be regarded as a successful democracy. If a country like China, without a free political system, can deliver substantially greater economic prosperity than India to its citizens, has democracy served India well?

This line of reasoning may be logical but it is troublesome. Our notion of what is good for our society surely must be firmly anchored in a certain moral and philosophical value system, one in which we as Indians attach value to freedom of choice. In fact, the importance of being able to choose who governs us cannot be measured. The success or failure of

governance in India cannot, should not, must not be gauged only in terms of our economic performance. Such an evaluation must also take into account what else we have achieved since independence. It is to such an evaluation that I now turn.

What is the record of political governance in post-independence India? While it is absolutely true that in terms of the MDGs our performance has been disappointing to say the least, the evidence is strong that we have succeeded in building a robust democracy. Consider the following. At the time that we became a republic, the probability that most ascribed to India surviving as a democracy was close to zero. Recent empirical research by political scientists who have reviewed data on emerging democracies shows that income per capita is by far the most important predictor of a successful democracy. The wealthier the country at the time of “democratisation”, the likelier it is to survive as a democracy. India is quite the exception. We had the lowest per capita income of any country as we embarked on our democratic journey. And we continue to be a vibrant democracy despite the fact that our per capita income is lower than almost any other functioning democracy in the world today.

I think it is incontestable that Indian democracy has, over the past 60 odd years, become more representative. Take the very simple indicator of the cast composition of our country. Schedule Castes, Schedule Tribes and Other Backward castes comprise some 65-70 per cent of the population. And if you look at their participation in levels of decisions making, and their participation in politics generally, their influence today, compared the time before we got universal suffrage has grown dramatically.

The experience of South India in particular is very interesting in this regard. This is a part of the country that saw a social revolution going back to the 1920’s and 30’s and where the 1950’s and 60’s saw very effective *Dalit* participation



in politics. That this led to the end of the hitherto disproportionate influence and dominance of the Brahman elite is well established. Arguably, the Mandal movement represents the unleashing of the same dynamic some 40-50 years later in North India. What we saw happen in South India going back to 1950's we are seeing unfold in Northern India starting with the Mandal movement of the 1980's. It is incontestable that lower caste communities have greater voice in the governance of our country today than ever before. For a society that has been burdened by the insufferable rigidities of an intensely hierarchical caste system, this is no mean achievement.

From the sociological perspective, social equality and dignity are equally if not more important than economic equality. Whereas we may not have been as successful in delivering economic equality to all those who have been disadvantaged historically, we have made significant progress – even though we still have further to go – in terms of delivering greater respect and recognition for the socially oppressed.

Thus, our political system may appear dysfunctional and corroded by corruption, but it has actually delivered quite robustly on political governance in the sense that it has greatly enhanced the representation of, participation by, and dignity for, disadvantaged segments of our society.<sup>1</sup>

Now let me come to the question of economic governance. Even as we started our post-Independence political journey whole heartedly embracing liberal democracy, we did not start with the same enthusiasm for markets. Even though our political governance, for all its flaws, has proved to be robust, we have fared less well with economic governance. On the economic front we started with the Nehruvian state-led so called “mixed economy” model. This model has over the past

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1 See Ashutosh Varshney's “Battles Half Won”, 2013 for more on this line of reasoning.

couple of decades been lurching somewhat reluctantly towards a more market based economy.

The watershed for this transition was the macro-economic crisis of 1991 which became the trigger for deregulation and economic reforms under the Narasimha Rao-led government. From independence to that time we were, in the economic sphere, used to managing and administering a system that relied very much on state intervention of various kinds. And the entire bureaucratic machinery of the state was trained and conditioned to that way of functioning. The same goes for our judicial and dispute resolution machinery. Since we started the economic reform process in 1991, I think that we have not been very successful in changing the paradigm of state engagement with the private sector from how it was in the era of “command and control” to an era of deregulated markets.

And this I believe is the challenge of economic governance that we face today. Ironically, this challenge of economic governance has been made tougher by the very success of our democracy in political terms. Managing the interplay between democratic politics and entrepreneur-centric private enterprise in a context where institutions such as the judiciary and bureaucracy have not kept pace with the needs of the transition to a market economy is the central challenge of economic governance that we face.

Broadly speaking there are three classes of issues that we face with economic governance. First, is a set of problems that relate to our somewhat reluctant transition to a market economy. Although we started our post-Independence political journey whole heartedly embracing liberal democracy, we did not start our economic journey with the same enthusiasm for markets. On the economic front we started with the so called “mixed economy” model. During the first 45 years after independence we created a most elaborate system for managing and administering the economy, one that relied very

much on state intervention. Over the years, our bureaucracy and judiciary became conditioned to that way of functioning. As a result, since we started the economic reform process in 1991, we have not been very successful in changing the paradigm of state engagement with the private sector from how it was in the era of “command and control” to what it should be in era of deregulated markets.

Twenty years after “liberalisation” the extent of state participation in the economy remains stubbornly large. For example, the share of Public Sector Undertakings (PSUs) in the combined sales revenues of all listed companies actually rose from 41 in 2003 to 43 per cent in 2013. In infrastructure, the entire electricity supply chain, with the exception of generation, remains dominated by government companies. Fuel supply is the largely the monopoly of Coal India. Transmission is the monopoly of the Power Grid Corporation. And last mile distribution, except in a few cities, is controlled by State Electricity Boards (SEBs), which remain notoriously dysfunctional.

In agriculture, the pricing of sugar, the procurement and exports of food grains, the marketing of agricultural commodities, are all still subject to pervasive state controls. The state continues to play an invasive role in land markets and PSU institutions still account for more than three-quarters of the financial sector’s assets. This widespread government participation in economic activity has been used to pursue the state’s political agenda in a manner that has distorted markets and undermined economic governance. Directed lending to agriculture from PSU banks, free electricity through SEBs, subsidised petroleum products through the oil distribution companies are but some examples.

Being in a half-way house where the state is reluctant to give up economic space and the private sector is eager and anxious for more space has made effective business regulation

difficult. An effective regulator must be independent and autonomous. But in an economy where the state itself competes with the private sector how does one ensure that the regulator is independent? Our country is replete with examples of sectors where we have an inherent conflict with the government competing with the private sector while also playing regulator. With a few notable exceptions, regulators such as those of the State Electricity Regulatory Commissions are typically retired civil servants that act largely to protect the political interests of the governments that appoint them.

Special interest groups wield enormous power in most democracies. In India, given the pervasive involvement of government in all manner of economic activity and business decision making, corporate lobbying has become a particularly important part of Indian business culture. The construction and infrastructure investment booms triggered huge competition for raw materials, land and government contracts and concessions. With stakes for private business having risen to unprecedented levels, lobbying has degenerated into “crony capitalism” over recent years.

A third set of issues, hardly unique to Indian democracy, are to do with protecting the interests of future generations who do not vote *vis-a-vis* those of present day voters. It is not easy for democracies to balance inter-generational conflict. It is politically more convenient to indulge present day voters at the cost of future generations. It is expedient to borrow now and pay later. This is what drives our runaway subsidy bill and stubbornly high fiscal deficit. It also explains our eagerness to please farmers with free electricity, free water and cheap fertiliser even though the environmental consequences of these policies for our water table and soil quality are potentially devastating for future generations.

What is to be done? That economic decision making in our country is heavily politicised may not be good from an

economist's perspective of delivering optimum economic outcomes. But this is in a sense the price we pay for democracy, the value of which cannot be measured in economic terms. The bottom line is that we cannot improve our economic governance by wishing away its underlying political drivers. Our electoral system has in fact been very successful in delivering greater representation and voice to historically disadvantaged members of society. We must build the rest of the essential institutional bulwark of our democracy and our economy. Here are few thoughts on what else we could do.

First, because we are truly exceptional case of a democracy that is hugely representative at a very low GDP per capita, we must experiment with new institutional structures and platforms that facilitate and support policy making from outside the traditional and very partisan parliamentary legislative process. We should try to build more “national institutions” like Election Commission, the Office of the Comptroller and Auditor General, the Finance Commission and the Reserve Bank – institutions that can be trusted by all parties with issues of national interest.

For example, the Planning Commission could be turned into a widely respected and non-partisan platform on economic policy, rather than serving mostly as an allocator of central government funds. The goal would be to turn the Commission into a platform that engages all stakeholders in dialogue on vital policy issues outside of the Parliament. This could be perhaps be achieved by having members of the Commission appointed through an apolitical process and have its recommendations deliberated through a collegium of chief ministers.

Another possibility is to build autonomous regulatory authorities that have the legal powers to make policy decisions on such issues as railway tariffs, user charges for essential services such as water, and the pricing of petroleum products.

Indeed there is already a proposal to create a new Railway Regulatory Authority. I do not know if these ideas will work. I am merely suggesting that we must be creative about building and strengthening institutional platforms that permit adjudication of difficult policy questions of national importance in a non-partisan manner.

Second, we must build on initiatives to make governments in general, and the bureaucracy in particular, at all levels (centre, state and below) accountable for service delivery. Here is where greater transparency and community participation could be most effective. Policy cannot be formulated through mass participation – there are limits to direct democracy. But service delivery can certainly be improved through these means.

Third, a huge effort is required to change the nature of engagement between the state and the private sector. To improve the quality of our economic management, our bureaucracy particularly, but also our judiciary and other institutions must evolve to higher levels of sophistication, competence and autonomy such that they facilitate, regulate and adjudicate economic activity, rather than supervise it or participate in it. This will need a lot of capacity building and training at various levels of the bureaucracy. It will also need improved coordination horizontally and vertically across different layers of government. Dispute resolution is an area that needs focussed and urgent attention. Specialist courts with suitably trained officials and an appeals process that does not have to go through the normal winding path of the mainstream judiciary are initiatives to think about.

Finally, the quality of political leadership is important. At a time in our evolution when the supporting institutional structures have still some way to go before they attain the requisite levels of competence and sophistication, there is a huge premium on leadership. Our country is too complex to

rely on just an individual now. We must attract a new generation of leaders into politics – leaders who are able to navigate the rough and tumble of electoral politics, but have also the perspective to be able to rise above its parochial and partisan compulsions.

## 6

# Consumer Financial Services

*Sothi Rachagan*

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**M**y lecture is entitled ‘Consumer Financial Services’ and my hope in delivering it is that CUTS will be convinced to include financial services as a significant part of their future work.

We are in the midst of yet another financial services scandal. The manipulation of the London Inter-Bank Offered Rate (Libor) has adversely impacted consumers in every country.

Tracy McDermott, who led the Investigation Team, stated that “what Barclays did was extremely serious. But Barclays were not involved in this on their own. And while they were certainly not the best of the bunch, there are other firms at a similar level of seriousness”. *The Guardian* pointed out that the scandal “goes to the culture and the structure of banks: the excessive compensation, the shoddy treatment of customers, the deceitful manipulation, a key interest rate and today, news of yet another...mis-selling scandal” (Pettifor, 2012).

The UK leaders, who regulate the banks which determine the Libor, have expressed their shock. Vince Cable, the UK



Business Secretary said, “The industry is a massive cesspit” and Ken Clarke, UK Justice Secretary said that “Financial crime is easier to get away with in this country than practically any other sort of crime” (Pettifor, 2012).

In retrospect, it appears incredibly naïve that bankers were allowed to by themselves determine the rate that they will charge their customers and not foresee that they would fix the rate to their advantage. Fines have been imposed, but let us make no mistake; the fines will be passed on to consumers. The regulators who so grossly failed will not be called on to account for their failure. Even more devastating is that the root cause of the problem will remain unaddressed. Banks will be permitted to continue fixing the rate. There has been regulatory capture in financial services regulation. Unless this is addressed, the shock and dismay that has been caused by the Libor scandal will not result in any change for the better.

We need to impose on the financial services sector a model of co-regulation or embedded self-regulation that requires industry players to spread amongst themselves the risk incurred by the failure of their measures of self-regulation. Demarcating areas of self-regulation without sharing risk failure transfers the cost of such regulatory failure to consumers (Omarova, 2010).

My presentation will focus on consumer protection in the financial services sector. I shall first deal with the:

- economics of consumer financial services that permits the providers of the services to treat individual consumers with disdain;
- lack of coherence in consumer financial services regulation; and
- misguided tendency to present financial literacy as a substitute for regulation.

With these as the backdrop, I shall argue that we need to adopt a consumer focus in financial services regulation. We can only do this if we go back to the basics and begin by recognising the:

- purposes for which consumers actually access the financial services sector; and the
- problems faced by different categories of consumers in their relations with the financial services sector.

In my conclusion, entitled ‘The Way Forward’, I will call for a change in the regulatory architecture for consumer financial services.

## **Economics of Consumer Financial Markets**

Collectively, consumers are by far the greater users of financial services. However, the atomised nature of their individual transactions circumscribes their power.

Campbell, *et al* (2010) provide US data for 2009 - US households held US\$68.2tn in assets and US\$14.0tn in liabilities (mostly mortgage – US\$10.3tn and consumer credit US\$2.5tn). By comparison, the corporate debt in the US was only US\$7.2tn. However, this very high level of consumer liabilities involved a staggering number of transactions.

Visa and MasterCard had a combined annual transaction volume of US\$6tn comprised of 70 billion transactions. The Mutual Fund industry assets exceeded US\$10tn, but the median investor has US\$100,000 spread over four accounts. The pattern of participation of consumers in the financial markets of other countries is not unlikely to be markedly different. The atomised nature of consumer transactions means that the individual consumer is by herself insignificant to her financial service provider. It is not surprising that financial services top the list of consumer complaints in almost all countries (Collins, 2012).

## **Incoherent Consumer Financial Services Regulation**

Consumer finance regulation in many countries is characterised by a lack of a coherent policy and institutional structure. There is an emphasis on classification by form, lack of distinction between consumer and commercial transactions, excessive technicalities, unregulated consumer products, and the absence of a coherent policy for sanctions.

Few countries regulate consumer financial services in a comprehensive manner. The regulatory schemes tend to focus on the provider of services (institution type) and/or the principal category of the services provided – banking, finance, insurance, etc. Even in the area of credit regulation, the focus may be on the type of product provided – money lending, pawn broking, hire purchase, credit cards, etc. Also, not all financial services (for instance, in the credit industry) are subject to regulation. The regulation that exists is spread across a range of statutes in a piecemeal fashion, each often stipulating very different rights and duties.

Financial services statutes may permit the regulator to control the conduct of service providers through the issue of regulations, directives or guidelines. Such powers are often not exercised, and where they are, a great variation in the nature and extent of the regulation occur. Exemptions from even the very limited regulatory control specified in statutes and other forms of regulatory control are the norm in many jurisdictions. Where this is the case, the regulatory framework tends to be complex and disorderly and by their piecemeal approach, fail to adequately provide for many categories of consumer finance.

Credit can be and is a boon to individual consumers and their families. It enables consumers to avail themselves of goods and services without first having to save for the purchases. It permits a higher standard of living than consumers can immediately pay for. Consumer credit is central to the welfare

of individuals and families, and it has been argued that access to it should be made a human right (Yunus, 2006). Credit can also be a bane to many individuals and families. Individuals are often lured into excessive credit and costly debt with dire consequences for the borrower and his family. The need to save prior to purchasing a product calls for a deferment of gratification; easy credit tempts consumers into impulse gratification.

There is ample evidence that consumers are subject to unfair credit-related practices. Time prohibits an examination of the practices in a variety of credit forms. Let me just focus on the credit card industry and for this I shall rely on the landmark cross-national study entitled ‘Charging Ahead’ by Ronald Mann (2010). It details the manner in which credit cards (as opposed to debit cards) have been promoted. Mann describes the “spending more, borrowing more and failing more” of credit card use and evidences a marked correlation between credit card debt and consumer bankruptcy filings. The “sweatbox” model of credit card lending has become a dominant strategy for the large debt-holding card issuers – the trick is to make borrowers pay minimum payments for long periods before defaulting. There has to be regulation of the terms on which credit cards are marketed. Larger mandatory minimum payments to amortise credit card balances have to be required and there has to be a ban on marketing and issue of credit cards to youth and college students.

### **Financial Information, Education, Literacy and Capability**

Greater financial education and information to engender consumer literacy and capability has been given much lip service as part of the ‘liberalisation’ of financial services. Financial education has to be seen as complementary to

regulation for consumer protection; certainly not as a substitute for such regulation.

It is important not to confuse ‘information’ for ‘education’ - education is to develop the capacity to process the information provided and cannot be achieved by simply increasing the amount of information. Financial services regulators have to ensure that disguised product marketing that exacerbates the behavioural biases of consumers is not passed off as financial education. There also needs to be recognition that many new financial products cannot be understood by consumers even with financial education.

### Adopting a Consumer Focus

Regulation of consumer financial services needs a consumer focus. And for this, it is necessary to go back to basics and understand the use of financial services by consumers. Consumers use financial services to perform five very different functions (adapted from Campbell, *et al*, 2010; Tufano, 2009):

- *Payment*: as a mechanism for the transfer of money and payment for goods and services. For this they use cash, cheques, payment cards, postal and money orders, wire transfers, remittances, online fund transfer tools like PayPal, Automated Clearing House, etc.
- *Borrowing*: as a means to use future funds now. This includes credit that is secured and unsecured - credit cards, overdrafts, payday loans, student loans, auto loans, mortgage loans, margin loans, and pawn broking. It is now common for implicit borrowing to be built into various derivative products, including options and forwards, as well as through commercial structures, (for example, hire purchase).
- *Saving*: as a means to store funds for future use. Saving accounts, fixed deposits, variable annuities and provident

funds are the usual means used by consumers for this purpose.

- *Investment*: as a means to increase future funds. At first it was mutual funds of ever increasing variety. Of late, a plethora of investment products have been offered by financial institutions, such as Initial Public Offerings, government bonds, gold and silver, futures and options and derivatives.
- *Management of Risk*: to mitigate financial risks, principally by way of insurance, but also other financial products (for example, put options to protect portfolio declines).

Financial services providers tend to package their offer to consumers such as to draw them away from savings into investments without adequately revealing the cost of their borrowing or the risks involved in their investments. They take every opportunity to convert what is in savings into risky investments with heavy upfront charges and transfer all risks to the consumer with none borne by the financial institution. There has been a range of new products, which claim to perform a mix of the above mentioned five functions that consumers seek from financial service providers. The products offered are mislabelled such as to confuse consumers. Regulation has failed to keep pace with the changes that have occurred in the interaction between financial service providers and consumers.

### **Consumer Status *vis-a-vis* Financial Services**

Much of the popular and even academic literature relating to consumer use of financial services tends to not deal with all categories of consumers *vis-à-vis* financial services. There are

actually four categories of consumers in relation to financial services. The four categories are those:

1. Not included
2. Typical users of services
3. Financially distressed users of services
4. Excluded (those declared bankrupt)

I shall focus on categories 1 and 4 because they are not traditionally emphasised in discussions of consumer protection in financial services.

### Financial Services Inclusion

Half of the world's consumers do not have access to any formal financial services (Demirguc-Kunt, *et al*, 2012). As is to be expected, the deficit occurs in the developing world with a particularly emphasised gender bias. The data for the use of formal accounts is indicative. 50 per cent of the world's adults (2.5 billion) do not have a formal account. In the higher income economies 89 per cent have an account compared to only 41 per cent in the developing economies. Whilst 46 per cent of men have formal accounts, only 37 per cent of women do. However, there is a consistent 6-9 per cent gender gap in all economies.

Similar patterns are to be noted for use of electronic transactions (ATM, debit cards, cheques and electronic payments).

It is, therefore, not surprising that formal borrowing and insurance are also relatively rare in the developing world. More than 11 per cent have an outstanding loan for emergencies or health-care needs, but more than 80 per cent use only informal sources of credit. Of adults in developing countries working in farming, forestry or fishing, only 6 per cent have crop, rainfall or livestock insurance. It is a sad fact that 65 per cent of those

without formal accounts list that they do not have a formal account due to lack of money.

The other reasons given are instructive and can be more readily addressed. The lack of use due to banks and accounts being too expensive (25 per cent), banks being too far away (20 per cent), missing documentation, no trust in banks, excessive paperwork and the use of accounts of others (cited more by women).

Some countries have already begun addressing the problem of non-inclusion in a systematic fashion. The recent Indian experience is noteworthy.

In 2011, India had a total of 85,000 bank branches but only 32,000 catered for the rural population which comprises 70 per cent of the population. There were a total of 73,000 unbanked villages with a population of more than 2000. Only 17 per cent of the population held a bank account.

The *Swabhimaan* initiative – a nationwide financial inclusion programme launched in February 2011 by the Government of India and the Indian Banks Association aims to bring banking services to 73,000 unbanked villages by March 2012 (Press Information Bureau, 2011). A declared objective and incentive of the programme is that government subsidies for the poor would be channelled through the newly established bank accounts thus reducing the substantial leakages that occur due to inefficiencies and corruption. The 65 per cent who do not have money to open formal accounts would now have a reason to do so.

Governments (with support from international agencies, service providers and educators) should remove physical, bureaucratic and financial barriers needed to extend use of financial services to the poor.



## **The Financially Excluded**

Bankruptcy law is often treated as separate from credit law and its regulation, the purview of separate regulators. Yet, bankruptcy is really the negative consequence of the use of financial services. The study of Robert Mann (2010) cited earlier is evidence of this.

Another landmark study also focusing on the US situation is that by Katherine Porter (2008) entitled 'Bank Profits: The Credit Industry's Business Model for Post bankruptcy Lending'. The study evidences how distressed borrowers are highly lucrative for lenders and how bankruptcy law itself facilitates this business model. Creditors repeatedly solicit debtors to borrow after bankruptcy, and they use bankruptcy itself as an advertising lure. The same lenders that the families could not repay before bankruptcy offer them credit. Debtors report more difficulty in obtaining secured loans than unsecured loans and persons who had opted for Chapter 13 (repayment) bankruptcy instead of Chapter 7 (liquidation) bankruptcy have fewer opportunities to borrow. Lenders stimulate and profit from financial distress.

In most countries, severe restrictions are imposed on bankrupts. These may include:

- being barred from holding certain judicial and political and even administrative or civil service appointments;
- being incompetent to maintain any action (other than personal injury) without sanction of the bankruptcy regulator;
- not to, without permission of a court or the bankruptcy regulator, leave the country, operate a business, become a director or be involved in the management of a company, nor be involved, manage or be employed in business belonging to the spouse or relative;
- not to borrow more than a minimum sum specified by law without informing that he is bankrupt; and

- not to own assets exceeding a specified sum in value except wearing apparels for himself and his family.

The penalty for non-compliance of such already punitive measures may be dealt with as contempt of court!

Bankruptcy regulation impacts both borrower and lender behaviour and has to be treated as a part of consumer finance.

### **Credit Bureaus**

The financial services industry maintains and/or relies on credit bureaus operated by the public or private sector. In all countries the operation of the bureaus may not be equitable to consumers, especially since in many countries they are exempt from data protection law. There may not be a statutory duty or effective control of data collection, and of accuracy and responsibility to notify the subject of the data collected and maintained. Also there may be no specification of the limitation period that will apply when data prejudicial to the subject is maintained. In such circumstances, unauthorised access, errors in entry and sanctions for incorrect information are not provided for at all or are inadequately provided for. Credit bureaus have to be regulated to ensure equitable treatment of consumers.

### **The Way Forward**

Consumer organisations have focused on the problems relating to consumer credit and banking and insurance services. They have emphasised on the need to focus on transparency (prices, terms, conditions, and risks), fair treatment (including rules to prohibit harmful products and services) and effective redress (errors, complaints and abuses).

My contention is that our current focus will not in itself help address the systemic flaws in the system. The current

institutional structure for financial services regulation itself needs to be reformed.

As noted earlier, regulation and supervision of financial services in most countries does not serve the consumer interest. Few developing countries have a Financial Services Authority distinct from the central bank. Regulation of financial services may be shared by a host of other regulators including specialised insurance regulators, ministries of domestic trade and even local government given oversight of particular financial services, particularly of providers of credit such as moneylenders and pawnbrokers. Nonetheless, the central bank dominance is the norm.

Central banks act as the government's banker and lender of last resort. They also carry out a host of other functions, including implementation of monetary policy, control of the nation's money supply, management of its foreign exchange and gold reserves and the government's stock register. A principal objective of central banks is to maintain monetary and credit conditions conducive to a high level of employment and production (Eijffinger *et al* 2012).

In many countries, central banks are also responsible for the regulation and supervision of banking and other financial institutions. Given the wide ranging functions that central banks are required to perform; it is questionable whether they should also undertake the protection of consumers of financial services.

The recent financial crisis has led to a re-examination of the financial services regulatory architecture in several countries. In others, this has come from recognition of the changing nature of the financial services sector, especially with many financial institutions moving across traditional boundaries and financial activities.

An important consideration in the restructuring exercise is whether a single agency can balance the role of prudential

supervision with consumer protection without trade-offs that serve the interest of financial service providers at the expense of consumers.

Several countries have, therefore, moved towards what has been referred to as a “twin peaks” system. As noted by the Group of Thirty (2008), there is a growing interest in and support for “regulation by objective” of the Twin Peaks Approach to supervision. The Twin Peaks Approach is designed to garner many of the benefits and efficiencies of the Integrated Approach, while at the same time addressing the inherent conflicts that may arise from time to time between the objectives of safety and soundness of regulation and consumer protection and transparency. When prudential concerns appear to conflict with consumer protection issues, the prudential supervisor in the twin peaks system may give precedence to safety and soundness mandates, because these are closely intertwined with financial stability. The Twin Peaks Approach may help to force a resolution to this conflict.

The article entitled ‘Unsafe at Any Speed’ by Elizabeth Warren (2007) is very persuasive as to why there needs to be a specialised Consumer Financial Services Agency. In it Warren deals with the US situation as regards credit and points out that reckless and predatory lending by credit providers is designed to deliberately ensnare lenders. For this, credit providers build tricks and traps into credit products to ensnare families in a cycle of high-cost debt. Warren indicates the excessive technicality and misleading information in consumer credit contracts and the increased intermediation and conflicts of interest that occur in the consumer credit industry. The situation in many countries is similar.

We need to move away from the current regulatory structure that subsumes consumer protection within prudential regulation. We need to create a Consumer Financial Services Agency that has the consumer interest and will help focus on the systemic flaws that result in the exploitation of consumers.

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## II. Regulatory Issues





## 7

# Trade, Competition and Consumer Protection

*Supachai Panitchpakdi*  
*Secretary-General, UNCTAD*

**T**he contribution of CUTS to the multilateral trading system is not in a way that we can see easily and clearly in terms of negotiations, or market access opening up, but in noting that the results of our work at the WTO in terms of opening up markets and setting up good rules that could be used in a fair manner, in a way that would guarantee that consumers would really have the choices, the quality and the standards to the products and that the market powers would not be abused. Because by liberalising the market powers you cannot always have full control of what kind of impact would finally be produced, particularly on the consumers.

We at United Nations Conference on Trade and Development (UNCTAD) greatly appreciate this work that CUTS has been contributing. The work that we have been doing together in the areas of competition, consumer protection policies, investment agreements and other areas has been geared towards liberalising trade so that capacities can be built and a kind of fairness could be guaranteed for the consumers at large.

CUTS is celebrating its 30<sup>th</sup> Anniversary, and next year UNCTAD will be celebrating its 50<sup>th</sup> anniversary. It's a long time that UNCTAD has been around, and in the last eight years on my watch we have always been working very closely with CUTS. It is surprising to see that in three of the four areas of the so called Singapore issues that have been intensively debated before it was decided to pick one up, have been covered by the activities at UNCTAD and actually under my watch. I hope that it results in more intensive work in these three areas. You might be surprised that if you look at the areas of investment, competition and trade facilitation, we have fairly well covered these three areas. This has been achieved jointly with the WTO particularly, in certain areas of negotiations where we have been advising and supporting the processes.

The evolution of the thought processes in the last 30 years provides a number of lessons to be learnt. Back in the 1990's, you might recall that we were witnessing a series of mega mergers like Boeing, McDonnell Douglas, General Electric, Honeywell and also Microsoft. In those days we were concerned because competition agencies around the world had difficulties. Those that existed were having different interpretations of how to deal with these mega mergers. At the same time, we were seeing Europe move into a single market entity where the theme of competition was predominant.

A lot of people in the General Agreement on Tariffs and Trade (GATT) and WTO in those days were thinking that some of these rules on competition and competition policies could have some implications, particularly for market access. There might be dominant powers on the market that could move the market around, there could be some powers that would limit participation in the markets or single out parts of the market to be parceled out for different companies or groups

of companies to be predominating over those markets etc. So, quite a number of people were thinking, I think justifiably, along that line. When you have trade liberalisation and more market access, whether you would need flanking measures along the line of protection of consumer interest and at the same time to make sure that the gains that we have through liberalisation would not be negated because people go into anticompetitive practices.

Of course, some of us were thinking, by looking at the practices of the WTO and the GATT in different areas, that there were already some implications coming out of the way WTO functions. If you look at anti-dumping, the trade remedial policy, it is about how to counter unfair practices of below cost prices that would actually distort the market and help to corner the market in one way and try to exploit the market later on. These kinds of predatory practices have already been recognised in the way anti-dumping practices have been resorted to more frequently.

If you look at the Trade Related Aspects of Intellectual Property Rights (TRIPs) agreement, it actually allows the kind of the patent obligations that could be validated by governments, giving actually some sort of anti-competitive practices. Yes, because it gives something like proprietorship to only those who own the IP. But with a fervent wish, that this would lead to more innovation and more benefits for investment and trade in the future. The sense of having this IP and also some of the anticompetitive practices was there, which actually restricts contestability in the markets with the logic that those restrictions could promote larger degree of innovation which in turn could lead to more competition.

We have seen in the General Agreement on Trade in Services (GATS) agreement, article VIII, that there is a provision that prohibits monopolistic policies to limit the entry or violate the national treatment. 30 years ago, there were

those proponents of including competition into the framework negotiations for more market access and for rule making exercise.

Now on the other hand, there was also legitimacy in the way that some of us have been saying “of course we might need competition policy but won’t this kind of policy restrict us in the way that we would have the need to have policy space, to adopt certain anticompetitive policies for example in the area of the infant industry agreement or in the area of industrial policy that is now making a return at the moment”. In those days in the 1990’s, a lot of countries in Asia for example, the new Tigers, were using industrial policies with a bit of the anti-competitive policies in the background to promote some of this policy space.

There were others in those days who were saying “you cannot work on this one-size-fits-all kind of agreement”. If you look at investment, for example, you cannot have a uniform investment agreement. You have seen the efforts at the OECD, the multilateral agreement on investment; which has been eventually been dropped. So you cannot think of doing this with competition because countries have different background, different sizes of companies in different countries. In some countries, one huge company may not imply dominant power but in some other economies with smaller size of the companies, they can imply dominant power as well. So there were legitimate objections to the one-size-fits-all kind of agreement that could actually be accepted as general rules.

And of course there were some economists who were saying in those days that you shouldn’t spend too much time on this kind of rule-making exercise. There are much more urgent policies to be carried out in terms of market reform. In and prior to the 1990’s, governments were much involved in interventionist policies. In those days, economists were saying that you don’t need to go all the way looking at cartels,

whatever kind of collusive actions but just look at the way that government is driving policies forward. There have been all sorts of arguments in favour and against taking up competition rules at the multilateral level.

If you now look at the thought process, there is proliferation of competition rules as they are being adopted throughout the world. In the 1990's there were less than 50 countries that knew about setting up competition rules. During the negotiations in the first WTO meeting in Singapore in 1995, there were countries that just rejected it outright because they didn't know anything about it so they didn't want to bother themselves. Since then driven by work at UNCTAD and CUTS the number of countries having these competition rules in use last year went up to 122. We still need to grapple with effective implementation of these rules. This is another problem that we would have to think through in the future.

This is a change and an evolution of thought processes that I appreciate. It is the way UNCTAD has been working with CUTS to maintain the interests in some of the areas that could not have been subjected to some of the intricate negotiations at the WTO. There would be ways that we could apply some of these competition rules in different settings. We have people looking at the principles and joining us from time to time every year with our governmental expert group as we try to harmonise competition rules and consumer welfare protection policies. It is also very pleasing to see that countries in transition have emerged as market-oriented economies. They are finding market-oriented economies to their benefit in the liberal market system but at the same time need to supplement this market liberalisation process with some form of competition authorities.

And this afternoon, Frederic will chair the session on the policy review that we have recently conducted for Ukraine. And you would be surprised to see that in Ukraine the powers

that are vested in their competition authorities are quite significant. Much stronger than what I have seen in some economies that are more liberal, more market oriented. Many of these countries in transition are just really looking forward to dealing with their own economies which are infested with a sizeable, what they call, shadow economy. In some of the economies in transition, shadow economy is more than 50 per cent.

We are seeing the rise of transnational corporations (TNCs) involving themselves mainly in the global value chains (GVCs). 80 per cent of the global trading volume is now going through GVCs operationalised by TNCs, through their international investments spree. Everybody seems to be part of some chain or the other. But at the same time by making these investments, and having sizeable TNCs participating in the international trade, countries around the world are pointing at some forms of anticompetitive infringements because of the size of the TNCs, and the way they group together to work in some markets. Sometimes they come together to strengthen the buying power, to render small economies more dependent on a limited group of buyers so that they can control the markets. Sometimes they use their power to limit the competition from domestic companies. We have seen in Africa in the last 20 years the process of de-industrialisation. Some of us think that it is because of the invasion of the sizeable foreign investors. People are saying that there is a crowding out effect of some of the domestic investment because of the foreign direct investments.

If you look at the way the poor will be affected, SMEs have not always been granted easy access. We would see that the poor are not always afforded the best prices because some collusive efforts resulting in unjustified high prices for some essential products. If you look at food or pharmaceutical products, medicines which are all essential products, you will

question sometimes “why are the prices so high?” It is not because of fundamental changes in demand and supply all the time. We need to address that, not by just more market access negotiations alone, but by taking care that the rule making exercise which probably will be the future of the way we look at the multilateral trade system.

The first thing is that when you look at the need to promote competition and when you have the rules and regulations that are being set up, competition rules and the economic rules will need to be compatible. The problem is all these policies are not always in the hands of the competition authorities. Governments have to step in as they would have to take care of the whole economic management policy. Many times you could see governments stepping into different areas like investment policies, economic policies in general. Government becomes assertive because, for example, to be able to evolve green economy, they would have to put in more rules and regulations.

Most of the time they have restrictive effects on competition. So while we are becoming more enthusiastic about putting all the rules and regulations to maintain health care, food safety nets etc., we have to make sure that they are not really evoking the anti-competitive policies at the same time. There must be some balance between economic regulation, enabling state and the need to enhance competition.

The second area which we are seeing very frequently these days is the so-called sectoral policies that are emerging for example in areas such as electricity, water, IT, transportation, carbon dioxide emissions, etc. All these sectoral policies will need regulatory bodies to supervise fair implementation of the rules. At the same time you have the sectoral policy, sectoral regulatory body, co-existing with national competition policies. Because of different jurisdiction of the different sectors, they are not always in harmony. So in some cases you



see clear conflicts. For example, in the banking sector, the central bank may control the number of banks and interest rate policy but they may not have the authority to watch over bank clients. So the consumers of banking services are not always well protected. Sometimes they are in the hands of the competition policies which don't always have the same policies as the central bank. This is where banking policy could be better harmonised.

We have seen more cross-border anticompetitive actions in the cross-border mergers and acquisitions. TNCs have been gaining in terms of size and activities around the world. There is, therefore, great need for national policy makers to be working together. But this is not always the case because national competition committees have different rules and regulations, particularly the confidentiality of relevant information. It is always a question whether we can really have the kind of policy harmonisation that we need. UNCTAD has been working to try to reconcile all those differences, facilitating different jurisdictions to exchange information and have joint meetings.

Now we are trying to make things happen by putting information online. There is now an effort to do what we call a collaborative information platform. This is an online databank, a virtual forum wherein competition authorities around the world can share information, particularly on investigation. The authorities can learn from each other as investigations are being conducted sometimes along the same line in the same sectors. These are some of the cooperative efforts that would be more needed in the future when clashes between competing policies can be avoided by a better information system.

## 8

# Capacity-Building in New Competition Systems

*Bill Kovacic*

*Professor, Global Competition Law and Policy  
George Washington University*

I am happy for this opportunity to host the programme for my fellow friends, panellists and the audience to celebrate one of the great success stories in the operation of non-government organisations in public policy making today. I will speak about capacity building: what we learn from other experiences, its application to India, and in particular, focus on contributions of CUTS to this endeavour.

### **Capacity Building**

I am going to sketch six types of knowledge components that mark the difference between an effective institution and a less effective institution: technical knowledge of competition policy and law; knowledge of local industry and economic circumstances; skills training; skill and agency administration; agency leadership and learning from other competition jurisdictions.

### ***Concepts of Competition Law and Economics***

First, and most basically the human knowledge that comes from knowing something about competition law itself, i.e. its goals and objectives is important. It is necessary to know about trade-offs and choices made across the world and to know some of the industrial organisation economics which is needed for informing judgements about how the law should be applied. Basic concepts are indispensable at the start but are hardly enough to make the system more effective.

### ***Local Economy and Circumstances of the Economy***

Second indispensably is knowledge of local economic conditions, i.e. how has the economy in the jurisdiction functioned; how specific sectors operate; which sectors perform well; what are the obstacles to effective performance and superior economic results over time and what do firms do and why do they do it.

In many institutions, we see the absence of people with some experience in the private sector. If you have recruitments of exclusive individuals who have worked all the way in civil services, they would not have the intuition that comes from spending a few years counselling businesses from the inside and without some deeper understanding within the organisation what businesses do and how they are organised. Emphasis should be placed on creating the right team and getting the right people to head a competition agency, who have some work experience in the private sector in order to understand how they function. Without this important understanding, the agency would be in some sort of a deficit. Thus, recruitment of the right people and the right level is one of the key ingredients to ensure success of the institution.

### ***Skills Training***

Next is skills training and the development of relatively new systems over time and understanding the gap between knowing the theory of competition law concepts, principles and applying them in practice. How do you go back to conducting an investigation? I remember my first incarnation at the Federal Trade Commission in the late 1970s doing my first investigation interview. There was a very successful and capable advocate on other side. In the first half an hour, all I could elicit was the name and address in an otherwise barren exercise. By the time I did my 30<sup>th</sup> interview, I had a much better grasp on how to design an investigation, e.g., interviews, drafting documents, orders, analysing, testing and presenting of evidence – all indispensable to an effective programme as well as writing of reports and advocacy programmes to make the viewpoint effective.

### ***Agency Administration***

Agency administration basically deals with the infrastructure of how the organisation works; how it is designed; and how does the human resources department operate? These are very important for a competition agency, especially a new agency. If it is doing a good job of recruiting, it will face the wonderful dilemma of having people coming. It is a very bad sign in a new organisation if nobody wants to hire its people from the outside. You need a system in place that is able to manage information and provide training and counselling for those who are coming and joining the agency and to keep institutional knowledge inside to have a system that nullify conflicts.

### ***Agency Leadership***

There are not many good courses you can take to run a competition agency that tends to be on the job training. What are some of the key things about leadership to form a strategy to identify priorities, and how do you make your messages known to the outside audience. The question is whether there is politics in competition; how to deflect destructive pressure; how to use the pressure on your audience; and how to build good relationships with other government agencies.

### ***Learning from Other Competition Jurisdictions***

There are many examples in the world related to competition law. Today, there are 120 competition agencies, 100 out of them were created since 1990, and there is now increasing body of information that convey predictably about the problems likely to be faced at various stages.

In the first five years of an agency, the opponents will challenge your ability to collect evidence, scope of remedies and interpretation of the statute. You need a First-aid Legal Services Office inside to anticipate the mentioned challenges. It is worth spending more resources getting the procedure and process right because the opponents will hammer the agency in the courts on these challenges. The success of the agency is entirely dependent on the identity of a person who is in-charge.

### ***Realistic Expectations***

Also the agency has to deal with the difficult problem of setting expectations realistically. The enactment of competition law is accompanied by expectations that things will be done quickly. Building on a good system tends to be a slow growth and a tricky process that leadership has to go through while respecting the aspirations of the law. Things

will not dramatically change; nobody gets it right on the first day. The factor, the path of improvement is slow and gradual and that is the key to improvement that leads to better results.

### **Measurement Benchmarks**

To respond to questions on how one knows that the system works, there is a need to develop measurement benchmarks. How to do this? Circumstances will change, i.e. effort to provide a system, is closely linked to individual needs of a jurisdiction which is harder to determine than one thinks. The problem is to provide good guidance about what needs to be done. The role of the jurisdiction concerned is also important. If you are a physician dealing with the patient you have to know something about how to approach the patient and the patient has to be truthful about his condition. If a patient is not careful, honest and truthful and does not reveal where it hurts and how much the problem is, it is not going to assist in the preparation of a good diagnosis.

### **Long-term Engagement**

Trust and understanding are required in the development of good programme besides the right team and the relevant expertise. If you have never worked on a merger, you are the wrong person to tell the agency how to conduct merger investigations. If you have never worked on a cartel programme you are the wrong person to design cartel prosecutions. You might be a wonderful competition specialist but you are not the right person. Someone who is tied to the project with local knowledge, local circumstances, someone working on more similar conditions elsewhere, i.e. the development of enterprises, i.e. what I call suitable personality. Someone who has patience, knowledge, empathy and is willing to listen to the long-term perspective is terribly important in this process.

A famous recent example, in the country in which the person was sent to work disliked to be there; did not like the country, did not like the agency, had contempt for the people. You can imagine that was not the fruitful contributor to a good result in that jurisdiction.

## **Trends**

Trends showing what's getting better include the project design characterised by longer-term views and more follow-ups. Benchmarking and teaching materials have improved dramatically with much more practical orientation with respect to the transmission of know-how. There is also much more focus on sensitive issues. Yet there is limited co-operation on projects; and limited sharing about outcomes of individual projects rather than taking a collective approach to a competition over time. There is hardly any time to do research. Institutional memory tends to be weak.

## **CUTS' Contribution**

### *Microeconomic Research Projects*

One of the biggest contributions of CUTS is undertaking in-country microeconomic research projects, relying on the relevant local research. This is different from an outside academic, who comes and studies, collects some souvenirs and is gone, never to return. Having someone who is located inside the country to research has the ability to conduct the next study inside. Moving away from research done by the development tourists and emphasising much more the work done by indigenous specialists who are going to stay in the country is remarkable.

***Attention to Local Conditions***

Second CUTS has deep roots inside emerging market environments which has brought much more attention to the local conditions. The necessary starting point – what the right structure is, what the right process of adaptation is, and what the right path of implementing the programme is has been the key to the success. The seminal contribution of CUTS through its 7Up initiative, i.e. Bottom Up Approach in over 27 countries in Africa and Asia is greatly acknowledged.

CUTS does this not as part of its formal participation inside the government; but from outside. But if I give my own personal testimonial for one of the most important contributions CUTS has made in its 30 years, certainly in the 15 or so much I have seen it; it is a highly valuable contribution – a rich contribution to understanding local circumstances, local environment and adapting competition policies. And if you look back at the system over time, why do we celebrate anniversaries? We do not celebrate for its own sake, it is celebrated to appreciate contribution over time.





## 9

# Why People Fail in the Struggle with Poverty

*Eleanor M. Fox*

*Walter J. Derenberg Professor of Trade Regulation  
New York University School of Law*

*The vicious circle that keeps people poor in  
developing countries and the virtuous circle  
that can save them*

Daron Acemoglu and James A. Robinson have written the important book, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (2012). The thesis of the book, drawn from many deeply researched case studies, is that nations succeed when they develop inclusive political and economic institutions that unleash the potential of each citizen to innovate and develop, and they fail when they maintain institutions “that are structured to extract resources from the many by the few.”

The book has a certain linkage with the Millennium Development Goals. At the turn of the century, drawing attention to the severe persistent poverty in developing

countries, the United Nations promulgated the Millennium Development Goals aspiring to halve the number of people in severe poverty by 2015. The instruments for doing so are largely aid-based – providing food, education, health care and infrastructure to the nations and peoples most in need.

In these remarks I want to draw the connection between inclusive institutions that unleash the potential of people, which I will call empowerment, and the aid modalities that are highlighted by the MDGs. I want to suggest that aid goals must be supplemented by empowerment goals and that the key to empowerment is the creation and maintenance of markets that are accessible to the people on their merits and not blocked by undue state or private restraints. This discipline – making markets work and wresting them from extractive governments and vested interests – is competition policy. Whereas the aid goals, by definition, cost money and require hand-outs, the empowerment goals cost nothing (except to dismantle restraints); and when the restraints are dismantled the need for the aid significantly disappears because the people are, by definition, empowered to help themselves by doing what they could do best all along.

Indeed, one might consider not that the market goals supplement the aid goals but that the aid goals supplement the empowerment goals. Good competition policy is the unnamed, under-appreciated ninth millennium goal. Good competition policy helps nations achieve inclusive economic institutions in the sense articulated by Acemoglu and Robinson.

Why, then, do people fail to lift themselves out of poverty? They fail because they do not have enough to eat (malnourishment at an early age retards brain growth and intelligence; approximately 16 million people in developing countries are malnourished). They fail because the leaders of their countries conspire against them by condoning and entrenching corruption by the few with power (the national

extractors), thus shutting off economic opportunity on the merits. They fail because the developed countries of the world conspire against them by disregard: exploiting the loopholes in the world trading system (the vulnerable are always in the loopholes), further shrinking opportunity on the merits. While rich countries hand out aid to poor countries and protest that all they want is the poor population to earn a living and enable themselves, they embrace exclusionary trade and competition practices that disable the poorer population from succeeding on their merits.

Oxfam calls it: “Cultivating poverty.” Not just tolerating it; *cultivating* it. The earnings that the poorer population would realise if the anticompetitive barriers were dropped exceed the amount of the aid that the rich nations give, as observed by distinguished *Financial Times* journalist Martin Wolf.

Thus, to summarise, people fail because: 1) The children do not have enough to eat, nor do they have adequate schools; 2) Corrupt national leaders “eat” the supper of the poor, and national legislators build perverse state barriers through self-interest or lack of concern; and 3) The developed nations violate the norms of cosmopolitanism and exploit the vulnerable populations in developing countries, disabling poor farmers from doing what they can do better than the western farmers, through subsidies and export cartels.

Categories two and three invoke their nemesis, competition policy. Good competition policy would give the people a better chance and provide the earnings to counter hunger. The categories are intertwined. Only by addressing them all and together can the nations and their peoples avoid the traps of failure. I want to tell five stories.

### **People fail because they are malnourished**

For my first story: Nine years ago I read an editorial in the *New York Times* that I cannot forget. It was called “A Better Way to Fight Poverty.” It is a story of a school in a village in Kenya called Sauri. Anne Omolo, the then new head teacher of the only primary school in Sauri, arrived at the school to find that all of the children were listless, performed poorly, and missed many classes. What was the problem? She discovered that it was food; the children were hungry; they did not get enough to eat. She started a food programme. She found a few parents who could bring in a little extra; but still, there was not enough to go around. There were 100 students. Omolo had to make a terrible choice. She decided to give out the food only to the top two grades – 7 and 8 – because soon these students would be taking national exams in hopes to move on to high school. The younger children went to the windows to watch the older children eat. And the older children came alive. They went to school every day. They had energy and excitement. Their scores shot up, and they did well in the national exams.

### **People fail because officials are corrupt and legislators enact monopolistic laws**

My second story is about corruption. I was in Tanzania in 2009 on a technical assistance trip. Godfrey Mkocho, who was then head of the Competition Commission, gave me a book, *It's Our Turn to Eat*, by Michela Wrong. I imagined from the title that the story of the book would mirror the school in Sauri; food was so scarce, the family members would have to take their turns. Of course, as many of you know, it turned out to be something very different. The tribe in power would take its entitlement: bribes and corrupt payments. When administrations changed, the tribe newly in power would take

its turn to extract bribes and divert public resources. Resources never got used for their intended purpose. The officials would siphon them off for their personal gain. They set up shell corporations to receive the money authorised by government (themselves) for education, healthcare, food, and infrastructure. The schools and roads never got built.

### **People fail because they are hurt by state-related economic constraints**

My third story is about state monopolistic restraints. The economic restraints that hurt the people the most are usually state-related. In Kenya there is a marketing board for pyrethrum – a plant. The blossoms of the plant are made into an extract which is a very important insecticide for crops. Kenya, at one time, had an open market in pyrethrum, and the business flourished. It was selling 80 per cent of the world production. Then the government set up a marketing board with exclusive rights. The marketing board was the monopoly buyer of the plant and the monopoly seller of the extract. Tens of thousands of farmers were thrown out of business as a result of the state monopoly. The Competition Authority of Kenya, supported by the World Bank, launched a campaign to reform the law. Success is on the horizon.

### **People fail because of the disregard and exploitation by the developed world**

My fourth story is about trade and competition. As noted, Oxfam undertook a study which it called *Cultivating Poverty*. The study was about subsidies, especially cotton subsidies that the US and EU give to their farmers; almost all goes to big agriculture. The subsidies naturally induce the westerners to over-produce cotton and to sell it to the world at artificially

low prices. Farmers in Benin can produce cotton at two-thirds of the cost in the West. But the West exports cotton to African countries at a price lower than the farmers' costs. Many of them and their families starve.

Corn is also subsidised. American corn farmers receive more in subsidies than the entire gross domestic product of Burkina Faso – a country of more than two million people, most of whom depend on corn production. American corn farmers receive three times more in subsidies than the entire US Agency for International Development (USAID) budget for Africa's 500 million people.

Martin Wolf calls this phenomenon – selective illiberal trade policy by the touters of free trade – “the hypocrisy of the rich.”

### **People fail because of cartels**

Story 5. Canada and Russia have potash export cartels. Potash is one of the ingredients in fertiliser that the farmers need to grow their crops, especially in Africa. The potash producers fix prices for export, raising them by 600 per cent, thereby inflating a necessary input and helping to impoverish the farmers in Africa. When confronted with the injustice as well as the inefficiency of their conduct, with the fact that Canadians cannot legally price-fix to buyers in Canada, and with the fact that the principle against price-fixing cartels is a world norm (albeit a soft norm; there is no world law), Canada answers: The cartel is important to Saskatchewan and its economy.

### **Conclusion**

Why do poorer people fail to lift themselves out of poverty? Their countries and the world conspire against them, depriving them of their best chances to help themselves. They are caught

in the vicious circle of not enough food and thus diminished capabilities from birth, and blocked opportunity fired by corruption, government barriers, and public and private restraints on trade and competition that enrich the few and hurt the many. But there is a virtuous circle on the horizon, marked by an inclusive economic and political environment and inclusive competition policy, in the spirit of Acemoglu and Robinson. Personal economic empowerment is a better way to fight poverty.





# III. Trade & Development



# 10

## 30 Years that have Changed the Face of World Trade

*Pascal Lamy*  
*Director General, World Trade Organisation*

I will speak under the interesting thematic focus of “30 years that have changed the face of world trade”. It is an opportunity to look back on how the world of trade has evolved over the last three decades.

In the last few months I have, on a number of occasions, been asked to look back on my eight years in the WTO; occasionally even on the over two decades that I have spent dealing with economic and trade issues.

But today is special. Special because I have been asked to reflect on how global trade and the multilateral trading system have changed over the last 30 years. Perhaps because that is exactly the same timeline in which Consumer Unity & Trust Society – CUTS as we all call it now – has transformed from a modest organisation providing an umbrella to small consumer groups in rural Rajasthan to a truly global institution respected by governments and civil society alike.

CUTS made its entrance into the local scene in 1983 through a wall newspaper *Gram Gadar*; which my Indian

translators tell me means ‘Village Revolution’. And it is now in the global scene. CUTS has changed over the last 30 years and so too has the geo-political landscape. We have seen the rise of emerging countries and a shifting balance of economic and political power. These changes are also reflected in how global trade has matured in this period. In the early 1980s, the face of world trade was completely different; for one, the WTO did not even exist! The General Agreement on Tariffs & Trade (GATT), the WTO’s predecessor, was often dismissed as an exclusive members-only club. So perhaps the most important change that I will begin with is the much more universal nature of the WTO membership we have today.

There has been an exponential change from the 89 GATT contracting parties in 1983 to the 159 members of the WTO today, the majority of which are developing countries. Today, 24 countries are at various stages in the process of accession — with at least Yemen, Serbia, Bosnia and Herzegovina, Kazakhstan and the Seychelles at advanced stages. These accessions need to be fast-tracked in earnest because their pending conclusion remains the ‘last frontier’ we need to cross for the WTO to be a truly universal organisation.

What is the next big change that comes to mind when I look back over 30 years of global trade? Trade is today less about whole products and services, and more about trade in tasks along value chains which often span not just across countries but also continents. It is, therefore, no surprise that the breadth and scope of what the WTO rules now cover has significantly expanded as compared to 30 years ago.

In the 1980s, trade in goods measured in volume accounted for around US\$2tn. In 2012, it accounts for at least US\$18tn. Between 1982 and 2012 merchandise trade increased by an annual average of around 8 per cent. In the early 1980s, while services were known to be important in their own right, we did not have a multilateral agreement covering this sector.

Similarly, today we practically take for granted the obvious role that intellectual property rights play in boosting innovation, driving manufacturing and industrial growth; and often lose sight of the fact that 30 years ago, there were no multilaterally agreed rules in this area. In addition, while there were some very elementary rules on agriculture trade, we certainly had not started to think it possible to discipline agriculture in the same manner as manufacturing and definitely not in the way envisaged in the draft texts on the table in the Doha Round.

And I could go on and on; especially if I look at the way issues like government procurement, information technology, electronic commerce, technology transfer, trade, debt and finance, environment and trade facilitation have permeated the fabric of global trade discussions.

At the same time, we have also mainstreamed discussions on issues like sustainable development and Aid for Trade (AfT) into our work, something which would not have necessarily been seen as under the ‘trade’ rubric 30 years ago.

If I had a crystal ball, and I could look into the future, perhaps what I would see would make even these changes look mild. But given that these are my last few weeks here, I better keep my views on the ‘issues of the future’ to myself, at least until I recover my freedom of speech!

Launching of an ambitious trade round in Doha — with close to two dozen topics for negotiations and work, and more importantly with a strong and central focus on development, is another milestone in the history of the multilateral trading system. Placing development at the core of the Doha negotiations means two things: a clear acknowledgement that more open trade can work for development. But it also means that trade opening must be accompanied by trade capacity building – AfT – for it to work. Now of course, we all know the real success is the conclusion of these negotiations which we all hope will happen in the not too distant future.

While the bulk of successive GATT rounds brought industrial tariffs down but for tariff peaks, Doha presents the opportunity to address relevant barriers to trade today such as non-tariff barriers, border red tape and deepening the opening of trade in services. It also offers an opportunity to ensure trade is supportive of sustainable development by tackling fisheries subsidies and opening up trade in environmental goods and services. All of these are extremely relevant for the proper functioning of value chains.

Any discussion on changes in the world of global trade would be incomplete without a mention of the WTO's dispute settlement system. There is no real comparator in terms of time efficiency and quality of judgements delivered. There is also no comparator in terms of depth of members' ownership in the findings of WTO panels and Appellate Body reports. And yet in 1983, the GATT still operated on the lean provisions of GATT Articles XXII and XXIII: a system whose very design locked it into an inherent weak operational structure.

I do not think that the founders of the WTO could have envisaged the remarkable contribution it has made to global economic stability. Its predecessor, the GATT, had no doubt laid the foundation for global co-operation on international trade regulation, and made its remarkable contribution to maintaining world peace. But this young organisation; yes we are only 18 years old has not only contributed to global peace and security by strengthening the reliance of nations on one another for trade but, in the last three years, through its periodic transparency and monitoring exercise, has also prevented nations from adopting wide scale protectionist measures.

And finally, there has been a huge change in the negotiating dynamics that have come about in the last 30 years. In today's WTO, it is unimaginable that an agreement amongst the 'Quad' of the 1980s is sufficient to conclude a deal.

While I no doubt share the global optimism at the evolution of a more balanced power equation within the WTO, perhaps on a personal level I am most pleased with the remarkable change in the negotiating prowess of the least developed country (LDC) group. 30 years ago, it was inconceivable that LDCs would be a force to reckon with in multilateral trade negotiations. Today, LDCs have common, well researched positions that have helped to place their agenda at the fore of multilateral negotiations.

In sum, the multilateral trading system has witnessed radical transformations. What was once a members-only club has its doors open to all, not least the non-governmental organisations (NGOs). Perhaps there are some parallels between the evolution of CUTS and the growth of the WTO: the quest to develop global organisations that are open to organic growth, reflecting the ever changing needs of the global economy in which we operate. This has been my philosophy – and the core of my efforts – as Director-General of this organisation.

As I wind up my term of office here at the WTO, I believe there is an ever-important role that organisations like CUTS and other civil society organisations can play in keeping the multilateral trading system accountable to the development challenge. From wherever I will be, I will remain an ardent supporter of such initiatives.





## 11

# The Future of Global Trade Policy

*Martin Wolf*

*Chief Economics Commentator, Financial Times, London*

The onward march of globalisation is among the greatest economic and political stories of our era. Behind globalisation lie both deliberate policies of liberalisation and the revolution in communications and information technology. The latter, in turn, has allowed the emergence of integrated systems of production and distribution, managed by a new breed of global companies. The most important economic and political consequence of contemporary globalisation has been the “great convergence” of average incomes between the high-income countries of today and the emerging countries. As Arvind Subramaniam and Martin Kessler note, in an important recent paper:

“Until the late 1990s, only about 30 per cent of the developing world (21 of 72 countries) was catching up with the economic frontier (the US), and the rate of catch-up was about 1.5 per cent per capita per year. Since the late 1990s, nearly three-quarters of the developing world (75 of 1033 countries) started catching

up, at an accelerated annual pace of about 3.3 per cent per capita. Although developing country growth slowed during the global financial crisis (2008-12), the rate of catch-up with advanced countries was not materially affected and remained close to 3 per cent.”<sup>2</sup>

This, in brief, is a world transforming.

The deliberate opening of economies to trade within a rules-government global trading system, has been the bedrock upon which the globalised economy has been built. Rising globalisation is, therefore, the theme of the first section of this lecture. The second section will examine why liberal trade policies have proved so robust, despite high unemployment and rising inequality in crisis-afflicted high-income countries. The third section will consider the challenges coming from outside the trade policy regime. In the final section, I will look at the challenges from within the trade policy regime.

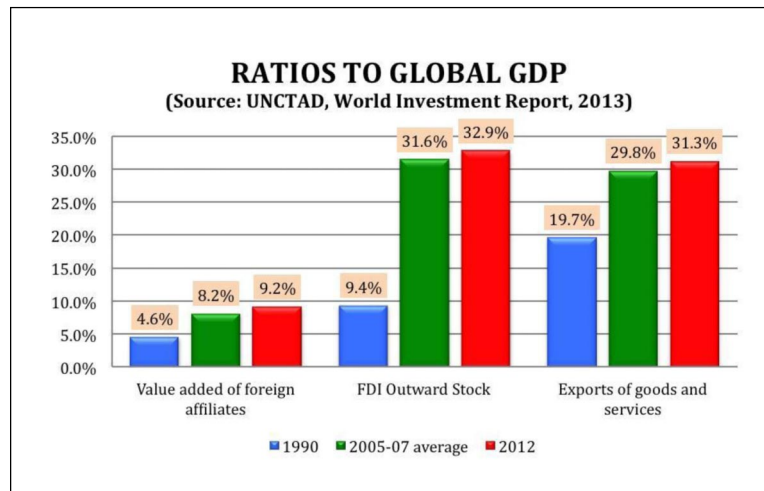
## **The Rise of Globalisation**

In their important analysis of what has happened, Arvind Subramaniam and Martin Kessler of the Peterson Institute for International Economics, in Washington DC, note seven important features of contemporary trends in the world economy:

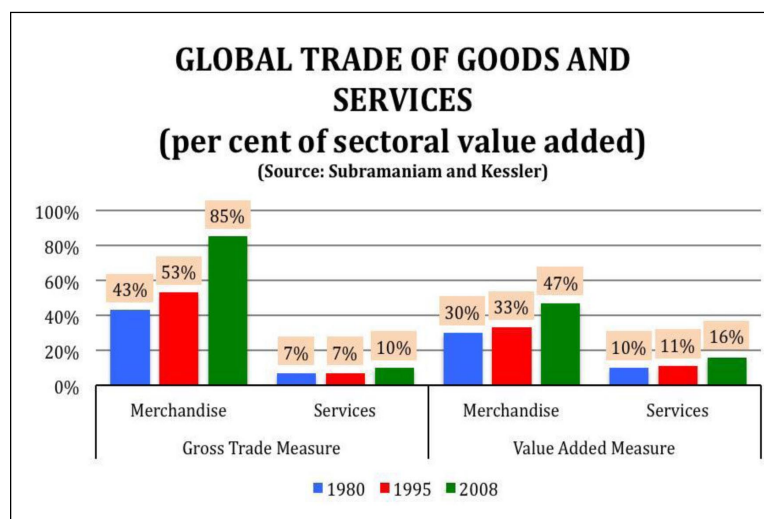
1. Hyperglobalisation: greatest openness to trade and investment in world economic history.
2. Dematerialisation of trade: rising importance of services.
3. Goods versus services: decline of barriers to trade in goods, but continued high barriers to trade in services.
4. Universalisation: widespread embrace of globalisation.
5. Two-way flows: similarity of North-to-South trade and investment flows to South-North flows.
6. Mega-traders: rise of China.

7. Discrimination: proliferation of regional and preferential trade agreements and the current discussion of mega-regional ones.

First, hyperglobalisation is indeed the salient feature of our era. Between 1990 and 2005-07, the value added of foreign affiliates rose from 4.6 per cent to 8.2 per cent of global product, the stock of foreign direct investment jumped from 9.4 to 31.6 per cent of global product and exports of goods and services rose from 19.7 to 29.8 per cent of global product. Moreover, the crisis has not caused a fundamental break in the trends. Instead, we see modest further increases in openness: in 2012, value-added of foreign affiliates was 9.2 per cent, the stock of foreign direct investment was 32.9 per cent and exports of goods and services were 31.3 per cent of global product. (See chart.)



Second, manufacturing and services have both become increasingly traded. None the less, the production of goods is still more open to trade than production of services. In the case of services, a huge divide in tradability has now opened up between services that can be turned into bits and so be transmitted costlessly across the globe and those that require face-to-face contact. Data on gross value of trade exaggerates its economic significance for goods, but underestimates its significance for services. This is because services are included within the gross exports of goods.

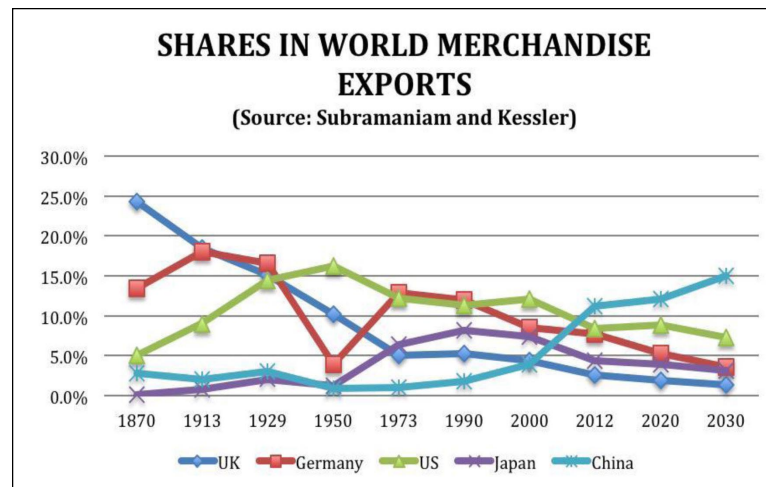


Third, a part of the reason for the lower degree of openness of services than of goods (particularly manufactures) is that barriers to trade are substantially higher in the former than the latter. This is partly because the liberalisation of services only began during the Uruguay Round. The conventional barriers to trade in goods are now very low, particularly in the high-income countries. This is much less true for services. Nevertheless, barriers to trade have been falling for both goods and services. Yet the economic opportunity afforded by

liberalisation of trade in services is clearly greater than that afforded by liberalisation of trade in goods.

Fourth, the current era is one of universal globalisation. The average ratio of trade to GDP has risen from about 10 per cent in the mid-1950s to close to 25 per cent now. The latter is far higher than in 1913, when it was just below 15 per cent. Never before in the field of global commerce have so many countries been so open to trade in so many products and services.

Fifth, trade and investment flows are becoming increasingly similar, in both directions. At first, this largely took the form of intra-industry trade among high-income countries. Then it increasingly took the form of two-way trade in parts and components within internationally integrated value chains, particularly between the high-income countries and Asian suppliers and among Asian suppliers. Finally, flows of FDI are also increasingly two-way, with substantial FDI by emerging countries in high-income ones.

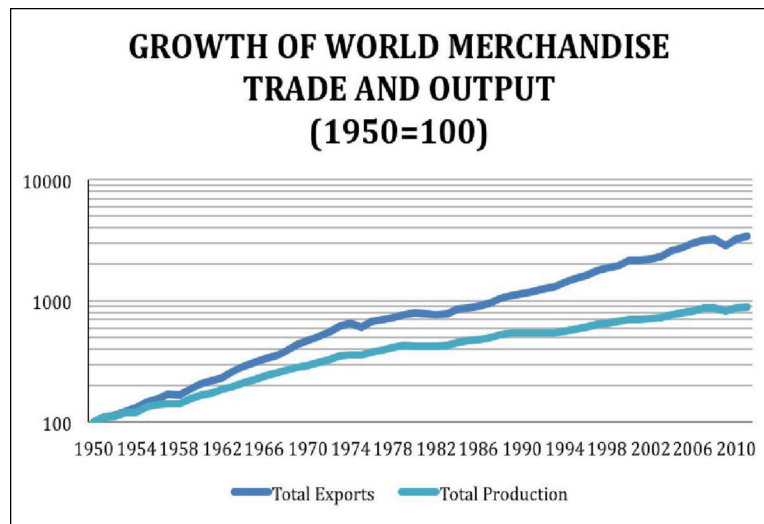
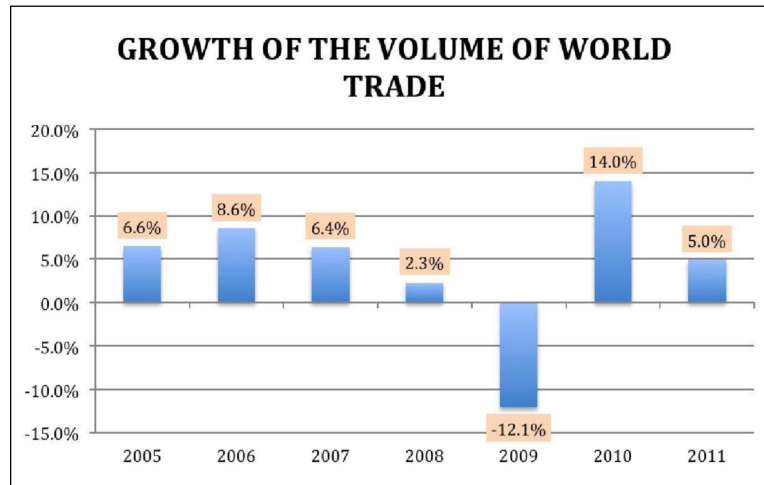


Sixth, the world is seeing in China the emergence of a new core country in world trade. China's role is exceptional, because it is far more open to trade than other large economies and is also potentially much the biggest economy in the world. It seems quite likely that China will be much the biggest trader by the 2030s.

Finally, preferential trade has become increasingly important. Today, about half of the exports of the top 30 exporters go to preferential trading partners, but preferences still only cover about 17 per cent of world trade. Between 1990 and 2001 the number of Preferential Trade Agreements (PTAs) increased from 70 to 300. Finally, in the mid-1990s, about 75 per cent of preferential trade arrangements were regional; by 2003, this had dropped to about 50 per cent. All members of the WTO, except Mongolia, have concluded at least one PTA. Some have concluded more than 20. Particularly important is the fact that, over the last 10 years nearly 40 agreements have included provisions on "WTO-plus" issues, such as competition policy, intellectual property rights, investment and capital mobility.<sup>3</sup>

### **Globalisation during the Crisis**

Protectionism is the dog that has barely barked. Yes, it has proved impossible to complete the Doha Round of multilateral trade negotiations, but this is not really because of the financial crisis. There have also been some protectionist actions. That is hardly surprising. But it is remarkable that the open trading system has survived not only the biggest recession since the 1930s, but a far longer period of rising inequality and worsening labour market prospects for a large proportion of the citizens of the high-income countries. Indeed, trade made a remarkable recovery after its collapse in 2009.





The question is why the open trading system has proved so much more robust than in the 1930s and so what that tells us about its likely future. We can identify five mutually supportive explanations:

1. Institutions: role of the WTO.
2. Interests: role of multinational companies.
3. Ideas: triumph of the ideology of market openness.
4. Welfare: role of social safety nets.
5. Divergence: success of emerging countries.

First, the commitment to liberal trade is now entrenched in global institutions whose commitments have become a component of domestic law. This is not only true of the WTO. It is also true of regional agreements. The WTO, in addition, has a dispute resolution system that countries do not wish to violate openly, since they do not know when (or if) they themselves will need to take resort to the system. No such institutionalised system existed in the 1930s. Trade policy was, instead, a creature of domestic politics.

Second, global capitalism has largely replaced national capitalism. This is particularly true in manufacturing. Thus, instead of shared interests between companies and their employees, those interests are now split. Similarly, the interest of owners of capital is increasingly in the returns available from an internationally open capital market rather than from profits on domestic activities. Capital has become increasingly cosmopolitan. It is not an accident that agriculture remains highly protected. This is the one goods-producing sector not dominated by multinational enterprises, but rather by small national ones. Meanwhile, organised labour and the working class have experienced devastating collapses in their significance, as the economy has gone back to the future: to something that looks increasingly 19<sup>th</sup> century in character.

Third, 1989 has trumped 2008. The collapse of the Soviet empire demolished the credibility of alternatives to the market economy. This has remained true, so far, despite the anti-globalisation movement of the late 1990s and early 2000s and even the financial crisis itself. Indeed, it is quite remarkable how well the commitment to the market has survived the devastating collapse of the core of the market economy – the financial system. Whether this will continue to be the case is, inevitably, an open question.

Fourth, albeit battered, state-funded social safety nets exist in all the high-income countries and provide a degree of support unthinkable in the 1930s. It is probably also important that the old are a relatively large proportion of the population: the old barely rely on employment and large depend on state benefits, instead.

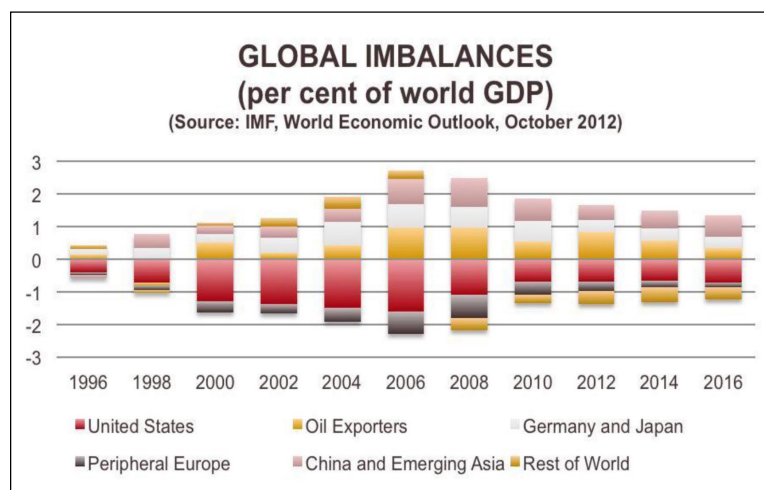
Finally, the high-income countries have not wished to abandon a system of open markets that they themselves created. Meanwhile, emerging countries have prospered since 2009 and, for this reason, see no reason to abandon the openness that has brought remarkable rewards for so many of them.

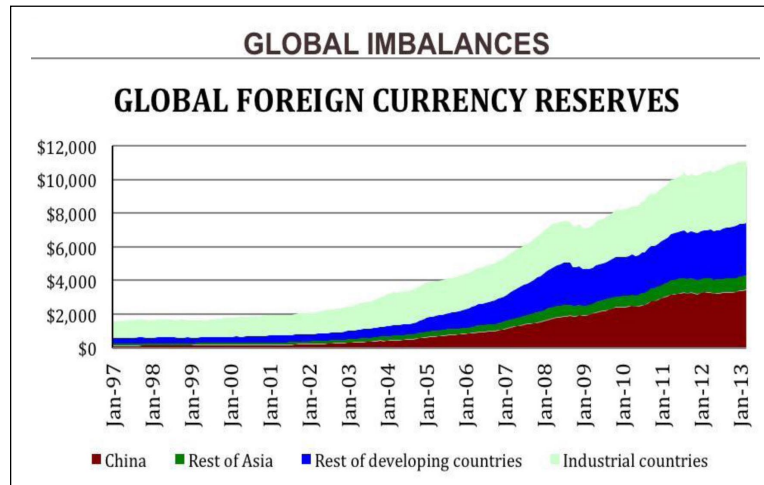
### **Challenges from outside the Trading System**

In all, then, the story is one of astonishing success. It has proved possible to achieve and then sustain an unprecedented degree of openness to trade (and, more recently, direct investment), across the globe, despite the recent challenges of a huge financial crisis and subsequent global recession. So what are the challenges ahead? I suggest the following:

1. Imbalances: the link between trade and exchange rates.
2. Climate change: trade and the global environment.
3. Inequality: trade and wages.

First, as John Maynard Keynes argued, liberal trade becomes problematic if exchange-rate intervention is used as a successful alternative to protection. This is what the Australian economist, Max Corden, called “exchange rate protectionism”. Normally, that has been a small problem: either the intervention or the macroeconomic impact has been small. But between the Asian crisis of 1997-98 and today, both assumptions have proved to be false: the imbalances became huge; the intervention in foreign currency markets was also enormous; and the ability of countries to offset the impact of the intervention through monetary and fiscal policy proved quite limited, once interest rates hit the zero bound. It is possible – even likely – that, once the high-income countries, particularly the US, recover, these imbalances will rise rapidly, once again. If so, this might strengthen arguments for countervailing action.





Second, a big challenge arises over global environmental externalities. A basic assumption of the trade policy regime is that subsidies are distorting. But what happens if a group of countries agree to impose a tax on emissions of carbon dioxide or a subsidy for low-emission technologies. The argument, in both cases, is that this internalises a global externality. If so, such a policy does not represent a distortion, but rather the removal of one – a failure to deal with a global distortion. Now, go further. Assume that, as a result of a tax, production shifts from the country imposing it to a country that does not impose it. Aggregate emissions will not fall. They may even rise. The country imposing the tax can argue that it has a right to prevent the shift in production, since this concerns a global rather than a local externality. This then creates a case for a countervailing duty on imports of products that are produced in emissions-intensive ways. Indeed, one can argue that this is the best way of producing a global regime of carbon pricing.

Third, there is the question of the link between trade and rising inequality, particularly in high-income countries. There

is much debate over how strong this link actually is. A plausible answer is that it has been a part of the explanation, particularly for the decline in well-paying job opportunities in the middle of the wage distribution, as employment in manufacturing collapses, but other factors were also at work, including changes in technology and corporate governance, developments in social mores and the rise of winner-takes-all markets.

The best mechanism for dealing with the distorting impact of currency intervention would be a global agreement within the International Monetary Fund (IMF). Similarly, the best mechanism for dealing with the challenge of the global environment would be an effective treaty. Finally, the best way to deal with the rise of inequality would be taxation of the winners. But all these are problematic: progress is unlikely to be made within the IMF on contentious exchange rate issues; the ability to reach a binding and effective treaty on climate change is constrained by disagreement over the urgency of the task, by the number of parties that would have to agree and the distributional issues – intergenerational, interpersonal and international – that would have to be resolved. Finally, the rising mobility of capital, both corporate and personal, and the growing political power of its owners has made it far more difficult to raise taxes.

These challenges may either not be resolved, making the outcome of liberal trade far less beneficial than it could be, or they will be resolved in a malign way, via rising disintegration of the liberal global economy, as is already happening, to some degree, in finance.

## **Challenges from within the Trading System**

In addition to the challenges from outside the trading system, there are also three challenges from within it. These are:

1. Doha Round: Failure to complete and consequent loss of legitimacy.
2. Mega-regional negotiations: the plan to launch the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Partnership (TAP), with the US as the hub.
3. China: the need to bring a new hegemonic trade power fully into the system.

The three challenges are self-evidently connected.

One of the reasons for pursuing the mega-regionals is that the Doha Round is seen to have failed, largely because the most recalcitrant members of the WTO hold it hostage. Again, a reason for launching the mega-regional negotiations is that it allows like-minded countries to pursue discriminatory liberalisation, at the expense of China. Yet it is also quite clear that these strategies are dangerous. There is a risk that the result will be to split the trading system, as competition emerges between a rising China and a declining west, both trying to impose their own views of how the system should work on their trading partners.

Is there a way of avoiding or at least mitigating this danger? Yes, is the answer. As I have argued on previous occasions it would be possible to negotiate a single advanced preferential trading arrangement, to embrace both the TPP and the TAP, with the simple proviso that any country, not least China, would be able to join, provided it accepted the disciplines embodied in this agreement, though undeveloped countries should be accorded the benefits unilaterally and freely. The advantages of this approach are that it would encourage further liberalisation among a widening coalition of the willing. At

the limit, the new arrangement could become an agreement within the WTO.

This proposal might work better than that of a “China Round” proposed as an alternative to the Doha round by Subramaniam and Kessler. But it is necessary to retain scepticism on both alternatives. As the World Bank’s Bernard Hoekman notes:

“It is not at all obvious that killing off the Doha Round and launching a new ‘China Round’ will make a difference in this dynamic. A number of the policies for which the European Union and the US would like to negotiate disciplines are going to be difficult to agree on (for example, the role of state ownership of companies, industrial policies, and government procurement). The fundamental constraint that is precluding the Doha Round from being concluded – namely that the US and the European Union have little to offer – continues to apply. The same reasoning suggests that the extent to which the ‘mega-regionals’ will put ‘pressure’ on Brazil, China, and India to come to the negotiating table may be limited. Much will depend on the extent to which incentives result in economically meaningful outcomes and the degree to which these outcomes imply discrimination against products coming from non-parties.”<sup>4</sup>

While such open preferentialism could, in theory, reconcile plurilateralism with multilateralism and preferences with non-discrimination, this does not mean that the new approach would actually work, in practice. The obstacles to reaching a successful agreement on these mega-regional deals are large, as Hoekman notes. While the gains from further liberalisation of services and from some combination of mutual recognition and harmonisation of regulatory standards could be substantial, these are profoundly contentious issues, as the European Union has discovered. Agricultural issues – including over genetically modified organisms – would also remain difficult. There is a

very good chance therefore that the new plurilateralism would fail, further undermining the credibility of liberalisation.

## **Conclusion**

The global trade regime is a troubled triumph. The onward march of globalisation demonstrates that it is indeed a triumph. The difficulties it now faces show that it is a troubled one. It is troubled partly because of its very success: the easy part has been done; and it has also become increasingly intrusive. At bottom, the challenge is that of making global governance work in an era of “hyperglobalisation”, the “great convergence”, global environmental challenges, financial crises and rising inequality in high-income countries. The trading system has to respond to that challenge. But it cannot deal with it successfully on its own. The era when trade could be successfully separated from other policy concerns is now over, largely because the world economy has become so open and so integrated. A hyperglobalised world will need a greater degree of global governance. The challenge is huge. But it is also inescapable.



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## Endnotes

- 1 Arvind Subramaniam and Martin Kessler, “The Hyperglobalization of Trade and its Future”, 2013, [http://www.gcf.ch/wp-content/uploads/2013/06/GCF\\_Subramanian-working-paper-3\\_-6.17.13.pdf](http://www.gcf.ch/wp-content/uploads/2013/06/GCF_Subramanian-working-paper-3_-6.17.13.pdf). See also Bernard Hoekman, “Comment on ‘The Hyperglobalization of Trade and its Future’ by Arvind Subramaniam and Martin Kessler”, [http://www.gcf.ch/wp-content/uploads/2013/06/GCF\\_Subramanian\\_Comments-by-Hoekman\\_6.17.13.pdf](http://www.gcf.ch/wp-content/uploads/2013/06/GCF_Subramanian_Comments-by-Hoekman_6.17.13.pdf).
- 3 Richard Baldwin, “21st Century Regionalism: Filling the Gap between 21st Century Trade and 20th Century Trade Rules”, Policy Insight No. 56, Centre for Economic Policy Research, Washington D.C., <http://www.cepr.org/pubs/policyinsights/PolicyInsight56.pdf>.
- 4 Bernard Hoekman, Comments on “The Hyperglobalization of Trade and Its Future,” by Arvind Subramaniam and Martin Kessler, [http://www.gcf.ch/wp-content/uploads/2013/06/GCF\\_Subramanian\\_Comments-by-Hoekman\\_6.17.13.pdf](http://www.gcf.ch/wp-content/uploads/2013/06/GCF_Subramanian_Comments-by-Hoekman_6.17.13.pdf)

## 12

# Global Trade Can Help Us End the Need for Aid

*Justine Greening*

*Secretary of State for International Development, UK*

**F**or 30 years CUTS has often been one of the few voices to make the case for free trade and for citizens to be empowered by openness, transparency and accountability. They have argued that a trading system combined with consumer rights is essential for growth alongside poverty reduction.

If you ask people in developing countries what they want, they will name important topics like education, water and health. Often these will be different whether it's a woman or man answering the question. But it is interesting that their top priority, no matter the gender, will almost always be a job.

Sustainable, secure jobs give people in the world's poorest countries the chance to work their way out of poverty; the chance to provide for their families and to end a dependency on aid. It gives everybody the chance to be part of the global economy.

That is why I and the government have been clear that my department's focus should be on economic development.

Across the world Britain is helping boost investment and improve the business climate. We are improving basic services – health, education, water and sanitation. Many of these are the building blocks of a successful economy.

But among all this work we have not lost sight of one crucial fact. Ultimately trade is the most important driver of growth. Look at China and their recent record on poverty reduction, which has gone hand in hand with a huge increase in trade and economic growth.

Trade between nations creates jobs and prosperity. It drives down prices and increases choice.

It is in all our interests, from the fisherman in Kenya to the financier in Kent, for the world's poorest countries to reap the benefits of free and fair trade.

Many of these emerging countries, which are seeing skyrocketing growth rates, are also countries in which the Department for International Development (DFID) works, such as in sub-Saharan Africa. These are Britain's future trading partners. Building economic growth and creating jobs is not only good for developing countries, it benefits Britain too, by creating new markets for British businesses to invest in.

## **UK Approach to Trade and Development**

This government is absolutely committed to keeping development at the heart of our approach to international trade.

This does not mean protecting poor countries from the world, sheltering them from competition. It's about opening markets to them, building on the obvious desire of developing countries to be part of and to benefit from the global economy.

As the Prime Minister said at G8 Summit, in an integrated world protectionism is not just "beggar my neighbour" but "beggar myself".

I would like to echo what Martin has said about the central importance of the WTO in maintaining global commitment to an open trading system. At Lough Erne the Prime Minister committed to work to help deliver an agreement on trade facilitation at the WTO Ministerial meeting in December.

A deal, if it comes off, to make it easier to move goods across borders could add US\$70bn annually to global income and provide a much-needed boost to the global economy.

I know that there are different opinions on this, so let me just underline my view. It is perfectly consistent to pursue bilateral trade deals but also to be a firm believer in the multilateral system. In fact, I am convinced that bilateral deals can actually be key building blocks for a stronger multilateral system in time because they accelerate the pace of trade liberalisation and tackle the barriers that exist beyond tariffs.

The negotiations that started last week on an EU-US trade deal have a strong focus on these so called “behind the border barriers”. Because of this they have the potential to deliver real benefits to the rest of the world on top of those reaped by the EU and US.

### **Three Barriers to Trade**

But we also know that many poor countries are just not trading enough to generate the growth they need to deliver the jobs and incomes that will reduce poverty.

In my view there are broadly three reasons for this. They are reasons which guide the areas which our department focuses on.

First, the rest of the world often doesn’t let them trade freely. The UK will continue to lead the charge in ensuring that EU markets remain open to developing country exports.

We will continue to push for the poorest countries to be allowed to trade freely. This could be at the EU, at the WTO,

in the G20. Wherever there is a case to be made for freer, fairer trade, we will aim to make it.

But we also need others, including the rapidly growing emerging economies, to go further in opening their own markets to developing countries. Even with the Doha Round stalled, there is more that can be done to tackle the subsidies and other distortions that so often tilt the playing field against poor producers.

Second, all the market access in the world is no good if there isn't an enabling environment for trade and investment. This is particularly true if you can't physically move what you're selling to where it's needed. Poor infrastructure increases the cost of trading and hits competitiveness hard. Shipping a car 6,000 miles from China to Tanzania costs US\$4,000 (around £2,650). Getting it the 600 miles from there to neighbouring Uganda can cost another US\$5,000 (around £3,315).

This is where donors like the UK can play a hugely important role, in improving this enabling environment. During last month's Group of Eight (G8) meetings, Donald Kaberuka, President of the African Development Bank, told us that the best thing we can do with our aid is to help developing countries to trade.

That is exactly what Britain is doing. Today I can announce £27.8mn for a TradeMark East Africa (TMEA) programme in Kenya. This funding will drastically cut the time taken to move goods between the port of Mombasa and the Ugandan capital of Kampala. British support will go towards modernising the port, which is the entry point for millions of tonnes of cargo bound for Kenya's landlocked neighbours.

In Uganda, I have agreed nearly £30mn for TMEA to upgrade a key road linking Uganda and Rwanda. We will also improve the customs facilities at an increasingly busy border crossing with South Sudan. Our investment will reduce delays

and help to increase Uganda's exports by more than £300mn by 2017 (around £200mn).

The return on investment of these projects can be huge. We know that improving the Mombasa port, for example, will not only help to increase inward investment but also outward investment, as it improves the container shipping business model in those regions.

We know that infrastructure is only part of the problem. We also need a regulatory structure that can help investment. A DFID-funded study put red tape up there with infrastructure as one of the biggest barriers to investment in Africa. Shoprite, the biggest retailer in Southern Africa, spends US\$20,000 a week (around £13,000) just on import permits to ship goods from South Africa to Zambia, its next door neighbour.

Just as we are taking the scissors to red tape here in the UK, so we are starting to look at how we can reduce unnecessary burdens on business abroad.

Today I can announce that we will provide £7mn to support the work of the International Trade Centre (ITC). This will be used to collect and share data on the impact of permits, regulations and bureaucracy in developing countries. The ITC will then bring businesses and governments together to unpick and, over time, dismantle these unnecessary barriers. We need to set the private sector free to create the jobs and incomes that the world's poor desperately need.

## **Global Value Chains**

The third reason why many countries may not be reaping the benefits of trade is that they may not be serving the value chains that form such an important part of the modern global economy. One of the most striking features of trade in the 21<sup>st</sup> century is how integrated it is, with global value chains stretching across the world.

Martin Wolf has already pointed out the central role played by multinational enterprises in the current global trading system. Some 60 per cent of trade takes place within supply chains, driven by multinational companies. Around half of that is within these same firms.

Look at Britain. We know from our own experience that you don't need to produce aeroplanes to be an important player in the aerospace sector. We're good at high-tech engines, so we specialise.

We need to make sure we are looking innovatively at how to get developing countries into these supply chains.

Of course, the link that many developing countries have right now to global value chains is through the supply of foodstuffs or other commodities.

Take Kenya. Look at a typical supermarket shelf in Britain and you'll find fresh fruit, flowers and vegetables all stamped with the label 'Made in Kenya'. The horticulture and agribusiness sectors have created jobs for four and a half million people in the country – over 10 per cent of the population.

The government will soon be setting out our agri-tech strategy. International development will play an important role in this strategy.

There is increasing evidence that developing country firms in global value chains employ more workers, pay higher wages, and hire a larger share of female workers than those operating outside of those chains. Producing for multinational firms boosts standards and encourages developing countries to invest in skills and working conditions.

Not only does it create more jobs, it creates better jobs.

Our work in improving access to these value chains needs to sit alongside the other work we are doing to improve the enabling environment in the developing world, such as improving access to liquidity and capital for businesses.

Within value chains British firms are playing a major role. Earlier this month I met some of this country's biggest retailers to discuss how they can improve their supply chains, particularly in the garment sector. Last week I'm sure many of you are aware that they followed this with a historic agreement to inspect the factories they use and to play their role in making sure that value chains are not just good for jobs and prosperity, but that they are responsible.

They are really clear that improving the conditions and skills of their workers is becoming an increasingly vital part of the competitive marketplace they operate in. People often overuse the phrase 'win-win', but this is a win for consumers, a win for business and a win for prosperity and jobs in the developing world.

British businesses are investing in the quality of life of their workers. This is not to improve their image or to claim tax deductions; they are doing this in the interests of long term profitability.

## **Conclusion**

Making sure we are advocates for freer trade, ensuring we are improving the enabling environment for business to invest and trade and helping developing countries to plug into global value chains.

All this would be good for the world's poor and good for Britain.

I think the role of the Consumer Unity & Trust Society over the next 30 years will be invaluable in achieving all this.





# 13

## Whither the International Trading System

*Jagdish Bhagwati*  
*Professor, Columbia University*

In mid-1990s, Pradeep and CUTS were ostracised as much as people like me and others who started talking about trade liberalisation as one of the most important components of a new policy framework which would lead to greater growth and pull people into gainful employment, and would generate revenue which, in turn, could be spent on healthcare, education, etc. giving a double dividend and so on. For an NGO to be able to say such things at that time needed real courage.

Trade – basically the multilateral trading system – unfortunately is on ice or in an intensive care unit whichever way one prefers to describe. The Doha Round is in trouble. If one wants to put an epitaph on it, just say it is dead. I am one of the few people who feel that the US leadership, or really the lack of it, was at the heart of the problem when Washington said: it would not deal unless it gets much more Doha negotiations, which may be called ‘Doha Heavy’ meaning more

things to be added and to be negotiated by way of concessions by other countries that would take many more years.

I am a supporter of President Obama; Mr. Obama, the democrat. But I was disappointed because I think statesmen have to rise above politics. This does not mean that they do not have to pay attention to politics. But they still have to go a little step beyond, redefine what needs to be done, offer alternative, and try and bring them in. But he surrendered to the lobbyists, particularly business lobbyists, which said there is not enough. So, 'Doha Heavy' was on which the US puts its stakes on and then there is 'Doha Light' which is being negotiated.

One can add them up and it was no mean performance but we sank it. Now we are trying to save it in a way we tried to put a saving face on the Cancun on environment where nothing really happened but we declared victory more or less to keep it going. This is why we are into a very limited set of things like trade facilitation. I call it 'Doha; Decaf and Light', which means mainly coloured water. I think we will see that happen in Bali. I mean we have to put a kind of a brave face and get it out of the way. I feel when the history of the Doha Round will be written the lack of leadership on the part of Washington will be underlined as a major factor. It may not be the major factor which depends on assessment of different players not being able to do things to bring about a negotiated deal. Now that multilateral trade negotiations are more or less crippled, I doubt if anybody will be able to revive something like a 'New Doha'.

In the mean time we have delivered another blow to the multilateral trading system by going at the same time into regional agreements, the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP). The point is these are proliferating in a very big way and are the refrain of many of the economists. It is worrisome to say

what they will do to the multilateral trading system under the World Trade Organisation.

As a result, in the US the lobby-intensive system of government has made the lobbies active again and they want to negotiate the TPP first with smaller (relative to the US) countries saying that we will have an agreement for the 21<sup>st</sup> century with a whole bunch of side conditions which have very little to do with trade liberalisation. Unfortunately we even managed to make it secretive by not bringing in NGOs as a part of the transparency process. Let me call them 'trade-unrelated issues'. Everything in some sense is related to trade. If I sneeze and go and buy a medicine it could have come from somewhere in Switzerland. I have affected trade.

But in a substantive way trade does not belong to say labour standards. If one puts all these things in the two big countries in Asia which are not going to be able to play this game with the US because India does not pull out the finger nails of trade union leaders and it is a democratic country. China cannot do the same to labour unions. The intellectual property protections, if one pitches for it at the highest level, confusing *maximo* with *optimo*, then some other countries are going to object to that. Such so-called side conditions will be a problem in adding more members into these mega regional agreements, particularly India and China. As a result, there will be fragmentation in the international trading system. How will India and China develop in such a scenario?

The point is this is not the kind of model that one should follow: about turning bilateral/regional trade agreements into multilateral agreements and this is something to worry. My solution for that is very simple which is to just say that any new country can join provided it makes trade concessions, but it does not have to sign on to all these side conditions. If someone wants to, that is their affair. That would enable us to bring in countries which do not want to have all these things

which are dictated by the Washington lobbies. That would lead to open regionalism making it easier for people to join mega regional trade agreements. This depends on if the US administration stands up to various lobbies.

Let me use an analogy. I want to join a golf club I guess I have to know how to play golf. It does not make much sense otherwise, but if you say I have to go to church on Sunday and sing Madrigals with the rest of the members, that does not make sense. In the same way I think we ought to change the membership rules of mega regional agreements such as the Trans-Pacific Partnership agreement and that should be strictly trade-related. For example, if Japan comes in then it must liberalise agriculture trade as that is trade-related.

The Trans-Atlantic Trade and Investment Partnership agreement is a very different thing. Right now the US cannot impose nor can the European Union impose. That raises a variety of other issues on how fast it will be negotiated. My only worry is if two of them combine which they will and if it works it will be setting rules of all kinds leaving out consultations with third parties. India or China or African and other countries will look at it and say here is a duopoly turning into a monopoly and that is going to determine rules for me without my consultation in the way it would happen in the WTO. This is the thing which should be worried about but there is going to be lots of problems of all kinds and it will move slowly. However, the underlying point is it is a very different problem from the TPP.

In such a scenario, what should the new Director General of the WTO do? The WTO is a three-legged stool: one is multilateral trade negotiations; second is rule making like on subsidies, anti-dumping etc.; and the third is dispute settlement. If one breaks the first leg what does it do to the other two legs and that is the way the new Director General should think about it. If rule-making is left to, say the Trans-Atlantic or

even Trans-Pacific, which is a gigantic duopoly cum monopoly or just a monopoly because basically US determines what goes on in TPP, we have to go back and see what we can learn from the way the WTO is functioning and try and bring in more multilateral insights.

The WTO dispute settlement mechanism is something where all the WTO members have, in principle, the right to be heard. But if the US settles something for you, none of the others who are members of the WTO can have any standing there. Therefore, what we should do is to retain the multilateral trade negotiations aspects of the WTO, and try and find out what are the practices that we can recommend to reform it as otherwise international trade is going to degenerate into a chaotic, hegemonic, power-led kind of a system. In the long run that would undermine the kind of world which we thought we were shaping.



## 14

### Trade and Domestic Reforms: *The Australian Experience*

*Peter Varghese*

*Secretary, Department of Foreign Affairs and Trade,  
Australia*

Placing the interests of the consumer at the centre of policy thinking is a transformational notion. It goes to the heart of how our economic policies should be framed. And it is an important step in ensuring that resources are allocated in a way which is not only efficient but also meets crucial social policy objectives. Carrying the banner of consumer interests is rarely easy because it can cut across many vested interests. Today I'd like to speak about the links between trade and domestic reform.

Principally, I'd like to talk about the Australian experience of the past several decades, during which we've made much progress in opening our economy to the world. We've worked hard to build our competitiveness, and our prosperity. It is of course a never ending process: always a distant horizon. Economic reform, improved competitiveness, stronger innovation, better productivity – these are all crucial to the prosperity of our nation, as they are to the future of India.



## The Character of a Trading Nation

I'd like to start with Gurcharan Das and Donald Horne - an Indian businessman, and an Australian historian.

Das writes in an insightful, highly personal way, of the story of his country. For him, the modern history of India, since Independence, can be broken into three distinct phases: the hope of the post-Independence years, what he calls the lost generation of the late 1960s to the start of the 1990s, and the renewed optimism of the post-1991 economic reform period.

Das wrote this of India's lost generation:

*India's leaders [blamed] foreign trade and foreign capital ... for our poverty, and closed our economy and pursued a policy of self-sufficiency. In the process, they wasted an opportunity. They forgot that India had a centuries-old tradition of trading before the British came, and that it had once enjoyed enormous prosperity through exports and imports. For these and other reasons, we became pessimistic about our ability to compete in the world economy and regain our historic pre-eminence as a great trading nation. We closed our doors. And our share of world trade declined from 2.4 per cent in 1947 to 0.4 per cent in 1990. We learned the wrong lessons from history.<sup>1</sup>*

Donald Horne, too, was critical of what he also thought of as a lost generation in Australia's history: then and now a controversial assessment.

Horne, writing in the 1960s, was a celebrated Australian journalist, social commentator and historian, most famous for coining the label "The Lucky Country" to describe the Australia of the 1960s.

It's a catching description. Horne meant it ironically but a generation of Australians has taken it literally.

## **Australia is at Many Levels a Lucky Country**

We are blessed with natural resources. We have a beautiful climate, a wonderfully clean environment. We have a stable, democratic system of government. We're miles from the conflicts of the world. We are prosperous - well-off, by the standards of almost any country.

But Horne saw the Australia of the 1960s as poorly run. He thought we were trading on our luck - our unearned natural resources, but also the luck of our historical origins: "British habits" which Horne claimed we had never earned.

Two countries and in different ways, arguably two lost generations.

And it is the place of trade and industry policy in each of our histories that I think is interesting to analyse – not usually seen as fundamental or defining – but perhaps incorrectly so.

I think for most people, trade, or international trade, at least, is something that happens somewhere else. It is not something that has a lot to do with their own life experience, unless they happen to work themselves as exporters or importers. That is changing with the ability to buy and sell goods and services on the internet; but still, I think, as consumers, we tend to think of that as shopping, rather than trading.

And I suspect industry policy is an even more opaque idea. Industry is probably seen, domestically, principally as a generator of jobs, maybe also as a source of government revenue, but not much more. Its capacity to shape the sort of economy a nation has – and therefore its capacity to shape the sort of people we are and the lives we lead – is probably not considered too often.

The reality is that you can change a country when you change its industry and trade policy. And Australia's trade and industry policy changed twice – by which I mean, changed 180 degrees twice – during the course of the 20<sup>th</sup> century.

## **Australia as a Trading Nation**

We started off, as a newly-forged nation in 1901, a relatively open, high-trading economy. The world was then, in the period before the First World War, in what we now understand as the first phase of globalisation – a colonial era during which global trade rose to historic volumes, shaped along the contours of empire.

Unsurprisingly, for a relatively small economy at one end of the world, Australia was a particularly high-trading country. We had the challenge of small domestic markets spread across a vast, largely unpopulated country.

Unlike places like the US, we were not in 1901 defined so much by a distinctive national character, or by choices we had made during war or revolution, but by the products we exported: wool, wheat, gold, and so on.

As three former Department of Foreign Affairs and Trade (DFAT) colleagues of mine set out in a recent book launched by the Minister for Trade and Investment, Andrew Robb, for the first few decades after Federation in 1901, we were enthusiastic traders.

Minerals accounted for close to a quarter of our exports at Federation. We had high levels of foreign investment. In the early 1930s, the level of foreign investment in Australia was 160 per cent of GDP. We were successful – we had among the highest per capita GDP in the world, and the Australian standard of living stood out.<sup>2</sup>

## **Retreat to Protectionism**

But then we changed tack on industry and trade policy.

From the 1920s to the 1960s, Australia became a highly-protected economy. One which sheltered our manufacturing industries, hiding our domestic sectors from international competition.

Across perhaps the most challenging period in world economics and history in a century – the middle of the 20<sup>th</sup> century, with Depression, War and recovery – the overall objective of our trade and industry policy was job-creation and security, particularly in the manufacturing sector. We argued that without protection, Australia’s small domestic market, high wages and infant industries, Australian manufacturing would not be viable.

As Trade Minister McEwan put it in 1965: “Australian industrialisation has not yet reached the stage where our industries can compete on a free-trade basis.”

In 1921, at the start of the period of protectionism, we created the Tariff Board – a body designed to consider the claims of industries wanting protection from the global marketplace.

In “The Lucky Country”, Horne wrote this about protectionism and the Tariff Board in withering terms:

*“[The Tariff Board] was originally intended to protect young and inexperienced businesses but now everyone hops in for his cut. Once protection is dished out it usually stays. In the absence of any government plan for sustaining unemployed men over a retraining period or in assisting diversification, the political risks in allowing an inefficient industry to collapse are too great.”<sup>3</sup>*

For several decades, Australia was trapped in this feedback loop of protectionism.

While it’s true that protection might allow infant industries to begin, a protected industry also generates its own lobby groups and mutual protection societies, creating a perverse incentive against innovation, improved productivity and the growth of new sectors.

That political reality came to define Australian society.

As the 20<sup>th</sup> century wore on, manufacturing rose, but Australia turned inwards, away from trade and global markets.

In our period of protection, minerals exports collapsed. That was, of course, partly to do with the First World War and Depression, but our high rates of tariff protection was the other major factor. Investment collapsed - by 1960, foreign investment in Australia was down to about 23 per cent of GDP.

Gary Banks, the former head of Australia's Productivity Commission has written that for many years, the economic costs of our period of protectionism were hidden by the success of our agricultural and mining industries.

"Until the early 1970s, Australia was still managing to 'ride on the sheep's back'," he wrote in 2005. The terms of trade favoured our primary commodities, and we had benefited from the world-wide expansion in demand following the War. Australians enjoyed close to full employment, with incomes still higher, on average, than those in most other OECD countries.

"But (wrote Banks) we were riding for a fall. During the 1970s, the prices we received for our commodity exports commenced a long decline, while the costs of imports began to rise. The resulting terms of trade deterioration would, in turn, expose the underlying problem of Australia's poor productivity performance."<sup>4</sup>

As the world moved into the second dramatic phase of globalisation, from the 1970s through till now, Australia could only lose, if we remained inwardly-focused, uncompetitive, and out of touch with our time.

## **Return to the Global Economy**

But a second U-turn in Australian trade and industry policy took place in the decades since the 1970s. It fundamentally reshaped our economy.

We moved from being an inward-looking economy to embracing the rigours and the benefits of globalisation. We turned our economy from being a parochial, protected shell and towards a more efficient and a more globally competitive one.

We carried out a sustained programme of trade liberalisation and structural reforms.

In 1973, the government slashed tariffs by 25 per cent across the board, largely as a move that would help increase imports to contain inflation. Still – it marks, in a sense, the links between trade and domestic reforms. We started with trade liberalisation, and trade liberalisation remained a vital feature of the sustained domestic reform programme of later decades.

From the 1980s on, we started to make consistent changes towards becoming a more open and market-driven economy.

We floated the Australian dollar in 1983. Foreign-owned banks were allowed to compete with our own. We gave the Reserve Bank control of monetary policy, taking it out of government hands.

The Economic Statement of May 1988 cut a range of tariffs and industry assistance. Between the early 1970s and 2000, effective rates of assistance fell from 35 per cent to 5 per cent, and they have continued to fall.

Increased competition in our traded goods sector put new pressures on labour markets and public utilities to lower costs. Pressure mounted for reform of public institutions. All parts of our economy needed to become more efficient as they too were in effect competing in the global economy.

We began deregulating airlines, communications and transport infrastructure.

From the 1980s on, we began restructuring labour markets. In the late 1980s we began moving from centralised bargaining to enterprise bargaining, and later, from the mid-1990s, to

further decentralisation of wage agreements and the use of individual contracts.

We increased the use of competitive tendering and contracting.

In 1995, we introduced the National Competition Policy reforms – and I know that India has closely modelled its competition policies on the Australian experience.

Across nearly three decades, we reformed the tax system. Capital gains tax was introduced in 1985, and the company tax rate fell progressively over the years through the late 1980s. The Goods and Services Tax (GST) was introduced in 2000, with further cuts to income tax rates.

And for a decade from the late 1990s, we engaged in a sustained package of fiscal reform.

Over three decades, we opened our economy to the world, and we made ourselves, again, a trading nation. The ratio of trade to GDP increased from 25 per cent to 37 per cent over the years from 1970 to 2004.

We've argued for greater economic transparency and integration across our region — from the inception of Asia-Pacific Economic Cooperation (APEC), through the conclusion of the Association of Southeast Asian Nations (ASEAN), Australia New Zealand Free Trade Agreement (FTA), and now the negotiation of the Trans Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

As well, we've consistently pushed for more foreign investment. Australia was largely built on foreign capital - that was true at the time of the First Fleet, and true throughout the 20<sup>th</sup> century, as British, American, and later Japanese investment fuelled the development and expansion of some of our most important industries.

Investment is an important part of our broader trade liberalisation agenda. We have used our growing network of

comprehensive FTAs to improve Australia's attractiveness to foreign investors, as well as to seek greater access and protections for Australian investors abroad.

Our comprehensive agreements with New Zealand, the US, Singapore, Thailand, Malaysia, Chile, the ASEAN nations – and most recently Korea – have helped to strengthen two-way investment flows with each of these trading partners. This is also the approach we are taking in our current negotiations with other economic partners, like China, Japan, Indonesia and India. All of these efforts are aimed at positioning Australia at the leading edge of international economic reform.

Today, with an economy more exposed to global investment and competition, we are again one of the most prosperous people on Earth.

Our economy is the 12<sup>th</sup> largest in the world, even though our population size would put us somewhere closer to the middle of global rankings. We have enjoyed 22 years without a recession – even through the 1997-98 East Asian Financial Crisis and the 2008-09 Global Financial Crisis.

None of this is to diminish the challenges we still face and which are at the centre of the Abbott government's economic policies: challenges of fiscal consolidation, investment promotion, stronger innovation and better productivity.

In all of this we need to play to our strengths, rather than trying to shore-up our weaknesses. Mining and agriculture have of course a key role in this century of food and water security. But we also need to build a diverse, resilient economy with a range of strengths in services like education, health, finance and IT – all pivotal industries of the future.

## **Explaining the Change of Heart**

How and why did we change? There are several reasons, but the first – and most fundamental – is that we recognised that we had to change.



The challenge of having a relatively small market has never left us – if we hadn't grabbed hold of a re-globalising world economy, it would have left us behind.

Australia's GDP per capita ranked 5<sup>th</sup> in the world in 1950. Over the next three decades our ranking fell and we ranked 14<sup>th</sup> in 1983. While the need to make a change was clear, it still needed a positive decision at government level to effect that change. We would certainly not be in the position we are today, had we not shifted course on industry and trade policy from the 1980s to now.

A second reason that we were able to change was, in a sense, institutional and methodological. Over the period of reform, Australian governments, by and large, took an evidence-based approach to driving reform.

Strong evidence-based policy debate makes a critical difference. If the public understands the costs of doing nothing, and the benefits for the wider economy of doing something – it is possible to carry the debate forward.

Ironically the institutional beginning of our shift towards greater openness began at the heart of the architect of so much of our protection. As Gary Banks has written, from the 1960s on, the Tariff Board – the 1920s-era institution that essentially spent several decades deciding how much support to give Australia's protected industries – began to re-examine the costs of the long-standing practices of protection. It beefed up its analytical capability, and began publishing much more transparent real data on the costs of protection.

From the early 1970s, the Tariff Board morphed into the Industries Assistance Commission, the Industry Commission, and from 1998, the Productivity Commission.

Along the way, it became an organisation with a mission diametrically opposed to that of the old Tariff Board. The Productivity Commission now extends its work across all

sectors of the economy – including in social, environmental and economic areas.

The work of the Commission has been crucial in helping demonstrate, and make the case for, reform of tariffs and other structural changes. Using evidence-based argument has been particularly powerful in agitating for change. Against the old arguments about loss of jobs or decline of communities in the face of the potential closure of a specific industry, the Commission has provided governments and the public with well-researched advice on costs and benefits – both the costs of reform, but also the costs of doing nothing, or perpetuating the status quo.

The third ingredient for change was strong political leadership. This was not always bipartisan but during crucial periods, especially from the mid-80s through to the mid-90s, it did attract the support of both sides of politics. And this no doubt made the politics of economic reform easier.

### **The Links Between Trade and Domestic Reforms - the Australian Experience**

Essentially, what Australia's last few decades show is that trade and domestic reform are intrinsically linked.

Australia's trade agenda – including our multilateral, regional and bilateral efforts – is essentially about continuing reform in the Australian economy, and pursuing similar reform in our trading partners.

I think it's fair to say that there is a widespread perception that trade liberalisation should only be pursued if it is reciprocated by trading partners.

While the Australian experience confirms the economics of trade liberalisation – that is, that the biggest benefits go to the liberalising country – the political reality for governments is that it helps to send that message if they can point to market

opening and reform by our trading partners through trade negotiations.

While we've been active participants in the GATT and subsequently the WTO since the post-war period, our own approach has therefore been one that brings unilateral reform together with liberalisation by way of international negotiation.

In many cases, our unilateral reforms have been ahead of the multilateral trade effort – which is not to say that such reforms cannot, and have not, been used as “credits” in multilateral negotiations.

Our experience shows that liberalising one part of the economy can put pressure to liberalise other parts of the economy. And that to get the full benefits of trade liberalisation, one may need to reform other parts of the economy.

But we've also understood that broader economic reform would be good for Australia and good for the region.

I should say something about innovation, as well, because I don't want to leave you with the impression that growth in our economy is driven by government. The private sector, of course, is the major engine of our growth – and the private sector is also a driver for innovation in our national economy.

**Trade and Investment Minister Robb said this recently about innovation:**

*“For many people, innovation is something intangible; something very talented and bright people do. Yet innovation is simply a method, a new idea, a new product, a better process or a solution – it is within the power of everyone to innovate. This is something enlightened companies and enterprises strive to capture. Empowering people on the shop floor can ignite truly outstanding innovation and serious productivity gains.”<sup>5</sup>*

The OECD estimates that a 1 per cent rise in business R&D can increase multifactor productivity by 0.1 per cent – so the gains from innovation are significant.

## **Forward Agenda**

With that perspective, let me set out Australia's current priorities in trade policy, because the work we are doing now will help us deliver an even more open and competitive economy in coming decades.

We see global negotiations through the WTO as important to that effort.

The best liberalisation is liberalisation that opens the greatest number of markets for goods, services and investment, that drives globalisation furthest, and removes distortions from the global economy.

But we recognise that we have to be pragmatic about how we can best achieve reform.

When the WTO Doha Round was launched in 2001, there were high hopes for an ambitious outcome.

We came close to concluding the round in 2008, and we harvested a subset of the negotiating agenda in December 2013, but a full, comprehensive agreement eludes us.

So we have kept ourselves open to alternative paths to progress.

Our G20 presidency in 2014 is a particular opportunity to advance Australia's trade policy priorities.

We intend to focus on both the importance of domestic reform to drive economic openness as well as the contribution the G20 can make to strengthen the global trading system.

A key element of our trade agenda is for each G20 country to identify actions they can take at home to increase trade flows and make it easier for business to trade.

These actions would form part of country-specific, comprehensive growth strategies (along with investment/infrastructure and employment), to be presented to the Brisbane summit.

The G20 also needs to provide strong support to the WTO. And we want to reinforce G20 Leaders' support for open markets and the WTO and to ensure bilateral and regional trade agreements strengthen global trade.

Bilaterally, we recently concluded an FTA with Korea, one of our most important trading partners. We are negotiating FTAs with China, Japan and Indonesia. With India, we are working on a Comprehensive Economic Cooperation Agreement (CECA).

We are also engaged in sector-specific negotiations, and regional approaches.

Let me mention four specific initiatives.

First, the TPP. As its name implies, the TPP is a major regional trade negotiation, aimed at liberalising trade and investment across the Pacific.

The government wants the TPP to be a vehicle through which we significantly improve market access around the region – something that makes a commercial difference for our business sector.

It will promote trade liberalisation throughout the region and advance the Asia-Pacific Economic Cooperation (APEC) vision of an economically integrated Asia-Pacific community.

It will cover more policy areas than any of our existing FTAs.

Second, Australia, along with India, is part of the negotiations for the RCEP – covering ASEAN's 10 member states, and ASEAN's other FTA partners: China, Japan, Korea and New Zealand.

RCEP is a significant undertaking.

Collectively, the participating countries account for almost half the global population, and 30 per cent of global GDP.

We want an agreement that is comprehensive, covering goods, services, investment and other issues. RCEP will build on ASEAN's existing FTAs, and will be inclusive – leaving the door open for other countries to join after negotiations have concluded.

Negotiating momentum will need to be maintained if RCEP is to be concluded by the end of 2015 – and if we are to secure agreement from our RCEP partners to a deal that delivers a credible and commercially meaningful agreement that contributes to regional economic integration.

Third, we are negotiating in sector-specific arrangements, like in services.

Services is an area where there has been dramatic economic reform in recent years in many countries because of the huge role services now play in many domestic economies, and Australia is no exception.

Services is one of the least developed areas of international trade reflected in a low level of international commitments in trade agreements. Given the proportion of our economy that relies on services – about 70 per cent – Australia has a strong interest in improving global services trade reform, which currently represents less than 20 per cent of our exports. Hence Australia's joint leadership of the 23-party Trade in Services Agreement negotiations in Geneva- the TiSA – a services only agreement.

We are also using trade negotiations to reduce behind-the-border regulatory barriers for our services providers – including in professional services – to facilitate more open trade.

For example, the decision to liberalise our professional services sector has helped grow a US\$4bn export industry for Australia.

And fourth, we are involved in procedural reforms that make it easier for trade to flow across our borders.

One example of that is the trade facilitation agreement struck in December at the WTO meeting in Bali. That agreement will improve customs procedures, reduce the number of forms that need to be filled out during border movements, allow for electronic reporting and streamlined reporting timeframes. It represents the first multilateral agreement achieved under the WTO.

Implementation of the agreement within Australia will complement domestic reforms that are already being considered by the Australian Customs and Border Protection Service.

For example, the Trusted Trader Programme aims to provide enhanced border clearance privileges for a range of trusted entities engaged in the import and export of goods.

## **India**

Before concluding let me say a few words about India which is also going through a significant period of change, even if some of India's partners would like to see the pace of that change quicken.

Australia's ability to trade with and invest in India will inevitably be driven in part by decisions the Indian government makes on economic reform and financial opening.

Businesses would know only too well that India's economy has undergone a protracted slowdown since March 2011, marked by a slump in investment and industrial output.

GDP growth fell to 4.4 per cent in 2012-13. It is forecast to remain somewhere in the 4.5 to 5.5 per cent range over 2013-14 and many businesses are adopting a 'wait and see' approach in the lead-up to national elections due later in 2014.

Finance Minister Chidambaram and RBI Governor Rajan have taken positive steps to address key concerns, including curbing the fiscal and current account deficits and shoring up capital flows.

The short term outlook may be below par but India's strong medium-term fundamentals give cause for more optimism.

Favourable demographics, prevailing trends of urbanisation and industrialisation, and room for productivity gains should enable India's economy to achieve growth outcomes of 6-7 per cent over the next 20 years or more.

Reaching a high growth trajectory will depend on India getting its domestic policy settings right and investing in infrastructure, skills and institutions.

Australia is well placed to partner with India on both the infrastructure and skills agenda and to share lessons learnt on policy reform. Our key energy exports also provide the necessary drivers for further economic development in India, and we are committed to a long-term, broad based energy supply relationship.

Encouragingly, there are signs that India's federal system is working to show that good policy can also be good politics, as more dynamic states compete to create a more favourable environment for private and foreign investment.

Efforts by these states to cut through regulation and bureaucracy, address infrastructure bottlenecks, introduce tax incentives, and provide easy access to land and power are leading to above-average growth in some states.

## **Conclusion**

Let me conclude with these observations. Domestic industry policy and trade liberalisation are two sides of the reform coin. These are, often, technical economic discussions.



But if they seem arcane from the outside, they are not irrelevant to the success of our national life – far from it. Indeed, they are, in large part, determinative of the sort of society we live in, and the role our society can play in the wider world. The same processes are at play on a regional level, too.

If domestic trade liberalisation and industry policy reform shape the kind of successful, open nation we aspire to be, then regional economic integration and liberalising reform will shape a more successful, open region in the same way. Our liberalisation agenda will have long-lasting benefits in helping realise the regional and global society we would like to see.

Reform is a permanent challenge, but for me, the ingredients for successful reform remain the same: recognising the need to adapt; policy that is anchored in clear evidence; and a political leadership willing to make the case for change.

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## Endnotes

- 1 Gurcharan Das, “India Unbound – From Independence to the Global Information Age”, pp. 68
- 2 Mike Adams, Nicolas Brown and Ron Wickes, “Trading Nation”, pp 60-61
- 3 Donald Horne, “The Lucky Country”, pp 134
- 4 Gary Banks, “Structural Reform Australia-Style: Lessons for Others?”, 2005, pp 3
- 5 Speech – “Innovation and the digital economy”, San Francisco, 15 January 2014

## 15

# India's Export Competitiveness, Prospects & Challenges: *The Role of Trade Policy*

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It is indeed a pleasure for me to be here talking on a subject which has become very relevant these days particularly in the context that we are at the anvil of preparing a new foreign trade policy and therefore it becomes important that there is an adequate amount of mental regurgitation on the subject. And it is also important because we are talking about exports, which is a significant part of economic policy and it is increasingly becoming more significant over the last few years. This is an opportunity of getting inputs and feedback from a gathering which is very well aware of the issue.

In the last few years, exports or for that matter international trade, in the context of India has played a very significant role in India's economic development. Today we are trading, if you include services as well, beyond a trillion dollars (imports of about US\$490bn; exports of about US\$310bn; about US\$148bn of services exports and US\$90bn of services imports). So it is about a trillion that we trade from and into

India. That makes a very significant part of our receipts and outgoes. It is, therefore, important that the export or international trade policy is contextualised rather than being simply an agglomeration of instruments as has been traditionally perceived.

Exports are no more a function of surpluses as they used to be may be about ten years ago. They are essentially well thought out strategised activities with companies and firms exclusively involved in manufacturing and/or rendering services for exports. Exports have become an inherent part of preparing for a successful, sustainable and vibrant economic policy. In the context of India, import plays an equally significant role because if you analyse the import figures you will soon recognise that more than about 60 per cent of imports actually get into manufacturing. There are not only essential imports, such as, Petroleum but also whole lot of intermediates and raw materials which constitute our import basket.

Having recognised that imports are very important for India's manufacturing and exports, the first question that occurs to my mind is to what extent should we monitor these imports and to what extent should we substitute these? This is a big manufacturing challenge before us. Imports have been recognised to constitute a significant part of our manufacturing policy till we are able to substitute or till we are able to find alternatives or till we are able to produce domestically.

We have not had a significant role to play in creation of value chains and in a sense we seem to have lost the bus several years ago. But it is increasingly being felt that this is perhaps, though late, an important time to find a toehold in value chains particularly in regional value chains. Therefore, institutional engagements which are being pursued by India have a significant focus on finding toehold on some of these value chains. But if you look at some of the trade between the regions of South Asia, you would recognise that they are very well

constructed value chains where India plays a very significant role. But out of South Asia we have not had a concerted effort at being part of these value chains.

In order to become part of these value chains you would have to look at many other facets of manufacturing and services which would require a policy push on a different paradigm than the one which we have been following so far. One of the areas which I can mention is the whole issue of rules of origin in our preferential trading. If you want to attain a position on regional or global value chains you have to significantly take a position on diluting your defensive armour around rules of origin and traditionally we have always looked at manufacturing as a very defensive pursuit and, therefore, this whole issue of rules of origin has not been adequately addressed. We need to necessarily dilute rules of origin. Dilution of rules of origin or product specific regulations has to be looked at in the context of country's strength and weaknesses.

That kind of amalgam has not necessarily happened. Because traditionally taking the defensive approach in the pre-1991 we have always looked at opening up in a stance where we have tried to protect industries or segments where we thought we were extremely sensitive. We need to take a different approach.

Now let me come back to the foreign trade policy and how export competitiveness needs to be addressed not necessarily through instruments alone but in a broader context. First of all, I think we need to recognise that exports are a necessary ingredient of our economic policy. Once you recognise that, it becomes imperative that the whole dimension of exports needs to be mainstreamed in the governance process itself.

Most of the departments, excluding Department of Commerce and Information Technology, are just not geared for exports. It is important that we mainstream the concept

of exports in the governance process. This clearly means that we need to work on an agenda where, particularly, departments relating to merchandise recognise that they produce not only for the domestic market but also for the global market, which means we are talking of scales and that is perhaps one single aspect of our manufacturing policy which requires the greatest attention. Because we are producing on small scales and consequently paying greater fixed costs and not being able to play prices are perhaps the major reason why we are not internationally competitive in many areas.

We have conducted studies through our FTA partners and found that in many of the areas we were not export-competitive. Competitiveness comes out of two major aspects: one is the fundamental aspect of the economy's strength which gives an inherent competitiveness; the other which comes out of the front end of competitiveness is the transaction. There is a need for working on issues of infrastructure, connectivity, management of ports and so on. Therefore, it is not necessarily possible to find export competitiveness in a large part of product segment until we address some of these fundamental issues. Till that time we need to work on strategy for exports.

The traditional Indian markets have been the EU and the US. The 2008 crisis clearly gave a signal that over-reliance on two markets was not safe. And therefore this whole business of diversification started; diversification both in terms of destinations and diversification in terms of product segments and products within segments. After five years we clearly see a trend in the area of diversification.

You look at Africa where we have a significant rate of growth in terms of exports. You look at South East Asia and ASEAN there has been a significant rise in exports to these territories. So diversification has helped but there is a significant amount of further diversification required which means we are talking of territories which are in CIS, East

Asia, Middle East, West Asia and Latin America. Latin America is one territory where we have not been able to make the right kind of impact so far despite the fact that there is a clear recognition that this territory has a huge amount of promise.

Traditionally, India's strength has been in textiles, leather, garments, engineering goods, pharmaceuticals and so on. Diversification in products can essentially be in two ways: one is looking at new areas of product segments and this is clearly visible if you look at textile. Over the last several years India seems to be losing its competitiveness when it comes to traditional textiles as there are several other countries, for example, Bangladesh, Vietnam etc. which have shown a very promising growth. There is a situation where our traditional strengths are diluting or diminishing and, therefore, new segments of products need to be found. And that is where, for example in textiles, this whole concept of technical textiles is important. This can be seen in several other product segments where the markets have played themselves in a manner that firms are diversifying into new product sub-segments obviously driven by the effectiveness for those sub-segments.

If you look at pharmaceuticals, traditionally we have been exporting APIs (Active Pharmaceutical Ingredients). Today the export basket of India on pharmaceuticals contains about 55 per cent of formulations and roughly 45 per cent of active ingredients. At one point in time we used to export about 60 per cent of APIs but today China has overtaken. Market forces have themselves played in a manner that this kind of a diversification has happened.

Now what is important here is that we bring in value into the diversification. If you look at the engineering products, traditionally India has been exporting low technology engineering products. In the current engineering export basket there has been a significant rise of high technology products

in the engineering segment and therefore this automatic diversification into higher value add has happened.

If you look at value addition, ultimately you have to recognise that if we were to talk about manufacturing at the low levels of value and we do not have scales then we are faced with losing propositions because that is where there are countries like China which will score over us. Our perspective is that we should be talking about manufacturing and exports at a higher levels of value and therefore get greater value addition out of this manufacturing and export. This strategy needs to be worked on over a long period of time. Unless we operate on scales, the mass production is unlikely to give us the benefits. It is also important that we look at issues of technology, product design, research and development, etc.

Let us take the argument on strategy further. Globally, protectionism has become more sensitive. With multilateral trade negotiations, with trade formations restructuring themselves, what is happening is that countries are becoming increasingly protective towards those trading partners who are not within the ambit of their trade relations. New kinds of enclaves on trade are being constituted. If you look at North American Free Trade Agreement (NAFTA) and EUs agreements with some other trading partners, you clearly discern that the whole business of enclavisation leading to some kind of tierisation of relationships and that means that despite your best efforts you could still be excluded from a trade transaction. This can happen through two routes, one being the FTA route which is legitimate, the other way is through the non-tariff barriers, an area which has been addressed by the WTO mechanism through Sanitary and Phyto-sanitary/Technical Barriers to Trade (SPS/TBT) agreements and import control procedures. But if you go deeper into trading partners' regimes you clearly find that there

is an evolving trend of non-tariff barrier regime, where every other day there is new notification, particularly, coming from the developed world.

On the one hand these notifications are arising out of the multilateral rules framework which is justifiable, but there is a lot happening outside the multilateral rules framework. One of the solutions to this issue is to adapt by improving our own capacities, which is possible in the area of SPS and TBT.

Now let us move on to standards. Standards is one area which has not been adequately looked by us despite that today we have about 60,000 standards which are all voluntary in nature, specifically made available by the BIS. If you look at mandatory standards they are above 80 or so. This clearly shows that the focus on standards has not been adequate. Standards work both ways. Standards can help you in graduating to a higher value product and standards can also keep you out of a market. Standards can also come to you as a protection against imports. What matters is that how our industries can be adequately equipped to deal with standards related situations. This is where we have to do a lot of work. Because we have to operate on the upper ends of the value chain or at least the higher middle ends of the value chain, standards will be an inherent part of this strategy. It is also a sure way of consumer protection. And therefore a greater attention is required on standards.

While talking about value added exports let us now look at the issue of branding. A country's brand essentially brings in the strength of the specificities that country offers for a product area. What is important is how the trade policy can help these brands to achieve what they could in the global or regional context. The export strategy or policy needs to look at this.

Services sector is a very significant area which has hitherto been a one trick pony. We have exports of about US\$148bn in services, about 90 per cent of it has come out of IT-based



services clearly showing there is a huge need for diversification. This diversification can have two approaches: one could be an approach of going sector by sector; second could be where we can piggyback on our strength in IT. The second strategy is more appropriate because you have more inherent strength in IT and therefore riding on that strength makes a lot of sense. But if you want to score in trading services then it is extremely important that we look at our regulatory structures and that is where a huge amount of work is required. We have identified 8-9 service areas which we could call as potentially winning service areas. Some of them are, information technology, telecom, healthcare, tourism, logistics, professional services, entertainment services etc.

Having identified these areas what is important is to see how the relatively archaic regulatory structure may not allow us to unleash our export potential. If we expect to enter into markets we have to be equally liberal in letting others into our markets. This is an area which requires significant amount of debate in the country. In a few professional services like chartered accountancy, legal services and others, clearly we have huge potential. But if that potential has to be harnessed there are two actions which will be required. One is to look at how market access has to be strategised and how will we respond to consequent flow of market access. And more importantly what are the regulatory barriers which are coming in the way and how do we remove those barriers and unleash the potential. This is an area which requires reforms across the governance architecture in at least 10-12 departments.

States need to get mainstreamed into the export objectives. Exports play an important part in our economic policy, it makes sense that we also look at incentivisation, or promotion or encouragement to the states in the context of their contribution to exports.

Before I conclude, let me mention a few words on FTAs. Sometimes an impression is carried that FTAs are inherently wrong or inherently in the negative interest of the country. This is a misimpression and this needs to be addressed. What is important is that FTAs offer an institutional mechanism to trade. How good or bad it is, will depend upon two factors. One is what we have negotiated and second is how best we have utilised it. The second aspect is more important. Does my industry know that there is an FTA and they can take advantage of that FTA if they want to be a part of that value chain? This is an area where a huge amount of work needs to be done. An analysis has been done by some agency which shows that the India-Korea FTA has been utilised only about 20 per cent. It means that most of the trade that is happening between these two countries is happening on MFN basis and not on preferential trade basis. With just 20 per cent of FTA there is so much of trade imbalance between the two countries. So criticising the FTA for that may not be a valid argument. It is important to see whether there is an inherent competitiveness between the products which are being traded on both sides.

India is likely to be adversely affected by mega FTAs such as the US-led Trans-Pacific Partnership agreement and, in this context, successful negotiations of the Regional Comprehensive Economic Partnership (RCEP) agreement in the Asia-Pacific region can be a potential game changer. RCEP is an extremely important agreement for India. It will make a lot of sense if we study the rules architecture in RCEP and take advantage of it, which might mitigate the damages which have occurred in the case of bilateral trade agreements.



## IV. Regional Integration



# 16

## India's Economic Integration with Asia

*Salman Khurshid*  
*Minister of External Affairs, India*

I will speak about India's economic integration with Asia something that all of you are familiar with. Everyone has different levels of visionary attitudes and perceptions about Asia, about our role in Asia and the criticality to integration within Asia.

That criticality of integration comes in concentric circles. The closest and the tightest circle, if I may be allowed to say this, is within the country itself, about the way we approach the opportunities and challenges that we face. And then, of course, the larger circle brings in the immediate neighbourhood, the South Asian Association for Regional Cooperation (SAARC) region countries that have either had important historical links with us or they have been a part of the common destiny. Hope, we will have shared destiny and not in the manner in which we shared in the past but in a different way, as we integrate in terms of economics, politics, social behaviour, social contact, ideology and the way of life that brings nations and people together.

There is then a larger circle which brings in other neighbours. China, for instance, brings in distant neighbours, a lot of Central Asia for instance, may be not that distant but it starts close but goes on to a great distance and then countries like Afghanistan, Iran and Iraq. Then on the eastern side, it includes a lot of the closer countries of Association of Southeast Asian Nations (ASEAN) in the largest circle that brings in ASEAN and now, the Pacific as well. We are already beginning to talk about Indo-Pacific.

At the end, is the largest circle that encapsulates the Indian Ocean region, IRAQ region where India is presiding at present, where we will hand over to Australia, is extremely important but I think under-estimated and under explored possibilities that exist in this region. This is the only regional collaboration and cooperation that is conceptually based on water as against every other region in the world that is based on land mass. This is the only region that is based on water in a substantial way. We do have the Pacific islands and there is cohesiveness in terms of planning and thinking but in a substantive way this is a quite unique potential organisational growth area.

These are the concentric circles which examined from any form and from any direction give a pivotal role to India. A pivotal role not in terms of necessarily ideology but certainly in terms of physical attributes. I hope it also means a little more than physical attributes. There is greater intellectual and a greater leadership role that we can provide. In SAARC we do. We do because we have natural advantage over other SAARC countries and therefore greater responsibility along with other SAARC countries because of the size, size of economy, population, etc.

When we speak of all these, for instance, the smallest of all the SAARC countries, there is no concept of big and small. We are equals. But obviously in order to be equal, we have to ensure that we are willing to sacrifice, accommodate and

willing to give more than what we can take. If you are talking in economic terms, what you can get from all these is going to be obviously far less than what you are able to give to them. If you think we are giving more, we therefore demand more in one form or other, then the very idea that is the foundation of SAARC gets demolished or gets undermined or destroyed.

Again a pivotal picture; if you look at the IRAQ region, if you look at the two rims around India, there is the Gulf Cooperation Council (GCC) all the way in the Arabian Sea, Africa beyond that and on the right, if you are looking at India, all the way to Southeast Asia and then beyond into Australia. Australia is a very significant important contributor but can't be the pivot. South Africa and the East coast of Africa or the GCC countries are extremely important, rich in many different ways, culturally, economically, in terms of minerals, oil, gas but they can't be the rim. They can't be the pivot. Pivot has to be India. Then the additional factors, you want to go to Central Asia, where is the stepping stone? The stepping stone is India. You want to travel across the southern parts of the Asian continents the longest road will have to be in India.

Now it is important to convince India and the people of India that we have been placed in this remarkable position in the world and that every time you have been placed in a remarkable position like this you can expect a great deal from those who are engaged, associated, dependent, linked with you but you also have tremendous responsibility to give. So if you don't build the road, we won't have a road running from west to east. If you don't provide a launch pad to deal with Central Asia, of course we won't have the importance of being bridged or linked with Central Asia.

Now, of course there are smaller elements in this. Tapi Pipe Line, for instance, I think is the most substantive forward looking symbol of India's Connect Central Asia policy that connects Turkmenistan, Afghanistan, Pakistan and India. So



India is the destination and the source is Turkmenistan but there is Afghanistan, Pakistan and therefore the pipelines remain a dream for India. Only if you get Pakistan and Afghanistan in a position to be able to ensure that the pipeline brings benefits and goodwill to them and then transmit it into India can India satisfy to some extent its thirst for energy because Indian economy is growing.

When you look towards East, for instance, we are committed to a trilateral Highway between India, Myanmar and Thailand together with efforts from Myanmar, and Thailand. But this is only one part of that grand design to have a grand Asian Highway that will go all the way to Vietnam. There will be a northern branch that will go up Laos, Cambodia and a southern branch that will go into Vietnam. Many of these only need to be linked together. It is not a new project entirely because many of these are already well equipped roads that need to be linked together but linking together physically is the only part of the effort. Linking together conceptually is the real effort.

To be able to do so now we try to encourage thinking on how we can link ourselves together intellectually and emotionally and in ways other than just physical linking through the ASEAN Car Rally. It was enormously successful but obviously it's only something that the very brave can try right now. Hopefully one day one would be able to drive beyond India into Pakistan, Afghanistan and then into Iran. If you want to be able to do it, we need a huge super structure of integrated connectivity, information, science, infrastructure, back-up infrastructure ability to transit and transfer very quickly to be able to get special dispensations so that people can travel easily. You may be SAARC citizens, and therefore you may have an advantage but you may have a friend who is non-SAARC citizen travelling with you.

These are the things on which we need to think out of the box. Traditional thinking is something that has held us back and we need to break that. I think we have made two or three efforts in the last 20 years to break traditional thinking and we have been told by our leadership to think out of the box. I think there are many people who are sitting here who have actually contributed to thinking beyond the box including on the stage but we do have a sense of recoil and we get back into that box periodically. We have been habituated. We have grown up in the box with such degree of comfort and sense of safety that every time there is a crisis, we run back to the box. Now, we need a bold person in public life who destroys this box. So, every time you run back to the box, there is no box to run back to. We have lot of politicians in our country who are trying to do this except that they are destroying the wrong box. So that will be even more traumatic that you run back, there is a wrong box. The right box is being destroyed and the wrong box is still there. When you jump back into the wrong box, you end up being nowhere.

We need to engage with China undoubtedly. If you talk about integration with Malaysia, then we need to engage with China. But to engage with China again is a great challenge but also has great possibilities. In order to engage with China we need to understand that we must speak to China in a voice that has strength and not in a meek voice. When I say meek voice, I am not talking about muscle, I am not talking about armament, I am talking about effectiveness, confidence, faith and belief that we have institutions that would be able to meet the challenges of a strong overdrive in China.

Because China made its move to reform at least a decade before we did and China has an ambition to spread its wings and has a thirst and hunger which is not less than ours and it has got into many places long before we got there.

Except that when China reaches any place in Africa or in South East Asia or in the GCC countries for that matter in Europe, it is my observation and I have a lot of ambassadors sitting here and I hope they will endorse it, when China arrives with a big caravan on wheels you find that there are places with little shoots that remind you of someone from India having come and planted a seed many centuries ago. Those shoots just need to be nurtured. China needs to bring in paraphernalia. India needs only to nurture the shoots that exist in Africa, in Europe and in South East Asia. But the shoots have withered over time because large edifices have taken over, many more events and pre-occupations have dragged the people away. India also from time to time has become insular and has not attended to the very shoots, the green shoots that India can claim to be its own. But those green shoots are there and those green shoots need to be nurtured. And if you are able to nurture them I think we will be able to say that we have a different model of partnership with the world and that includes these concentric circles.

It is a good thing that China has one kind of model and India has another. China has one kind of car and India has another. China has one sort of textile and we have another and that is what I believe competition is about. It is not about don't do this because China is doing it, it is about doing because China is doing it better. And it is for the world and for us to ensure that the rules of the game encourage competition and not discourage competition. It doesn't serve to say we can't do this because China is doing it or Russia is doing it or the US is doing it, as the US does very much but what we do is that we should be able to find a different model. US is now trying to look for another model, we can also look for and enhance the model what we have tried in the past 20 or 25 years.

It is important that there is an engagement with China and I think there cannot be a greater disservice not to India alone but to Asia and to the world that we do not trust the efforts that are being made on both sides. Chinese and Indian leadership need to find a common ground of engagement. And the common ground of engagement cannot be surrendered to the aspirations of the other person. But to be sensitive to the aspirations of the other person, to be cognitive and possibly accommodative from time to time to the extent that our national interests permit. I think it is what we need to do. I believe that this is what I have tried to do in my capacity as Foreign Minister. To be able to hear carefully what China has to say and then to speak clearly so that China will understand and I do believe that our conversation is a very positive and creative. This conversation is the conversation that will allow for a larger picture of Asia to emerge where Asia will be willing to provide prosperity to its own people and competition and advantage to the rest of the world.

There is no reason why India and China will not be able to cooperate. Today we are in competition. Today we run in parallel. Today we run as options, as alternatives but there will be a day that we will be able to co-operate and there is no reason why one cannot look into the future and say there will be a day when we can cooperate. After all we are both very ancient civilizations. They have a five year plan and we have a five year plan. There is no reason to believe that civilizations that run into millions of years are not going to be able to do things together in five years. We are ancient civilisations and we will perhaps have a long view of our destination but our destination and destiny must combine. Till that happens, people will want to play games. Somebody would say we are close to China; therefore we must not do this with India. Somebody will say we are close to India therefore we must not do this with China. I think we should repudiate and reject it. There is

no question of being against somebody because you happen to be for somebody.

Every time, anyone has suggested that India becomes a partner in enterprise to surround China we said no. We may have differences with China but we will not be party to a larger enterprise to surround China and to contain China or curtail China because we believe in free, fair, transparent and open competition and if we lose competition, so be it, we lose in the Olympics too. We try harder, we lose somewhere else. We try harder. We must not accept defeat easily but we must not question somebody else's victory as well. If somebody performs better than us we must accept and we must learn. I think that there is much to learn from China and I think there is much to teach to China. And this two-way process is what I believe, we must encourage, we must fortify and we must consolidate because the integration of Asia and India, integration with Asia, in truth is not possible and not sustainable without the larger picture of Asia which includes China and India being worked out.

Now over the ages there are some interesting things that you need to look at. Turkey is incidentally in Asia as well as in Europe. You can stand on a part of Turkish territory, and say I am in Asia and when you cross to another place 10 minutes later and stand on a piece of Turkish territory, you can say that I am in Europe. Of course in terms of policy and unifications and engagement with Europe, Turkey has a big question. They don't know how to describe themselves. Should they describe themselves as Europeans or Asians? If you want to be in the European Union you will have to be European. But if you want to be participating in SAARC meeting, you will have to say you are Asian. Now I think every rule has an exception and I am not sure about what the great thinkers within SAARC or the Europeans Union will finally arrive at. But I think every rule has an exception and it is an interesting

exception. The interesting exception is that it has elements that actually unite us with Europe. And those elements are in common with us. There is a great commonality between Turkey and India.

When I was in Turkey recently, I said only one thing to them politely. I said, Turkey always imagines an ancient relationship with India but its recent generations seem to assume that the ancient relationship was with a part of India which is today Pakistan. Interestingly Pakistan or what is part of Pakistan today, was largely a passage to India. It was till the caravans or the people coming in from Afghanistan, or Central Asia or Turkey, would pass through Sind and through Punjab but they wouldn't rest till they got to Delhi or beyond Delhi to Agra. We are here in Delhi though CUTS is headquartered in Jaipur. Delhi is preferred when anyone wants to speak to India now as earlier.

There are others as well. Bangladesh has got its own vibrant share, Pakistan has its own substantive share but I think the core succession has come to us, has come to India. And in many ways. I don't want to go in describing how incredible India is but not simply in the fact that Taj Mahal is here, Red Fort is here, the great Mughal places are here, not only because of syncretic that the Mughals brought to this country but many other reasons. I believe Turkey and that region also have to see the real successors to syncretic culture that developed in the medieval ages in India and during the Mughal period basically has come to our side and our share. This is why it is important for people in Turkey to understand us. Hungary understands us, other parts of Europe understand us, Norway understands us, All of Europe understands us. Turkey has started to understand us and I think Turkey has begun to re-discover us. South East Asia realises the importance of India.

I am saying all these not because it makes India more important than anybody else. I am saying this because I honestly

and genuinely believe that we have been placed intellectually, philosophically, historically and physically in a very major seminal role for the future of Asia and I do think that this is a role that we have to share in a dominant way with China but it is the role we also have to share with lot of other contributing countries, nationalities and societies that form Europe today or engage with Europe today. I do believe that the greater example we give to the world and our region, the more successful we will be seen as having contributed and fulfilled our destiny and our responsibility to Asia.

I think it is a critical point and sadly we first got so excited about our own growth rates. We have got so excited about reforming our country and then suddenly so depressed by the disappointment that we could not keep pace. You rise very fast you get to a plateau and till you get to the next rise and to the next plateau, it takes time. You should have faith and confidence. You can't give up simply because day turns to night. You know that after night there will be a dawn again. And if you have seen dawn before then you have to be determined to wait for the dawn to come and not to give up because all around you there is darkness or twilight. We've never had darkness fortunately. We've had very little of twilight from time to time but there is nothing that makes life more beautiful than to know that there is a certain dawn tomorrow.

## Regional Integration and Sustainable Development in the East African Community

*Richard Sezibera*

*Ambassador, Secretary General, East African Community*

**I** will share some thought with you on *Regional Integration for Sustainable Development in the East African Community Region*.

I guess we need to ask the fundamental questions first. Why should Africa integrate? After all many of our countries have had almost 50 years of independence, with all the trappings that Sovereignty brings. We have the flags, the anthems, the Governance structures and the International recognition that many fought for, and others have yearned for decades with no success.

Many of the countries have navigated, albeit with some difficulty, the very difficult and sometimes competing challenges of nationhood, nationality, citizenship and State building. This decade has seen the rise of a new Africa. One that is increasingly dynamic, vibrant, and sure of its destiny.



It is a Continent that continues to find and redefine its narrative, going beyond the myths and narratives bequeathed by others. Sometimes successfully, other times not. I am glad that East Africa is composed of States that have redefined themselves, and are building home-grown narratives of national development, for some, in the aftermath of traumatic National events that provided them with a near *tabula rasa*.

It also happens to be an Africa, in my opinion, with an unfinished agenda, of integrating and mobilising her people to fully achieve their agenda.

But that brings us back to the original question. Why integrate? There are as many answers to this as there are people in this room, but my answer is simple. It is the right thing to do.

Take East Africa for example. Our region inherited borders, traced by others many years ago in Europe. We were not consulted because we were the property of others and as you know, one does not consult his/her belongings before putting them on sale. So does sustainability for East Africa mean a ferocious defence of impermeable Intra East African borders? I say no. Our borders are meant to delineate our limits of Sovereignty, for we must do things properly. However they cannot, and should not impose rigid divisions of our people.

Some say we should integrate our markets for sustainable development. I agree. East African Integration is crucial for trade, commerce, and industrialisation. No country in the history has been able to succeed and prosper by turning inward and keeping the “other” out. Those that tried to do so were inevitably forced to change track quickly. International trade is not a luxury to be enjoyed by some. It is a prerequisite for our development. But if you cannot trade with your neighbour, you will trade your neighbour! That is the lesson of Africa’s history. Africans failed to trade with each other, and instead participated in trading each other as slaves.

So, yes, we must integrate to expand our markets and productive capacities.

In East Africa, our Customs Union and Common Market have shown promise. Intra EAC trade has more than doubled. Our trade with the rest of the world has grown more than 60 per cent. Foreign Direct Investment (FDI) has grown tremendously. EAC Partner States are becoming the most important sources of each other's FDI. We are dealing with barriers to intra EAC trade, and increasing the efficiencies of our ports, removing literal and figurative barriers to trade and investing in the hard and soft infrastructure required to support our growth. East Africa must integrate in order to survive. We know that. But we are more than just a market. We are a people with a historic mission and opportunity to create the kind of polity we deserve. In the past, we participated in trading each other. Now we are trading with each other. Our historic mission surely must be to move beyond this to a truly United Region, becoming One People with One Destiny!

This year, I look forward to the signing of an agreement on a Monetary Union Protocol and, as our Treaty provides for, an eventual Political Federation. This is because for East Africa, half integration is dangerous. It frontloads the pain of integration without providing the people of East Africa with its benefits. Our Monetary Affairs Committee, under the able leadership of the Governors of Central Banks has done tremendous work in harmonising our monetary policies. Our fiscal and financial policies are being harmonised. We are working towards sharing experiences and managing our natural resources in a harmonised fashion. Our security and defence establishments are cooperating day and night to enhance our security and safety.

So yes, we are a big, vibrant and growing market, but we are more than just a market. Much more!

There are those who love Africa without liking Africans. They want the benefits that Association with Africa brings them, as long as Africans are kept away from their lands. Well, although I strongly disagree with them, though it is their prerogative. The world does not owe Africa a living. Africa owes Africans a living! East Africa must be different. We cannot love East Africa without liking East Africans. That will not build Community. We cannot find our deepest affirmations in our own worth, as communities, sub-national or national identities, by branding the rest as the undesirable other! That is a recipe for disaster. We cannot have free movement of goods without the free movement of labour and people.

That is why the free movement of labour provisions, the rights of establishment, and the rights of residence are so important. East Africa needs to continue to work to make sure that movement and work in East Africa is hassle free for East Africans. A Common Market should allow people to use the market. A Monetary Union must anchor and contribute to the unity of the people of East Africa.

East Africa's integration of course sustains our common heritage.

As our economies continue to grow, however, and they most certainly will, we need to continuously work to make sure that today's growth translates into better living standards for all our people, and that it does not jeopardise the well-being of the generations to come. Ours is a trust to keep, for the present and the future.

This is why East African Cooperation is predicated, *inter alia*, on the need to ensure sound environmental and natural resources management principles for the proper functioning of our Common Market, as well as on the need to refrain from activities that are detrimental to the environment.

Over the recent past, the EAC has been on the forefront in addressing sustainable development challenges facing the region through concerted efforts by its organs and institutions established by the Treaty for the Establishment of the EAC including participation in regional and international policy processes. A point in case is the participation in the negotiations on climate change and trade negotiations under the United Nations Framework on Climate Change (UNFCCC) and the World Trade Organisation.

### **Sustainable Development Challenges in the Region**

The EAC region continues to face multiple challenges to sustainable development. These range from financial, food, energy and water crises, human and technological capital and environmental management threats amongst others. New challenges such as climate change and natural disasters are exacerbating and threatening to retard and reverse social economic development gains and in particular attainment of Millennium Development Goals (MDGs) by 2015.

#### ***Climate Change and Food Insecurity***

Climate change is one of the major threats to sustainable development in the region. Although our share of the human induced global carbon footprint is negligible, our region got its clearest wakeup call in 2009 when large parts of the region came under severe food insecurity after important loss of pastures and livestock in addition to widespread crops failure, mainly as a result of climate change. Today, large parts of the region continue to experience erratic weather conditions and events, characterised by extremes of weather conditions.

The impact of climate change on livelihoods, in particular food and cash crop production as well as livestock

development, becomes even more pronounced since East Africa depends heavily on rain-fed agriculture where agriculture contributes 40 per cent of the region's GDP and provides livelihood for 80 per cent of the population.

With about 40 million undernourished people, food security is already one of the main challenges in the EAC where food production is challenged by extreme weather conditions.

EAC strongly believes that a clean and healthy environment is a prerequisite for sustainable development. Ours is a belief informed by scientific evidence and reality. Our focus on environmental and natural resource protection and conservation programmes on shared trans-boundary ecosystems that demand common approaches and collective measures is critical. Protection of our environment is too important to be left only to local and national authorities. It is and must continue to be an important regional, continental and global agenda. That is why I am pleased to inform you that EAC has developed a Post Rio+20 Plan of Action following the Rio+20 Summit held from 20-22 June, 2012 in Rio de Janeiro that provided the framework for post 2015 MDGs in the context of sustainable development and green economy through the sustainable development goals (SDGs).

The EAC recognises that green economy offers an opportunity to bring together and strengthen economic, environmental and social aspects to achieve sustainable development goals. The concept of "Green Economy" is inextricably linked to technology development, access and transfer, issues that in conjunction with the provision of new and additional financial resources and capacity building should be properly addressed through international cooperation. Energy accessibility, sustainability, affordability and security should be at the centre of the discussions on Green Economy and sustainable development.

I am glad that CUTS is a partner in our agenda for integration and development, including our collaboration in EAC agriculture - climate change- trade linkages and the EAC Geneva Forum. I thank you for this partnership.

But perhaps I should end where I started. Sustainability for our region should not mean the maintenance of *status quo*, like a patient on life support, whose doctors can be justly proud that they have sustained his/her life. Neither should it be like the actions of a man, who is told there is a lion in his path and promptly runs away in the opposite direction to sustain his life, without waiting to be informed that there is also a pot of gold beyond the lion.

This is a century pregnant with promise for Africa. East African partner states intend to reach middle income status within this generation. We cannot do so as balkanised states. We must deal with this, the lion between us and prosperity. That is the meaning I give to what some have described as the emergence of Africa's lion or cheetah economies! Regional and continental integration is critical to this transformation. It provides the anchor for, and meaning to, development and sustainable sustainability, if there is such a concept.

### **EAC-CUTS Collaboration**

CUTS International's goal is to contribute to the achievement of development and poverty alleviation through trade in its economic, environmental, social and political dimensions. Its objectives include: contributing to a better understanding of development concerns in trade and related policies; enabling participation of developing country stakeholders in trade and related policy making and its implementation; stimulating interest of key actors working on trade, development and poverty alleviation; and bridging

the information gap for and among the trade and related policy communities.

In view of the above challenges and the goals of EAC and CUTS International, the two organisations are collaborating on the following projects as opportunities to use their strengths and comparative advantages to address some of the above challenges that are affecting regional integration in the region:

- (i) “*Promoting Agriculture-Climate-Trade Linkages in the EAC*” (PACT-EAC) Project whose aim is to build the capacity of stakeholders in EAC to better understand and implement sound policies to harness the potential of trade in reducing poverty and hunger in the face of climate change. Agriculture provides livelihoods to 80 per cent of the EAC population. Yet, about 40 per cent of East African are malnourished, a situation that can get worse due to climate change. PACT EAC project strives to meet this challenge through awareness-raising, inclusive research and training, and multi-stakeholder capacity building. The Project brings together EAC stakeholders, in five countries and in Geneva, to pursue a more integrated policy framework on issues of food security, climate change and trade and share information on the World Trade Organisation and its linkages with other related international policy dialogue processes including the UNFCCC; and
- (ii) The EAC-Geneva Forum where every two months, delegates from the missions of the five EAC countries to the World Trade Organisation meet in Geneva to discuss issues of common interest to them at the WTO. The Forum also improves information sharing between delegates and the grassroots in their respective countries, through the provision of update notes prepared for them by the local civil society on issues

related to the interplay between national, regional and international trade policy.

In conclusion, I wish to reiterate EAC's commitment to addressing sustainable development challenges in the region as part of the wider regional and international institutional framework for sustainable development that is under discussion as one of the themes of the Rio+20 Summit. The EAC is firmly committed to the principles of international environmental law.

I look forward to forging partnership with CUTS International and other regional and international stakeholders as we implement EAC's strategic policy documents.





## Regional Integration as a Tool for Poverty Reduction in West Africa

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I wish to share with you some perspectives on the topic: “Regional Integration as a Tool for Poverty Reduction in West Africa”. I hope that at the end of my delivery, I would have succeeded in raising some of the critical issues that will engender further debate and contribute not only to policy-formulation but also more effective implementation to promote the growth of our individual countries and our continent.

### **What is Regional Integration?**

The Oxford Advanced Learner’s Dictionary defines ‘Integration’ as “the act or process of combining two or more things so that they work together.” Regional integration is, however, a more complex process. It usually involves several countries, whether at the sub-regional or continental level,

with different economic interests, languages, administrative systems, national priorities and political and social challenges.

Yet in embracing the concept of Regional Integration, these countries must have an appreciation of the fact that notwithstanding their many points of divergence, they have important common interests that have to be discussed and promoted, not only for the benefit of the larger regional grouping or continent, but ultimately for the benefit of the individual Member States. Even though there is no exact agreement on the definition of the concept, it mostly involves developing a cooperation framework on the basis of one or more written agreements that describe the areas of cooperation in detail, as well as some coordinating bodies representing the countries involved.

Some scholars, however, prefer to use the term 'regionalism', referring to any kind of regional cooperation; whilst others focus more on 'integration', often meaning economic integration. Economic integration includes but is not limited to the creation of free trade areas, customs unions, economic communities, and monetary unions. When understood this way, 'Integration' will be deemed to be different from 'Cooperation'. Cooperation, then, is a much weaker and looser form of teamwork among sovereign states and it is more issue specific. Regional integration, on the other hand, connotes more engaging and deeper processes, relationships, coordination and activities among the member states, which could eventually lead to the formation of a common market, a common currency, free trade area or even political union among the integrating states in the long term. When I use the term 'Regional Integration', therefore, I am referring to these deeper relationships among states.

## **The History of Regional Integration in West Africa**

Soon after attaining independence in the late 1950s and early 1960s, African leaders, inspired by the philosophy of Pan-Africanism, expressed the desire to adopt a united continental effort to tackle the numerous post-colonial challenges that confronted their people. By and large, the political vision among the leaders at the time was focused on three issues; namely, continental political unity, nation-building, and decolonisation of the remaining colonised countries and those under apartheid rule.

It was this vision that led to the formation of the Organisation of African Unity (OAU), the predecessor of the African Union. By the 1970s, the independence agenda and the freedom from Colonial Government initiative had made progress; however, the political and economic state of Africa had worsened, marked by weak governance structures, dictatorial rule, conflicts and political instability, economic challenges, worsening terms of trade, increasing poverty etc. The vision of continental political and economic unity looked bleak. Something needed to be done differently.

Then came Adebayo Adedeji, erstwhile Executive Secretary of the United Nations' Economic Commission for Africa (UNECA), who was not only convinced that the way out for Africa was political and economic unity, but also that the best strategy was to begin the process at the much smaller sub-regional level. With his determination and, of course, support from some West African leaders within our sub-region, the Economic Community of West African States (ECOWAS) was founded in 1975.

The formation of ECOWAS was unprecedented in at least two important respects. First, it brought together for the first time 15 West African countries with varied linguistic, colonial and pre-colonial histories and experiences. Second, the creation of ECOWAS was a clear indication that West African leaders

were determined to find a way of working together with the primary objective of enhancing the economic development of the sub-region with an ambitious cooperative framework.

The expectations for the new organisation were understandably high. First, it was thought that the organisation will enable the Member States to create an enlarged market for their products, which would stimulate the development of new industries and especially give fillip to the development of the manufacturing sector. It was envisaged that the enlarged market will enable industries and producers to exploit economies of scale and promote market specialisation that will ultimately lead to improved terms of trade for the region. A single West African market with a population of almost 300 million was thought to be the vehicle to increase the region's bargaining power in its dealings with other regions and trading blocs. The challenges of globalisation, particularly its attendant vulnerabilities for developing and weaker economies, were also thought to be better tackled within the collective regional framework.

### **The State of Regional Integration in West Africa**

38 years on, the common problems that motivated the founding fathers to establish ECOWAS as a regional economic community are still with us. Over the years, ECOWAS has shifted focus away from its core mandate of regional economic integration to address the challenges of conflicts and political instability. What we also see is the emergence of new threats such as piracy, armed robbery against ships, poaching, and drug trafficking which introduce added complexity to the maintenance of peace and stability which is the foundation for the deepening and expansion of trade and economic ties, as well as the very sources of livelihood of our people.

Meanwhile, the traditional problems of poverty, disease and malnutrition, unemployment, and low living standards continue to stare us in the face. According to the 2013 Human Development Report of the United Nations Development Programme, 12 out of the 15 ECOWAS Member States exhibit some of the lowest socio-economic development indicators, including the lowest Human Development Index ratings in the world. This parlous economic state led to over-reliance on foreign aid and loans, a situation that resulted in the designation of almost all the ECOWAS countries at one time or the other (with the exception of Nigeria and Cape Verde) as Highly Indebted Poor Countries (HIPC).

Our regional integration efforts are also still characterised by low political will to implement regional commitments, relatively lower intra-regional trade, cross border harassment, and generally weak economies of Member States. All these challenges have made it impossible for us to fully tap the benefits of our regional integration efforts. For this to change, a certain amount of introspection, and a real collective effort to implement the integration agenda as a catalyst for development and change is required.

### **Regional Integration and Poverty Reduction**

In spite of the enormous challenges discussed above, regional integration in West Africa has contributed somewhat to poverty reduction though the data to support this position is not easily available. The protocol on the free movement of people has made it considerably easier to move people and agricultural products over our borders. We must improve the administrative arrangements as well. For sure, ECOWAS is celebrated within and outside Africa as one of the most innovative and advanced among the continent's regional economic communities. This is particularly in the areas of

conflict prevention, management and peacekeeping which are prerequisites for socio-economic development, but more as an example of successful political rather than economic cooperation.

#### **i. Peace and Security**

The ECOWAS Standby Force, or ECOMOG, is held as a model for other Regional Economic Communities (RECs) in the continent. Its interventions in Liberia, Sierra Leone, and Guinea went a long way to stabilise the countries and to place them on the path of development. Recently in Cote d'Ivoire and currently in Mali, the collective efforts of West Africans led to interventions and peace processes that restored order and stability in those countries. What is important here is the belief among the regional leadership that without peace, there cannot be meaningful development. Therefore, if we have to spend all our resources to restore peace in the region, it will appear to be the right thing to do.

So in assessing the impact of regional integration on poverty reduction in West Africa, you may not see much concrete results on the ground if all you are looking for is the rate of poverty reduction. But if you consider that without our collective efforts, these conflicts could have actually deepened the poverty in the region, you will appreciate how far we have come. Since the outbreak of the crisis in Mali and Guinea Bissau, for instance, several Extraordinary Summits of ECOWAS Heads of State and Government have been convened to discuss the restoration of peace and stability in the Member States.

If all the time, energy and resources expended on these two conflicts had been channelled into poverty-reduction programmes, one can only imagine the impact it would have had on the citizens. Yet, these have been the issues that

ECOWAS has been dealing with all these years. The sad thing, though, is that sometimes our regional integration efforts are not viewed within this context; rather we have often been judged in comparison with the success stories of the European Union. It is important to remember the peculiarity of our circumstances and deal with them as best as we can.

#### **ii. Democracy and Human Rights**

It is also important to note the gradual entrenchment of democracy, the rule of law and fundamental human rights in the region, following the decision of ECOWAS not to countenance any unconstitutional regimes. More and more, West African citizens are becoming conscious of their rights and freedoms under constitutional rule; they are able to hold their leaders more accountable; and they are able to stand up courageously to the ills of their societies. The expressions of these freedoms are directly translated into economic gains for the people, including the freedom to pursue their dreams and become economically self-sufficient.

#### **iii. Free Movement**

There are, however, some concrete initiatives of ECOWAS that are contributing directly to poverty reduction in West Africa. The first I will like to talk about is the Protocol on the Free Movement of Persons, Goods and Services. Whilst admittedly, there are still challenges with the implementation of the Protocol, as previously stated, no one can deny the benefits that the Protocol has brought to the region. The abolishing of visa requirement for Community citizens and the free movement of goods, services and labour has facilitated cross-border trade, engendered new businesses and business partnerships, expanded productions, and generally increased private sector participation in national development. This is,



no doubt, increasing employment in the region and reducing dependency.

#### **iv. ECOWAS Trade Liberalisation Scheme (ETLs)**

The establishment of the ECOWAS Trade Liberalisation Scheme (ETLs) is another critical project in the Community's drive to promote and consolidate economic integration in West Africa, and thus reduce poverty among its people. The Scheme is anchored on the complete removal of all trade barriers in the region, and the standardisation of all custom duties and taxes of equivalent effect, with the view to enhancing intra-regional trade. Presently, more than 100 private sector organisations have been certified under the scheme to deal in over 255 different products across the region. The certified companies are not supposed to pay customs duties on their approved products, a situation that is creating new market opportunities for them and helping them to grow their businesses and also enhancing their participation in the integration agenda.

#### **v. Agriculture**

Agriculture which is the main economic activity of most Community citizens has also been given a boost by the regional organisation through the adoption of technology-based innovative measures to facilitate the exchange of agriculture-related information within the Community. One example of this innovation is the Marketing Information Systems and Trader's Organisations in West Africa (MISTOWA). The project seeks to strengthen regional market information systems where they exist, or develop new ones, improve the capacity of regional trade and producer organisations, as well as boost the general trade environment in West Africa. This

will make it possible for business people within the Community to exchange information and share business ideas.

In addition, ECOWAS has since 2005 adopted a common agricultural policy known as the ECOWAS Common Agricultural Policy (ECOWAP). Among other things, the objectives of the policy are to ensure food security for the rural and urban populations of West Africa; reduce dependency on imports; develop human capacities, and contribute to the reduction of the vulnerability of West African economies to the volatility in the international market for agricultural produce. If properly implemented, the policy should boost production, result in food sufficiency and, thus, reduce the incidences of poverty, hunger and malnutrition in the region.

#### **vi. Transport**

The transport sector is another area where ECOWAS can be given a pat on the back. So far, the Community has supported the construction of the trans-coastal highway from Lagos to Nouakchott (9000km) and the trans-Sahelian highway from Dakar to N'Djamena (11000km). Of particular need for mention is the transnational Abidjan-Lagos Corridor Project. The project which is a Public-Private Partnership was conceived by ECOWAS and the African Business Roundtable in conjunction with the African Business Climate facility and the African Development Bank.

It seeks to promote trade within the region as well as provide enhanced access to export markets for landlocked countries such as Burkina Faso and Mali. When completed, the highway will pass through five West African countries; namely, Cote d'Ivoire, Ghana, Togo, Benin, and Nigeria. It is envisaged that the corridor will ultimately serve as a Pan-African road network that will run from Mauritania in the north, to Kenya in the east. ECOWAS also plans to improve

rail transportation in the region, and plans are already underway for the construction of a railway network from Accra to Lagos. These projects will expand access within the region, facilitating movement, boosting trade, and ultimately creating more employment for the people.

#### **vii. Telecommunications**

Between 1984 and 1994, ECOWAS completed the INTELCOM I project which connected 13 West African capitals through automatic telephone, telex and telefax communication links. The second phase of the project, INTELCOM II, is expected to facilitate the full digitalisation of telecommunication links in the region when completed. Specifically, it hopes to establish 32 intra-state fibre-optic links to create a regional backbone for Member States. This will, no doubt, transform the Community into an information society based on the development, promotion and large-scale deployment and, thus, facilitate trade and economic growth in the region.

ECOWAS has also been instrumental in the establishment of the global system for mobile communication (GSM) roaming facilities in the region to improve and reduce the cost of intra-regional cellular phone calls. Some of you may know that it is currently more expensive to make some intra-regional calls than to make calls to other parts of the world. This is because some of the calls have to be routed through facilities in Europe or America before the signals are re-routed back to subscribers in the region. In order to change this trend, more than 30 GSM licenses have already been issued in the various Member States.

**viii. Health**

In the area of health, the establishment of the West Africa Health Organisation (WAHO) to co-ordinate the efforts of Member States in fighting diseases, among others, is another important initiative of ECOWAS that is contributing to poverty reduction. Some of the Member States have developed joint initiatives to combat HIV/AIDS through such projects as the Abidjan-Lagos Transport Corridor project which involved Côte d'Ivoire, Ghana, Togo, Benin and Nigeria.

In its First Strategic Plan, WAHO undertook measures to combat malaria, malnutrition, HIV/AIDS, and maternal and infant mortality. WAHO was also engaged in efforts for the prevention of blindness, access to medicines and vaccines, epidemiological surveillance, as well as training and health information management. In its Second Strategic Plan, the organisation is still pursuing this agenda in addition to the treatment of non-communicable diseases. Given the lack of access to basic health facilities, particularly in rural West Africa, and the associated cost, the activities of WAHO is certainly contributing significantly to both preventive and curative healthcare in the region.

**ix. Gender Promotion**

The ECOWAS Gender Development Centre based in Dakar was established to promote gender issues in West Africa. The Centre collaborates with Member States to, among others, collect data on the situation of women in the region; implement apprenticeship programmes for the acquisition of skills; and provide assistance to women to promote their sources of livelihood. Ghana is currently benefitting from three programmes of the Centre; namely, the Obstetrics Fistula programme; the Scholarships of Excellence for Girls programme, and the Food Processing, Fisheries and

Handicrafts programme. These programmes are healing and transforming the beneficiaries into economically self-sufficient women, enabling them to easily able to translate the gains into caring for their families.

#### **x. Vision 2020**

Some of you may be aware of the new ECOWAS vision, called Vision 2020, which was launched in June 2007. The vision essentially shifts focus from an “ECOWAS of States” to an “ECOWAS of People”, with the aim of building a “borderless, prosperous and cohesive region where people have the capacity to access and harness its enormous resources through the creation of opportunities for sustainable development and environmental preservation.”

Before now, the processes to build ECOWAS had been concentrated mainly on Heads of State and other top political appointees, acting on behalf of Member States. The new thinking, however, is that in order for the process to work, ordinary grassroots people need to be involved.

Vision 2020 therefore rests on five pillars; namely, governance; infrastructure; private sector; women, children and youth; and sustainable environmental practices. The vision is gradually transforming the workings of ECOWAS, allowing it to consult and collaborate more with Member States as well as non-state actors such as the private sector and civil society organisations. This realisation, albeit late, is indicative of a regional body that is willing to examine its performance and to redefine its mission. It is hoped that all actors in the region will now be drawn to the new vision so that collectively we can diagnose our common problems and reach common ground, going forward.

## **The Way Forward**

In the post-Cold War international system which is driven largely by globalisation, regional integration is not an option; it is an imperative, particularly for smaller and weaker states such as those in the West African region. We must therefore be prepared to either integrate our efforts for sustainable economic development or gradually fade into oblivion.

A lot still needs to be done in this regard to deepen economic, social and political ties in order to promote development and enhance the quality of lives of our people. Successful integration will equip the region with the necessary tools for the fierce competition that is taking place across the globe. ECOWAS therefore needs to continue to create an atmosphere of peace and stability as preconditions for sustainable development. In this regard, its conflict management mechanisms and capacity need to be continually strengthened to enhance its credibility at all levels. Everything needs to be done to maintain the peace and stability that has returned to Member States that had been in conflict, whilst efforts are also made to stabilise existing conflict zone. But more importantly, ECOWAS needs to strengthen its conflict prevention mechanisms rather than the continual resort to reactive measures. Prevention is by far, the only sustainable and cost effective strategy.

Closely related to the above is the need for the regional body to continue to deepen democracy and strengthen institutions among its Member States. This has the effect of internalising the spirit of accountability and transparency, thereby ensuring that resources are used effectively for the improvement of the quality of lives of the people.

Expanding intra-regional trade, which currently stands at less than 20 per cent, is one other objective that should preoccupy ECOWAS in its efforts to reduce poverty in the region. This will, however, not materialise unless Member

States become fully committed to the total eradication of artificial barriers which presently constitute major impediments to the free movement of people, goods and services across the region. Intra-ECOWAS trade will also be significantly improved if national production structures are properly coordinated and aligned to complement one another. ECOWAS needs to effectively engage the private sector in the region to identify realistic ways of promoting intra-community trade. The Private Sector has expressed its challenges and the call on national Governments is to effectively deal with them.

The implementation of the Joint Border Post arrangements should make it less cumbersome to deal with the administrative bureaucracy at our borders; agreeing on the Common External Tariff which will hopefully take place in October this year in Dakar, should make it easier for us to do business with the world and each other; whilst improving payment systems is key to trade facilitation. Equally important is the need for economic transactions in the region to be conducted transparently and speedily in order for it to attract the badly needed external investments that are indispensable to integration, sustainable economic development and, ultimately, poverty reduction.

The region's agricultural sector also deserves critical attention and transformation. Whilst close to 70 per cent of the region's population rely on agriculture, much of the activities in the area are of a subsistence nature which does not allow the citizens to become self-sufficient in food production, much less expend on other areas of poverty alleviation like education. The resultant over-reliance on food importation drains the region's foreign exchange earnings and only worsens the harsh economic conditions. ECOWAS must, therefore, commit itself to the development of the region's agricultural sector by effectively coordinating the agricultural

policies of Member States and properly aligning them with its own.

Another area that requires serious attention by ECOWAS is human resource development. An educated and capable human resource remains indispensable to the efficient exploitation of the region's enormous resources for its development. It is, undoubtedly, the panacea to the widespread poverty, technological backwardness, and economic and social deprivation of the region. Member States, therefore, need to consciously increase budgetary allocations to education as a strategy to produce an intelligent, creative, capable, and reliable workforce that will drive the desired economic growth and sustainable development which are prerequisites for poverty reduction.

Finally, we cannot look at the way forward without talking about continued cooperation to improve our infrastructure deficit: expand the roads, ports, railways and airports that are critical to enhancing integration and making it cost effective to do so.

## **Conclusion**

I hope that I have succeeded in sharing some perspectives with you on the subject matter of regional integration and its impact on poverty reduction. Of course, I do not presume to have covered all the issues that the topic entails. But I do hope that I have raised some critical issues that will engender more discussions and debates beyond these walls.

Please allow me to conclude by once again expressing my profound gratitude to the organisers of this event for inviting me to this platform. I will also like to thank all of you for your kind attention.





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### Regional Trade: *A Catalyst for Growth and Sustainability of Small Businesses in the Southern African Region*

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Exchange of goods and services is good for the society. This fact was established by early economists such as Adam Smith (specialisation) and David Ricardo (comparative advantage). It has been firmly established that through international trade a country is able to achieve higher rates of economic growth than would be possible without trade because it can produce for a larger (global) population than the population of its own nationals. It is in this context that trade is seen as the engine of growth. There is no nation that has achieved economic greatness without excelling in the external trade sector. US, Germany, Japan, South Korea, Hong Kong, Taiwan, Japan and China are all countries that have excelled in the external trade sector.

External trade sector performance is based on being able to capture a big chunk of the global market. A successful company is one that is able to sell its product globally. Unfortunately because the modern economy is divided into national states the objective of conquering the global economy by producers is often frustrated by numerous tariff and non tariff barriers erected by individual states for various reasons such as:

- need to achieve national self-sufficiency;
- need to protect domestic producers; and
- national security.

In recognition of the fact that a larger market is better than a smaller market, national governments have over time sought to expand market access through regional economic integration schemes with varying degrees of closeness of integration e.g., through:

- Preferential Trade Areas
- Free Trade Areas
- Customs Unions
- Common Markets
- Economic Community

Various examples of economic integration can be given e.g. SADC, COMESA, EAC, EU etc. From the Economic theory point of view the theory of economic integration falls in what is called “the theory of the second best”. The best trade environment is the global market. It is the largest and therefore, represents the best opportunities for any ambitious producer. But in recognition that the achievement of a global market may be difficult to achieve in the short to medium run, nations have been willing to go for a second best solution by creating large markets through integration with neighbouring counties. Policies within an integrating region aim to eliminate non-tariff

barriers, establish a common external tariff against non-members and the abolition of tariff between the members. A market is, therefore, created where all producers within the integrating region can compete on a level playing field at the exclusion of non-members.

Increased competition by producers within the integrating region can lead to improved efficiency/productivity which in turn can enable them to compete with producers from outside the integrating region.

From this, it follows that one of the main benefits to be derived from integration is improved efficiency resulting from competition within the integration region. It is efficiency in production which enables countries to compete globally. In this regard, it is important to note that the Asian tigers have managed to conquer global market without the need for economic integration (leading to the tag – Asian Tigers hunt alone). For us in Southern Africa we have argued that integration is the key to success (African Lions hunt in a Pride). It is arguable whether we should start by emphasising efficiency from the very beginning or we should achieve efficiency *via* integration. What is clear, however, is that whoever seeks to conquer the global market must eventually break out of the regional shell and hunt the globe alone. Regional integration in this regard can be seen as a stepping-stone into the global market. It helps small and medium scale producers to start producing for a market beyond their national borders

### **Integration in the African context**

Africa has had a long history of economic integration and some experiences predate the independence era. The Federation of Rhodesia and Nyasaland is an example.

The African integration agenda was promulgated in the 1991 the Abuja Treaty. It aimed at creating a competitive single market and currency for Africa. It came into force in 1994. The process was to be achieved initially through the creation of Regional Economic Communities (RECs). These would serve as building blocks from which the African Single Market would eventually emerge. It was anticipated that each region of Africa would be represented by one REC. The process has been rather slow and in some instances, new developments have tended to slow the pace. For example, instead of having one REC per region and each country belonging to only one REC we have seen the emergence of RECs that transcend more than one region.

COMESA for example includes members from East Africa Community and SADC. Some countries belong to all three schemes. This complicates implementation of programmes. In some cases a lot of time is spent on debates about which scheme should prevail over the others. Progress in implementation of the integration agenda has been slow for other reasons as well such as lack of political will, lack of financial resources etc. The African Economic Outlook 2013 notes that due to the slow pace of development of the integration agenda some countries have started to push for fast tracking of the process. They feel that integration could increase their bargaining power in international bodies such as the World Trade Organisation (WTO) and negotiating Economic Partnership Agreements (EPAs).

### **Africa and International Trade**

African Economic Outlook 2013 report has noted that between 2000 and 2011 Africa's exports had almost quadrupled in value from USD148.6bn a year to USD581.8bn. Within this development, it has been observed that:-

- a) The European Union and the US saw their share of African exports fall from 47 per cent in 2000 to 33 per cent in 2011 in the case of Europe and from 17 to 10 per cent in the case of the US.
- b) The emerging economies (China, India, Brazil, Russia) have on the other hand increased their share of African exports:

<b>Table 1: Share of Africa Export (%)</b>		
	<b>Year 2000</b>	<b>Year 2011</b>
<b>European Union</b>	47	33
<b>US</b>	17	10
<b>China</b>	3.2	13
<b>India</b>	2.8	6
<b>Brazil</b>	2	3
<b>Russia</b>	0.2	0.3

- c) Primary exports remain the overwhelming export. Their share in total exports increased from 72 per cent in 2000 to 78 per cent in 2011. The share of manufactured goods in the total declined from 21 per cent to 16 per cent over this period. Oil was the main export and its share rose from 51 per cent in 2000 to 57 per cent in 2011.

<b>Table 2: Breakdown of Africa's Oil Exports (%)</b>		
	<b>Year 2000</b>	<b>Year 2011</b>
<b>European Union</b>	44	31
<b>US</b>	25	22
<b>China</b>	4.4	13.6
<b>India</b>	2.9	7.5
<b>Brazil</b>	3	4
<b>Russia</b>	-	0.3

The increasing role of China in Africa's exports is visible in exports of primary commodities as well (excluding fuel and food). In 2000 China accounted for 4.8 per cent of Africa's primary exports and this had risen to 28.8 per cent in 2011.

In a way, Africa's dependence on fuel/primary commodities exports is increasing and the main markets for these exports are outside Africa. Africa trades less with itself. Can integration end this?

### Trade and regional integration in Africa

According to the Africa Economic Outlook 2013 report, trade between African countries is currently estimated at 10-12 per cent of the Continent's total exports and this is far below that of other regions of the world. 2009 statistics showed (in per centage):

North America	48
Europe	72
Asia	52

In spite of regional economic integration schemes in Africa, intra- regional trade in Africa has been very low.

**Table 3: Regional Trade Flows 2003-2007**

	INTRA RECs		OUTSIDE RECs (Africa)		OTHERS (GLOBAL)	
	Exports	Imports	Exports	Imports	Exports	Imports
CEMAC	0.9	5.2	2.7	8.9	96.4	85.9
COMESA	8.7	11.1	8.6	17.2	82.7	71.7
EAC	12.6	18.7	7.2	9.9	80.2	71.4
ECCAS	0.7	3.8	2.2	14	97.1	82.2
ECOWAS	13.9	15.8	5.5	5.2	80.6	79
SADC	19.9	33.1	2.3	2.6	77.8	64.3

*Source UNECA (2008) assessing Regional Integration in Africa*

CEMAC- Central African Economic and Monetary Community

COMESA – Common Market for Eastern and Southern Africa

EAC – East African Community

ECCAS - Economic Community of Central Africa States

ECOWAS – Economic Community of West Africa States

SADC – Southern African Development Community

Table 3 confirms that Africa trades less with itself. The SADC region exhibits higher levels of intra regional trade. In examining southern Africa trade performance the African Development Bank's Southern Africa Regional Integration Strategy Paper 2011-2015 had made some important observations:-

- i. Intra SADC trade between 2000 and 2008 had increased from US\$11.6bn to US\$29.3bn and this increase was driven by the region's shift in the source of imports from Europe to South Africa following the end of apartheid. (This is very clear, for example in the supply of mining equipment. South Africa is the regional hub for most of the global suppliers of mining equipment).
- ii. South Africa exports a lot of manufactured consumer goods. (The recent expansion of South African supermarket chains into the region has increased the bias for South African consumer goods). Thus the increase in Intra regional trade is concentrated in one country.
- iii. The pattern of trade within the region and between the region and the rest of the World is different. While South African manufactured products dominate intra regional trade, exports to the rest of the world are mainly primary commodities. The strategic paper further notes that while the region's exports to the rest



of the world are concentrated around a few products, intra regional trade is much more diversified thus suggesting that expanding intra regional trade could yield significant benefits to countries in the region in terms of diversifying their production to non-traditional products, especially manufactures.

The scope for expanding intra regional trade in SADC exists if only South Africa can open up more to the products of other SADC member countries. South Africa still has in place a number of non-tariff barriers. A number of agricultural products from the region cannot enter the South African market for one reason or another (Zambian beans for example cannot enter that market. Recently the Zambia Parliament was told that Zambian grapes cannot be sold in South Africa which alleges that they are associated with a certain disease). South African companies, which are dominant in a number of SADC countries, tend to favour South African products e.g. South African Breweries promotes the sale of Castle Lager all over the region but does not promote other beer brands in South Africa even if it now owns the breweries that produce these beers e.g. the Zambian Lager Mosi.

### **What can Zambia sell to regional markets?**

There seems to be a pervasive feeling amongst most Zambians that there is little that can be exported from Zambia, other than copper, a product of an industry which is mainly dominated by external investor interests. This is not true. A number of export opportunities can be identified.

- i. Grains* – Maize (already being exported), wheat (huge potential) and rice.

- ii. *Agro processed products*– with the huge potential for producing almost any agriculture product, a large variety of vegetables and fruit can be produced in Zambia. These can be canned or dried and sold in the region.
- iii. *Fruits of the forest* – the range is large, hard wood products, honey, mushrooms, etc. all have a huge market in the region and beyond. Zambia has been importing charcoal from South Africa when the opposite should be the case.
- iv. *Processed minerals* – given the wide range of mineral resources, potential list of exports here is also large. Production of copper products like copper cable, copper wire etc. have a huge market all over the region, but very little is being produced for export. Much of current production goes to South Africa while Zambia and other countries have to import inferior cables.
- v. *Others* – Cement, sugar, edible oils etc have a huge market in neighbouring countries like DR Congo, but Zambia has failed to capture this market for a variety of reasons including language barriers. Many of the trucks passing through Zambia are ferrying consumer goods that can be/are already being produced in Zambia.

Zambia has the additional advantage of having hosted liberation movements of the region for a very long time. Many of the people from these countries are very familiar with Zambian food crops and long to access these products. A huge market exists for Kapenta fish for example, but there is nobody willing to sell it. Kapenta fish can be sold even in Europe. Currently kapenta fish sold in countries like England, Germany etc comes from South Korea. Europe has a market for local delicacies like Impwa, Cassava, etc. The most successful

exporting nations of recent times like South Korea have exported almost unimaginable products. I have seen canned Inswa from South Korea selling in Germany.

Success in exporting to the region is perhaps much easier than exporting far because of similarities in cultures and tastes. Most Southern Africans eat the same basic food – the maize meal based Nshima. This is very different from West Africans whose staple food is rice. It is, therefore, much easier to create sustainable incomes in the region selling traditional staple foods for a start. This can be done by a lot of our budding entrepreneurs. The same applies for a lot of other products. Success in exporting to the regional market will obviously create more incomes and jobs and will most certainly reduce the dependence on the fortunes of the mining industry for growth and prosperity.

**Overcoming obstacles:** There are clearly a lot of obstacles to success in penetrating the regional market. Economic integration can help the process. It helps to harmonise policies between member countries and sometimes helps in the development of trade infrastructure. Government willingness to undertake the integration agenda is the key to success of this process. At the level of institutions charged with implementing the integration agenda e.g. SADC and COMESA secretariats it is important that they start looking at integration from the grassroots agenda. There is a general feeling that these institutions are concerned more with how the big companies can benefit. For our purpose, we need an integration agenda aimed at benefiting small and medium scale enterprises.

While operating in an economic integration scheme can help, a lot of needs to be done at the individual enterprise level. Products to enter the regional trade market must be of a high quality because they will have to compete against similar

products from the whole region. Aggressive marketing and proper branding and packaging are also key ingredients. Zambian business must learn to be outgoing by learning to speak languages of potential customers. The SADC/COMESA region has at least four key languages – English, French, Portuguese and Swahili. Success in regional trade might require capacity to operate in all these languages.

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# **Annexure: Press Releases**



## 1. Aadhaar can be gateway to many services: Nilekani

**Jaipur, January 25, 2013**

The Aadhaar-based direct cash transfer scheme may have generated criticism for glitches in its implementation, but Nandan Nilekani the architect of the unique identity card (UID) project is optimistic about its chances, calling its benefits multiple and far-reaching.

The former Infosys CEO said Aadhaar would not only be a first identity card for many people in rural areas but would also work as a proof of identity for a host of services, which can be electronically verified within seconds, saving people time and money, and avoiding inconvenience.

While it is not mandatory to have an Aadhaar card (like the enrollment under national population register, which determines citizenship), the UID number will be a gateway to number of services like opening bank accounts, applying for passports, driving licences or LPG connections as the service providers will accept it as proof of KYC (know your customer) documentation, Nilekani said while delivering a lecture to mark the 30th anniversary of consumer advocacy group CUTS International.

Drawing parallel to the adoption of CNG in Delhi, secretary general of CUTS International Pradeep S Mehta said that the initial glitches can happen in a project like this but the benefits are huge and the problems can be resolved. He said vested interests did not want the conversion to CNG and the



level of pollution was unbearable. But now, the benefits are there for everybody to see, he added.

Chief minister Ashok Gehlot, who addressed the gathering, said that Rajasthan will be rolling out 10 schemes based on Aadhaar very soon. Rajasthan has been at the forefront of implementing the direct cash transfer scheme having three districts out of the 20 in the country.

## 2. Is Inclusive Growth Measureable?

New Delhi, June 05, 2013

“The government has come out with twenty-five monitoring indicators to chart the country’s inclusive growth over a period of time”, said Montek Ahluwalia, Deputy Chairman of the Planning Commission of India, while delivering the CUTS 30th Anniversary Lecture at New Delhi yesterday. “The same will soon be available on the Planning Commission of India’s website for public access”, he added.

The theme of the lecture was “Inclusive Growth: What does it Mean”. Also speaking on the occasion were Mr. Kirit Parikh, Executive Director of Integrated Research for Action and Development who chaired the session, Mr. TCA Srinivasa Raghavan, Editorial Advisor to CEO, Kasturi & Sons and Mr. Surjit Bhalla, Managing Director, Oxus Research and Investment.

As a precursor to the discussion, Parikh introduced Inclusive Growth as an open matrix including development of both poor as well as rich, without neglecting either.

Speaking on the occasion, Ahluwalia acknowledged that Inclusive Growth is a multi-dimensional concept and giving it a single definition would not be easy. He also stated that the concept of Inclusive Growth has now evolved into the concept of Inclusive and Sustainable Growth, but we first need to grapple with growth per se, without ignoring the sustainability dimension.

**Nehru, the original growthwallah**

Ahluwalia said that the government while looking at the concept of growth has never focused on strengthening the nation but on raising the nation to an acceptable level of living. Calling Pandit Jawahar Lal Nehru, India's first Prime Minister, the original growthwallah of the country, he reiterated and agreed with his words that to bring the nation to an acceptable level of living, the national income needs to be increased. These words are from Nehru's drafting in 1938 when he chaired the Indian National Congress's committee on the economy.

Answering the question on, "Does growth reduce poverty", Ahluwalia responded that in early days, the focus of growth used to be only poverty reduction, however, it was gradually realised that to bring in growth more than eradication of poverty is needed. The cake has to be expanded to generate resources for poverty reduction. Growth does not only mean making poor people less poor but its prime focus should be social mobility, i.e. giving people a chance to trade their positions in society.

Inclusive growth on the other hand also faces the challenges on reducing the gap between various classes in the country such as the rural-urban divide, among various Indian states, inequalities across various socio-economic groups based on caste, gender, marginalised groups like religious/regional minorities, handicapped etc.

Ahluwalia strongly felt that the focus of growth must not be only on reducing poverty but it should also be a job creating growth benefitting both lower as well as middle class. He acknowledged that growth is affected not only by government's policies but also by global economy, cronyism, among other factors. Keeping in mind the weak global economy in future, India will need to strengthen its own backyard, he added.

**India can do seven pc growth in the next two years**

He stated that India is capable of a growth performance above 7 per cent over the next two years if corrective and timely measures are taken.

As per Ahluwalia, to achieve the level of growth China has achieved India will need to improve infrastructure, improve management of land and urbanisation so that new management may be set up and finally introduce flexibility of labour laws. Acknowledging that for a decent inclusive growth, less restrictive labour laws will be required, however, consensus will first be required from labour in this respect.

TCA Srinivasa Raghavan, agreeing with Ahluwalia's view that glass is certainly not full but is filling, asserted that the problem is not with the Indian labour laws but with the manner in which management manages the trade unions, and how the labour courts perform. He said that the major way to bring about inclusive growth will be by achieving non-convexity.

Surjit Bhalla defined Inclusive Growth to mean equality of opportunity. He acknowledged India as a unique multi-dimensional country and mentioned that the country has numerous success stories in terms of social mobility, child mortality, sex ratio, etc. and there is a need to advertise and market the story of India's growth properly and he is hopeful about change.

**Lively Q&A session**

There was a lively Q&A session, when numerous micro and macro issues were raised by the over 100 participants in the hall. For instance, a question was raised on the role of private sector, and Ahluwalia responded that healthy competition can lead to better corporate governance. On sticky industrial relations, he said that consensus building is going on, and in a democracy like India, it is not easy. He asserted

that non-discriminatory participation of every citizen is required.

Questions were also raised on industrial relations, security and other issues.

Pradeep Mehta of CUTS referring to his long association with Ahluwalia and said that according to CUTS studies, flanking policies such as education, health, social infrastructure need to be effectively in place for reaping the benefits of growth, otherwise it can lead to asymmetries.

Marking an end to the session, Kirit Parikh in his summarisation said that the multi-dimensional concept of Inclusive Growth should translate to mean every child having an expectation of a basic minimum income.

While proposing the vote of thanks, Bipul Chatterjee, said that while it is easy to measure absolute growth, mechanics of measuring inclusive growth need to be developed.

### 3. Multilateral Trading System Should Respond to the Ever-Changing Global Economy by Keeping Development at its Centre

Geneva, 09 July, 2013

“There are parallels between the evolution of CUTS and the growth of the multilateral trading system over the last thirty years, in their quest to develop truly global organisations that are open to organic growth, reflecting the ever-changing global economy” said Pascal Lamy, Director General of the World Trade Organization (WTO) today at the CUTS 30th Anniversary Event held at the margins of the fourth global review of Aid for Trade.

Mr Lamy gave an account of the major evolutions of the multilateral trading system over the past three decades, including a number of significant shifts in the nature of trade, in the scope of trade negotiations and changes in the negotiating dynamics between trading nations.

“Today, nobody would think that an agreement between the quad of the 80’s would be sufficient to conclude a deal. The LDC group has gained a lot of power and they now have common and well-researched positions which have helped to place their agenda at the fore of negotiations.”

CUTS being one of the most prominent global advocates of the relationship between trade and competition law and policy, and public welfare, Dr Supachai Panitchpakdi, Secretary General of UNCTAD, the other speaker, stressed that

emerging markets which have successfully adopted the market economy did so concurrently with the creation of strong competition regimes.

Both Lamy and Supachai spoke about CUTS and the cooperation that it has enjoyed by the WTO and UNCTAD and the joint activities that have been conducted in seeking fair and free trade.

In his introductory remarks, Pradeep S. Mehta, Secretary General of CUTS explained that the 30th anniversary lectures as today's are being organised in several global capitals before introducing a short film giving an account of CUTS' history since its modest beginnings in Rajasthan, India. (<http://www.youtube.com/>)

The event was chaired by Frederic Jenny, Professor of Economics at ESSEC Business School, Paris, who recalled that competition rules were first introduced into trade agreements before becoming an international issue in their own right.

In the Q&A session, participants raised many interesting questions, including the need for international competition rules, better policy coherence among international organisations to promote multilateralism, and that the system needs to be focused on creating jobs and thus reducing poverty.

## 4. Trading System Needs to Improve and Link Better with Other Parts of Global Economic Governance

London, 17 July, 2013

“Globalisation saw little reversal during the recent crisis mainly because of WTO, the role of social safety nets and the success of emerging economies in global trade, among others” said Martin Wolf, Chief Economic Commentator, Financial Times at the 5th CUTS 30th Anniversary Lecture at London on 15th July on the topic “The Future of Global Trade Policy”.

The well attended lecture was hosted by the Commonwealth Secretariat and chaired by Kamalesh Sharma, Secretary General, Commonwealth Secretariat, and Financial Times as the media partner. Justine Greening, UK’s Secretary of State for International Development spoke at the event, while Professors Jim Rollo and Alan Winters commented on Wolf’s lecture.

Wolf, while appreciating the role of CUTS’s admirable work in the trade area, felt that the trading system is facing many challenges both from the inside and outside. The main challenges from outside are the imbalances between trade and exchange rates, climate change and inequality that is corroding the political base in favour of trade in developed countries. He stated that while these are important issues, WTO is not the right place to address them.

Speaking at the event, Justine Greening congratulated CUTS on completing its first 30 years, during which it has consistently



made the case for free trade, combined with competition and consumer welfare, leading to economic democracy. She also highlighted the long standing productive relationship between DFID and CUTS.

Greening stated that the UK government and DFID firmly believe that trade will play a key role in poverty reduction and the developing countries should be helped to reap the benefits of free and fair trade.

According to Greening, the main reasons for many developing countries not trading enough include: lack of access to markets; lack of enabling environment, particularly poor infrastructure and weak regulatory system; and not being able to be part of global value chains, that can create more and better jobs. She reiterated UK's commitment to delivering an agreement on trade facilitation at the 9th WTO ministerial conference to be held in Bali, Indonesia in December-2013.

Wolf appreciated the focus of CUTS in trade, competition, consumer welfare and building LDCs supply capacities. He believed that the poor will become even further marginalised without a robust and fair multilateral trading system.

According to Wolf, the trading system as represented by WTO is faced with several internal challenges, namely successful conclusion of Doha round that will restore legitimacy and relevance of the multilateral trading system and secondly the mega regional trade and investment agreements, i.e. trans-atlantic and trans-pacific, partnerships.

Wolf expressed doubts if the negotiations of these mega-regional trade and investment agreements would succeed. But it would be unfortunate if these negotiations are done without China and other emerging economies. Therefore, Wolf strongly advocated that these should be open to any WTO member who wishes to join later.

Alan Winters in his comments reinforced and expanded on several points made by Wolf. He believed that the 2008

economic crisis did not lead to high levels of protectionism as the world had a lot more macro-economic flexibility unlike in the 1930s. Winters added, that it was too early to declare victory as we have not seen the end of the crisis and governments may yet succumb to pressures for protectionist measures.

He considered smooth integration of China as the biggest internal challenge facing the multilateral trading system. This should not be based on the terms set by the west. Rather the trading system has to change to accommodate the interests of emerging economies including China and India that are different from those of the west.

Jim Rollo recalling the enthusiasm and appreciation of Pradeep Mehta founder and Secretary General of CUTS said that it never wanes and the result in terms of the expansion and success of CUTS is in front of us.

While commenting on the lecture by Wolf, Rollo stated that the WTO is in more trouble than we were willing to admit. He was also worried that the state capitalism was back in business witnessed by bail outs to auto companies and the fact that most of China's big exporters are state owned. He also lamented the fact that the private sector has exhibited a lack of interest in the WTO and Doha round.

In the ensuing discussions several questions and comments were made relating to the success of WTO in many of its functions including the dispute settlement, role and responsibilities and performance of China in WTO, issues of interests to developing countries other than China and other emerging economies, i.e. Sub-Saharan Africa, LDCs and small states.

Another interesting debate was around the importance of trade finance for the trade performance of small developing countries, relationship of the financial sector with the real sector and the role of trade in the use and exploitation of

natural resources. One participant raised the issue of consumers being ignored in the debate, while panelists did respond that higher trade-led growth does lead to higher consumer welfare.

Pradeep Mehta stated that consumers are the *raison de'être* of all economic activity and spoke about a recent CUTS study about the cost of economic non-cooperation in South Asia which costs the regional economies US\$3bn. Since the study was published, governments have woken up which is evident in rising intra-regional trade.

Mehta admitted that most of the discourse in the past had assumed that consumer interest would be advanced when trade volumes rise, but were not explicit in approaching trade liberalization through the lens of consumer welfare and thus positioning the debate domestically for consumers to support.

He also stressed the need for strong flanking policies, such as health, education, skills, regulatory regimes etc., to ensure that the benefits of trade openness reach all segments of the society. According to him, coherence in policies at the domestic level and among institutions at the international level etc were needed to face the challenges. This was also a main conclusion of the DG WTO's High Level Panel on the Future of Trade of which he was a member.

In his vote of thanks, Cyrus Rustomjee, Director, Economic Affairs Division of the Commonwealth Secretariat remarked that the event was very successful and useful for their own work on trade policy. He spoke about a recent ComSec paper: "Right to Trade" by Joseph Stiglitz which has laid out how small and vulnerable economies can benefit from the multilateral trading system.

Rustomjee stated that they will continue to devote their assistance to help its member developing countries, particularly small states, for their participation in the trading system through high-quality research and capacity building workshops.

## 5. India needs to have a cognitive and accommodative communication with China, says Khurshid

New Delhi, August 15, 2013

The External Affairs Minister, Salman Khurshid, has said that India needs to have a cognitive and accommodative conversation with China and called for an integrated approach towards engaging Asian countries to face the various economic, political and social challenges. Delivering the CUTS 30th Anniversary Lecture on 'India's Economic Integration with Asia,' Mr. Khurshid said the conversation should be in a voice which has strength, effectiveness, confidence and belief and not a meek voice. "The conversation should be accommodative from time to time with domestic need. India and China would work together one day but not today, as it's too early," he remarked.

He said India was already exploring in South China Sea where it had commercial contracts with Vietnam and other countries of the region. "We are not involved in a dispute in South China Sea. We believe that it should be settled bilaterally between countries which have different points of view. It should be done peacefully and within the four corners of the code of conduct that ASEAN is developing for South China Sea," he said.

The External Affairs Minister acknowledged that given the criticality of integration of India with Asian countries, the approach that we take to further the economic integration

and to face the various economic, political and social challenges to bring the nation together, is extremely important. “Indo-Pacific region was one of the under-explored areas to be worked upon. Also, there was a need for India to provide links with Central Asia. TAPI gas pipeline as one of the most forward looking link of India with Central Asia,” he stated.

While stressing the importance of trilateral highway between India, Myanmar and Thailand, Mr. Khurshid said that linking with countries conceptually was more important than linking physically. “There was a need to do away with the traditional way of thinking and start thinking out-of-the-box.”

Those who also spoke on the occasion included Ajay Chibber, Director General, Independent Evaluation and former Assistant Secretary General, UN; Rajiv Kumar, Senior Fellow, Centre for Policy Research. Abhishek Manu Singhvi, MP, chaired the session.

Mr. Chibber agreed with Mr. Khurshid on importance of India-Turkey and India-China relationships and highlighted the importance of Myanmar as a bridge between India and China. He was hopeful that 21<sup>st</sup> century like the 19<sup>th</sup> century will again be the Asian century with Asia contributing 60-70 per cent to the global economy.

Mr. Kumar asserted that India must show power of its example to be successful and there is a strong need for regional cooperation in South Asia than regional integration. He highlighted that unless there will be economic integration within India, economic integration with Asia will not move ahead.

Pradeep Mehta, Secretary General, CUTS International, highlighted the need for effective implementation of Article 307 of the Constitution talking about economic integration within India and expressed hope and expectation to continue working towards economic integration with Asia and Africa.

## 6. Regional integration is an imperative for sustainable development and the time is now!

Nairobi, August 19, 2013

“Regional integration is one critical factor in efforts to achieve sustainable development in East Africa. This sustainability does not mean the maintenance of the status quo but should look at the long term development needs of the region. The region should integrate because it is the right thing to do at this time”, said Ambassador Richard Sezibera, the Secretary General of East African Community (EAC).

Dr Sezibera was delivering the 7th CUTS 30th Anniversary Lecture on the theme: “Regional Integration for Sustainable Development in East African Community” at Nairobi yesterday.

The event was chaired by Dr Mukhisa Kituyi, incoming Secretary General of UNCTAD, which included discussants: Pradeep S Mehta, Secretary General, CUTS International; Frank Maetsart CEO of Trade Mark East Africa; Mr. Lamin Manneh, Chief Regional Integration Officer from African Development Bank and Prof. Jasper Okele, WTO Chair, School of Economics, University of Nairobi. The event included over 250 participants from the civil society; government; diplomats; academia; research institutions; private sector; media and development partners.

“CUTS has done very useful work on regional integration process especially through applied research, advocacy and

networking and also partnered with the EAC Secretariat in its projects on trade, climate change and food security” said Dr Sezibara. “We value this relationship highly and look forward to more cooperation”.

Dr Kituyi in his opening remarks *inter alia* spoke about the need for developing countries to fashion the development narrative, rather than be guided to what comes from elsewhere. He also stressed on regional integration as a building block for the multilateral system.

“Examining the history of Africa over the centuries, there has always been the struggle for sovereignty and state building after independence, yet in spite of those challenges, the continent has been able to navigate. Currently, we are experiencing the rise of a new Africa which is dynamic, vibrant, sure of its destiny and continues to fine and refine its narrative. However, Africa still has unfinished agenda, which is integrating and mobilizing her people to fully achieve the narrative that is being refined” asserted Dr Sezibara.

Integration of markets is crucial for trade, commerce and industrialization. East Africa, with an estimated population of 133 million people and still growing, presents a huge market opportunity that attracts investments as noted by Mr Lamin Manneh of the African Development Bank.

Besides, no country has developed by turning inward and keeping the others out. Those that did were forced to change. It can therefore be concluded that international trade is a prerequisite for development. “If you cannot trade with your neighbour, you will trade your neighbour” said Sezibera, referring to East Africa during the colonial times, which included slave trade.

On progress in the integration process, the protocol for a monetary union is to be signed in September then the journey to political federation begins, said Dr Sezibara. “This however calls for harmonization of monetary policies, regulation and

discipline in public sector debt so that partner states are not exposed to a similar crisis like the recent one in the Eurozone”.

Other areas where cooperation has been identified is harmonization in the sharing of natural resources in a sustainable manner, multilateral negotiations in the World Trade Organisation (WTO) and United Nations Framework Convention on Climate Change (UNFCCC) as well as cooperation on security and defense.

On the above issues, Dr Kituyi stressed the importance of building capacity for African negotiators to effectively engage in these processes from a regional perspective.

EAC intends to reach middle income status within this generation; this is possible but not with balkanized states and it explains the EAC rational integration, which takes a share of 3 of the top 6 fastest growing economies in the world, all in Africa.

Frank Maetsart noted that one of the basics is raising competitiveness for trade and tackling the inefficiencies at the ports as well as other infrastructural bottlenecks. Jasper Okelo strengthened this by arguing that “regional integration is not for debate, we either have it or forget about development”.

Finally, cultural homogeneity is not a prerequisite for regional integration; rather it is the will, determination and enactment of the right policies which spurs integration. A good example is India, said Pradeep Mehta, Secretary General of CUTS International; “India is multilingual, multiracial, multi-religious, multicultural and has managed to hold on together as a country and achieve much, in terms of development. Therefore, the different cultures in East Africa should not be seen as an obstacle to integration”.

“India has had a long term political relationship with most countries in Africa over the years, which was built up around the common legacy of colonialism. She will continue to deepen her relationship with Africa which includes providing soft skills



in many areas of governance, and CUTS too will play an important role in this effort”, said Mehta.

“Our next two public lectures are also designed on regional integration in Africa. Besides, CUTS is opening its third centre in Accra this month which will be inaugurated by Ms Hanna Tetteh, Ghana’s Foreign and Regional Integration Minister which includes her lecture on regional integration in West Africa”, said Mehta.

In his vote of thanks, Clement Onyango, Director of CUTS Nairobi Centre said that CUTS works as a complement to efforts being made by governments and intergovernmental organisations rather than as a competitor.

## 7. “Short Term Pain Leads to Long Term Gain”: Tetteh

**Accra, August 27, 2013**

“The short term pain that we have to bear in our bid to overcome the challenges of regional integration would lead to long term gain for everyone,” said Hanna S. Tetteh, the Ghanaian Minister for Foreign Affairs and Regional Integration.

“We welcome the opening of the CUTS Centre in Accra and look forward to its active participation in providing research support to Ghana and the West African region on critical economic policy issues” said Madam Tetteh. “We are aware of the distinguished work of CUTS and I have personally interacted with them during my earlier position as Trade & Industries Minister of Ghana”.

“CUTS has developed a successful methodology of connecting grassroots to the policy makers especially through applied research, advocacy and networking” said the Minister. “We value this experience and look forward to more cooperation”.

Madam Tetteh was delivering the 8th CUTS 30th Anniversary Lecture here on Monday 26th August on the theme: “Regional Integration as Tool for Poverty Reduction in West Africa” and the inaugural ceremony of CUTS Centre at Accra.

The event was held in association with Institute of Statistical, Social and Economic Research (ISSER), a partner of CUTS in Ghana. Over 150 people from the policy community including

many diplomats, academia, private sector, civil society and media participated.

“Regional integration in West Africa has contributed somewhat to poverty reduction though the data to support this position is not easily available”, asserted Madam Tetteh.

“For sure, ECOWAS is celebrated within and outside Africa as one of the most innovative and advanced among the continent’s regional economic communities.

“This is particularly in the areas of conflict prevention, management and peacekeeping which are prerequisites for socio-economic development but more as an example of successful political rather than economic cooperation.

“The establishment of the ECOWAS Trade Liberalisation Scheme (ETLS) is another critical project in the Community’s drive to promote and consolidate economic integration in West Africa, and thus reduce poverty among its people. The Scheme is anchored on the complete removal of all trade barriers in the region, and the standardisation of all custom duties and taxes of equivalent effect, with the view to enhancing intra-regional trade,” she added.

She also mentioned the implementation of the joint border port arrangements which should make it less cumbersome to deal with the administrative bureaucracies at the borders, agreeing on the Common External Tariff which will hopefully take place in October this year in Dakar, should make it easier to do business with the region and the world.

The event was chaired by Prof Ernest Aryeetey, the Vice Chancellor of University of Ghana. The discussants included: Pradeep S Mehta, Secretary General, CUTS International; Dr. Toga Gayewea McIntosh, Vice President, ECOWAS and Mr. Ishmael Yamson, Board Chair of Standard Chartered Bank (Ghana).

Professor Aryeetey in his opening remarks said regional integration will lead to competition which in turn will drive

down prices meaning new jobs and additional incomes for consumers. He added that “regional integration is the wave of the future. It will not solve all of our problems, but we are convinced that the gains to winners far exceeds the losses to losers”.

Contributing on the subject, Ishmael E. Yamson, Chairman, Standard Chartered Bank (Ghana) said: “We must have vision and ambition for the ECOWAS sub region. We must look at the larger 300 million market of people. Investments will pursue such large market opportunities. Private sector must be encouraged to actively participate in the Regional Integration efforts.”

He added that “more needs to be done to harmonise the legal and regulatory framework for the ECOWAS region especially the two divergent systems derived from Britain and France that exists in the region.”

“I see regional integration as a tool, not just a strategy for fixing the problems and challenges of the region. It should become ECOWAS of the people of West Africa. The ECOWAS as a vehicle is being fixed with a tool box. Tools are not only used to solve problems, but are used to add value to a product or process, such should be our approach to adding value to ECOWAS”, said Dr. Toga Gayewea McIntosh, Vice President, ECOWAS. “We need to study the costs of non-integration for which we will establish a working group”.

“We had done a study on the costs of economic non-cooperation in South Asia two years ago which showed gain of US\$2bn to consumers if tariffs were rationalized. This could result in 20mn new jobs and substantial lowering of consumer costs. We will be happy to do a similar study for the ECOWAS region, where we have many research partners”, said Mr Pradeep S Mehta, Secretary General of CUTS International.

“Through establishing its centre in Accra, CUTS aims to strengthen its approach of promoting South-South Cooperation

in the whole of Sub Saharan Africa, other than sharing our knowledge and skills in Ghana and the West Africa region.

“India is cooperating with most countries in Africa and it has a shared legacy of colonialism, and its cooperation will continue in the area of skill building and soft infrastructure. At CUTS, we are working with the Government of India in the Indo-Africa Cooperation Framework. Furthermore, through the framework of trilateral development cooperation, we are also working with several western bilateral donors”, said Mr Mehta in his closing remarks.

CUTS Assistant Director, Kshitiz Sharma proposed the vote of thanks and said that our work is complimentary to governments and intergovernmental organisations. “We bring in the critical dimension of civil society participation in policy making and immersion which leads to sustainable solutions”.

## 8. China and India to Outgrow USA in Times to Come: Mohan

Washington DC, September 24, 2013

“By 2030, China’s economy and by 2060, India’s economy could be much larger than the economy of United States, if one goes by current projections. The rate of change that has been predicted, if it does come around, it would be quite dramatic in the next 20 years. These changes do indicate that changes at the level of global governance to have to happen, for example the emergence of G-20 countries, which is more participatory” said Rakesh Mohan, Executive Director, IMF, while delivering the 9th CUTS 30th Anniversary Lecture at Washington DC yesterday.

In his welcome remarks, CUTS Secretary General, Pradeep S Mehta, said that this lecture series are being organized around the world by CUTS as it is an international NGO pursuing economic equality and social justice within and across borders. The twin purpose of this series is to acquaint people about its work and for it to draw fresh ideas for its own work agenda for the next twenty years. Its work is around three verticals: trade, regulation and governance, which it is pursuing in the developing world through its own presence in Asia and Africa.

Also speaking at the occasion were Bill Kovacic, Professor, George Washington University and Co-Host of the event, Swaminathan S Anklesaria Aiyar, Consulting Editor of The Times of India Group and Edward Luce, Chief US Commentator, Financial Times. Nirupama Menon Rao, India’s Ambassador to USA chaired the session.

“The key issue to ponder over is what will happen in the future, given the big changes that are taking place with the emergence of different institutions in the world and whether the governance in multilateral institutions were to change with more even representation with economic weight or they will remain US/EU dominated” said Dr Mohan.

“Thus, the question that arises is that in some ways if you have one top dog who governs, might lead to more stability as compared to 4-5 top dogs trying to compete with one another on how to govern global situation, which goes beyond just economics. But, during the next 5-10 years we are going to see changes, that we have not seen since a long time”.

Nirupama Menon Rao, India’s Ambassador to USA briefly spoke about the commitment of the Indian government towards ensuring inclusive growth and to ensure that fruits of growth and progress are shared with large sections of our population, which is the mantra of the day.

Mrs Rao reflected on the various steps being taken by the Indian Government, such as Food Security initiative, rural employment guarantee scheme, which provides right based employment to the people, Right to Information Act, which creates legal obligation on the government to share information on how it work with the people and so on.

She acknowledged the important contribution being made by CUTS in order to inform policymakers at the highest level in government and that it has truly conveyed the message of South-South Cooperation with its presence in many countries and that it should continue to grow to promote equity and social justice across borders.

Bill Kovacic, Professor, George Washington University, spoke about the need for capacity building in the new competition systems and touched upon the seminal contribution of CUTS on this subject through its 7Up initiative

i.e. Bottom Up Approach in over 30 countries in Africa and Asia.

Prof Kovacic emphasised on the importance of creating the right team and getting the right people to head a competition agency, who have some experience of having worked in the private sector in order to understand how they function, without this important understanding the agency would be in some sort of a deficit. Thus, recruitment of the right people and the right level is one of the key ingredients to ensure success of the institution.

Swaminathan S Anklesaria Aiyar briefly spoke about the transition from the days between MRTPC to the present Competition Act in India. He did mention that there was a time during the MRTPC era, government control was the key and being big was bad. One of the key changes in the present Competition Act, being big is not bad but its abuse is bad.

Towards the end, reacting to the issue of change in global economic calculus, he did mention that it is difficult to discount US but the powers of EU/US are diminishing relatively. He emphasised that the original idea that the dominant force is going to be EU or US in the world is getting diluted and we are moving towards a multi-polar world.

Edward Luce, Chief US Commentator, FT drew the attention of the audience towards the formative years when CUTS came into existence, which was an era of license raj, 1991 crisis, etc, thus the emergence of CUTS as a unique pro-market organization, was a breath of fresh air. He emphasised that the change in global economic geometry is more of a problem for US, as compared to China and/or India, as because it is becoming increasingly irrelevant.

There was a lively Q&A session, when numerous micro and macro issues were raised by the over 100 participants in the hall. Marking an end to the session, Pradeep Mehta in his summarisation highlighted the importance of donor co-



ordination on the vast issues that CUTS and other organisations are working on, which is important. He referred to the Paris Declaration, which is a soft law and requires the donor to coordinate, which is being ignored.

Udai Mehta, Associate Director, CUTS proposed a vote of thanks at the end and handed out mementos to all the speakers.

## 9. Multilateral Trading System is Dead: Bhagwati

New York, September 27, 2013

“The multilateral trading system is dead and the Doha round is in trouble largely because of lack of US leadership” said Jagdish Bhagwati, University Professor, Columbia University, while delivering the 10th CUTS 30th Anniversary Lecture at New York.

According to Bhagwati, the Doha Lite deal being attempted in Bali, is like a decaf and light coffee and we are trying to save the Doha round, which is similar to the steps taken to save the Cancun round on climate change issues.

He said that the multilateral negotiations are crippled and they received another blow by the formations of the regional and bilateral deals. These are all very big deals—they’re not small bilateral deals that privilege a small number of countries and discriminate against everyone else. Their preference areas are very large, and they overlap. And they’re all following a similar model in terms of a comprehensive trade agenda, though they have different regional perspectives.

“Let us make sure that we don’t harm the weakest among us in the trading system, because the countries that are left out of these super-regional arrangements are the African countries, a few Asian countries, and some Latin American countries” he said. “Thus, the important question to be pondered over is that the preferentials, such as Trans Pacific and Trans Atlantic, are the only game in town and how does it impact the WTO”.

Also speaking on the occasion were Eleanor M Fox, Professor, New York University School of Law; Ken Davies, Vice Dean and Professor, New York University School of Law; and Merit E Janow, Dean, Columbia School of International and Public Affairs chaired the session. Trevor Morrison, Dean, New York University, School of Law; Peter Henry, Dean, Leonard N Stern, School of Business, New York University welcomed all the speakers and guests at the well-attended event.

Professor Fox briefly spoke about the importance of competition policy and law on development. According to her, competition law and policy is one among several links in the chain, all necessary links, to empower the less and least well off. It empowers the institutions to knock down barriers and remove restraints which impede the opportunities to the poor.

She referred to the work undertaken by CUTS through the 7Up initiative i.e. Bottom Up Approach and mentioned about the various reports that have been produced which provide evidence from across the globe on how anti-competitive barriers are created, so as to deprive the common consumers and producers from participating in the economy.

“Barriers can be created by various means and mechanisms, such as cartelization, public and private restraints and thus, it is important to empower the institutions to tackle such barriers. This, is one the key roles played by Competition Policy, which empowers people and institutions to access and benefit from economic opportunities, by bringing down such barriers” she emphasised.

Professor spoke at length regarding the important role that can be played by competition policy. One important aspect that she touched upon was that well-functioning markets are important for pro-poor growth. Market failure hurts the poor disproportionately and the poor may be disadvantaged by the terms on which they participate in markets. Thus, programmes

are needed to ensure that markets that matter for their livelihoods work better for the poor and policies, such as Competition Policy to tackle market failure should be aimed at increasing economic capabilities of the poor.

Kevin Davis briefly spoke about the importance of tackling corruption. He emphasised that it is extremely important for organisations such as CUTS to be directly involved in issues pertaining to corruption. Given the engagement of CUTS with policymakers and at the grassroots, the organisation is well placed to take on corruption related issues, as it requires mobilization of people at the ground level and having the reach to the policymakers at the top.

He highlighted some of the actions being taken at an international level, with the passing of the Anti-Bribery Law in the UK, followed by a large number of countries, OECD's efforts, International Anti-Money laundering law, UN Convention on Corruption etc.

Davis stressed on the need to work on corruption issues, as because investors use indicators such as global indicators for corruption, when taking decisions on whether to invest in a country or not. Thus, it is important to take cognizance of such issues and there is the need to think on what one can do about the same.

There was a lively Q&A session, when numerous micro and macro issues were raised by the over 80 participants in the hall. One interesting question was raised on how climate change issues can be dealt with under the competition policy rubric. In response, Pradeep Mehta pointed out that competition not only promotes good governance but also innovation which leads to a reduced burden on environment, as firms innovate to produce goods and services at the lowest costs. "We are engaged in case studies to show the linkage between competition policy and climate change".

Professor Merit Janow, in the chair's summary, recalled her old association with CUTS and said that the event which has featured three eminent speakers on various governance aspects of developing countries will help take the CUTS agenda forward.

Marking an end to the session, Mehta in his remarks highlighted the important work being undertaken by CUTS in the areas of trade, regulation and governance, which will continue to guide the organisation's agenda over the future.

## 10. Neighbours and boundaries cannot be changed, but mind sets will need to be changed: Khurram Dastagir Khan

Islamabad, December 11, 2013

“Neighbours and boundaries cannot be changed, but mind sets will need to be changed”, said Mr. Khurram Dastagir Khan, Minister of State for Commerce and Textile Industry, Pakistan.

He was speaking at the 11th CUTS 30th Anniversary Lecture event organised by CUTS International and Sustainable Development Policy Institute here today (<http://www.cuts-international.org/30thAnniversaryLectures/>).

“Global integration is extremely important in order to strengthen trade relations among countries. Operationalization of SAFTA was a limited success story for India and Pakistan, as inter-regional trade has not been effective though there is huge potential, said Mr Khan. “Thus, we would need to recognise liberalisation of trade among SAFTA countries, ensure more market access and create level playing field among the nations”.

Mr Khan emphasised that we need to have consistent and sustainable relation to get over with poverty in the region. Bilateral trade equation is complex and any untoward incident can derail the process of dialogue. The need of the hour is for relations between India and Pakistan to be uninterrupted.

He said that one question which is often asked by stakeholders in Pakistan i.e. will expansion of trade with India benefit to Pakistan or endanger its domestic industries.

According to Mr. Khan, the trade between India and Pakistan is a win-win situation for both the countries, as supported by studies done undertaken by CUTS and SDPI.

He shared with the audience that even a 10% share of access to markets in India will double the market boom in Pakistan. He emphasised that we cannot have a favourable trade balance with all countries and he acknowledged that we do have a negative trade balance with India.

Khan said that it was India who granted MFN to Pakistan in 1996, however, instead of trade rising between the countries, our experience has been the opposite. He emphasised that it is imperative that India must reduce the non-tariff barriers and provide a level playing field. What we want is to have a non-discriminatory access to both countries' economies.

"It is a well-known fact that bilateral trade between India and Pakistan is currently far below what it ideally should be. There is ample literary evidence available on the underutilization of trade opportunities that exists between India and Pakistan" said by Mr. Pradeep S Mehta, Secretary General, CUTS International.

While both countries have been successful in bringing forth trade reforms that advanced their respective levels of trade integration with other trading partners, leaders of both countries have been apprehensive about exploring trade with each other, the main reason being a longstanding miscalculation of the net of economic gains and political losses out of trade.

Mehta further mentioned, CUTS studies have shown that facilitating trade in these products can easily triple the current volume of bilateral trade and take to about US\$12bn per annum. The benefits to consumers and producers in both countries owing to enhanced bilateral trade would be manifold.

In conclusion, Mr Mehta mentioned that it is heartening to note that the track 2 level efforts that we have been carrying forward with partner organizations like SDPI and a large

number of stakeholders from both countries are gaining traction.

Our effort has been one of the important ingredients in keeping alive the bilateral dialogue process. We need to expand the scope and reach of the ongoing dialogues by including and participating in a wider set of stakeholders in the dialogues. One of the tools that we have in mind is that of civil-military dialogues on areas of bilateral economic cooperation including trade.

Also speaking on the occasion were Mr. Aqdas Ali Kazmi, Former Joint Chief Economist, Planning Commission of Pakistan; Mr. Amin Hashwani, Hashwani Group, Karachi; Mr. Shaban Khalid, President, Islamabad Chamber of Commerce and Industries, Islamabad and Dr T C A Raghavan, High Commissioner of India to Pakistan, who Chaired the session.

Dr Raghavan briefly spoke about the importance of Pakistan and India relationship and the fact that they both face nearly the same challenges. Thus, it is important for effective collaboration between India and Pakistan, as one can learn from other and he was of the opinion that such collaborations would be fruitful.

According to Dr Raghavan, there are two key issues one needs to focus on i.e. Policy i.e. how do we move towards a more stable trade relationship and challenges pertaining to infrastructure. He emphasised on the need for longer trading hours, opening of more border crossing points and that all trading points should be open for all trading items between the countries.

Dr Hashwani, laid emphasis on the need to privatise the peace process. According to him, businesses don't have baggage and they can be effective problem solvers. Thus, the governments on both the sides, should put the businesses on



peace process and they should be part of the decision making process.

Towards the end, he emphasised that there is need to connect emotionally, if we want nations to come together. He suggested using cricket as a platform to ensure better integration among the countries and suggested formation of a regional team (India and Pakistan players) and rest of the world.

Mr. Shaban Khalid, mentioned that the business community is excited about the future. He drew the attention of the audience on the Negative and Positive List and provided an example i.e. steel is being imported into Pakistan from India via Dubai, which increases the cost of the product. Thus, there is a need to advocate for review of negative and positive list between the countries.

Mr Khalid also emphasised on the need for harmonisation of quality standards. He mentioned that we have different quality standards in both countries, which has led to a lot of problem. He gave the example of cement from Pakistan lying on Indian borders because of certification issues.

The Minister, Mr Khan also released a CUTS publication: “Building Peace through Trade-The Future of India-Pakistan Trade & Economic Relations”.

There was a lively Q&A session, when numerous micro and macro issues were raised by the over 100 participants in the hall.

## 11. Restructure the Planning Commission: Yashwant Sinha

New Delhi, December 19, 2013

”The Planning Commission is the biggest obstacle in the path of federalism. It should be restructured to do perspective planning and implementation without being empowered to micro manage the states’ financing and functioning, which is the task of the Finance Ministry”, said opposition leader, Yashwant Sinha.

Mr Sinha was speaking at the 12th CUTS 30th Anniversary Thought Leadership Lecture on December 18, 2013, in New Delhi, on the topic “Fiscal Federalism: The Unequal Balance”. ([www.cuts-international.org/30thanniversarylectures](http://www.cuts-international.org/30thanniversarylectures)).

Mr Sinha added that India is a union of states and not a federation, for which several provisions in the Constitution exist, which provides a unitary character. “We are gradually moving towards federalism considering the fact that many regional parties are ruling in states”.

Mr. Pradeep S Mehta, Secretary General, CUTS, welcomed the guests by questioning the premise if the federalism practiced in India was true federalism. He mentioned that the Constitution of India does not refer to the role of Centre/ Central Government, but to the Union.

Chairing the lecture event, Mr. N. K. Singh, MP, set the tone by stating that the issue was contemporary as well as complex, and sets up a challenge between economic understanding of scarcity of resources and political realities.

He mentioned that federal practices have not kept pace with changing dynamics and economic realities of the country. There was no credible and viable mechanism at present, for coordination between states and central government. “The Interstate Council is defunct”.

In his speech, Mr. Sinha touched upon the issues of differences between federalism and decentralisation, the changing political scenario with the emergence of regional political parties, role and utility of Planning Commission of India, the pending Goods and Services Tax, and the core issue of centre-state and inter-state relationship which is at the heart of the subject of fiscal federalism.

He noted that the Planning Commission was created by an executive order and has been continuing without any constitutional or statutory backing, but is playing a significant role in devolution of funds to states.

Mr Sinha was critical of the role of the Planning Commission in reviewing the gross budgetary support and the lack of accountability of the Planning Commission to the Parliament.

In addition, he raised concerns about the complex constitutional amendment bill on Goods and Service Tax wherein the potential problems of central government in its implementation, have not been adequately highlighted.

### **Cooperative federalism is the way forward**

Mr. Sinha further mentioned that what India truly needed was cooperative federalism i.e. co-option of state governments in policy making, and need for greater cooperation between central and state governments in critical areas, including security.

The already existing empowered committee of finance ministers of various state governments on GST has been a successful experiment in this regard. The same approach can be taken for other subjects as well, such as a committee of state home ministers to deal with security matters. On the

issue of performance on fiscal deficit, he was of the opinion that states have performed much better than the central government.

Dr. Bhal Chandra Mungekar, MP, in his speech, said that India is a natural federation considering the plurality of cultures, language, religion etc. He stressed upon the need to restructure the FRBM Act and the need for more autonomy of the states. He agreed with most of what Mr Sinha said.

Both parliamentarians Dr Mungekar and Mr N. K. Singh, having been members of the Planning Commission, too expressed their reservations about the functioning of the Plan body and suggested that it should be wound up.

The addresses were followed by a lively question and answer session. The audience included parliamentarians, Messrs V.P. Singh and Rangasayee Ramkrishna, amongst other eminent citizens, economists and media personnel. On a query of the steps needed to bring back India to growth trajectory, Mr. Sinha responded that government should create an environment to enable reduction in interest rates and ensure speedy clearances of pending projects, which are currently in the range of Rs. 138,000 crores.

Mr Mehta suggested that as a seed to cooperative federalism, mainstream political parties should also explore a grand coalition in forming a stable government, such as in Delhi State, as practiced in Germany, whereby the legislature can function without going in for fresh elections.

The meeting also issued a fresh call for scrapping the APMC Act, and to establish an empowered committee of state agriculture ministers to review the same.

The panel wholeheartedly echoed the need of cooperative federalism in India, emphasised that the same was feasible, and the need to rechristen the Planning Commission of India, as Department of Planning and Cooperation, as it has outlived its utility in its present form.

## 12. The centralised state everywhere has lost a great deal of legitimacy: Bardhan

Kolkata, December 24, 2013

‘After its many failures, the centralized state everywhere has lost a great deal of legitimacy’, said Dr. Pranab Bardhan, Professor of Economics at the University of California, Berkeley, while delivering the 13th CUTS 30th Anniversary Lecture in Kolkata yesterday. ([www.cuts-international.org/30thanniversarylectures](http://www.cuts-international.org/30thanniversarylectures)).

According to Bardhan, decentralization is widely believed to promise a range of benefits, particularly in making governance more responsive and efficient in meeting local needs and preferences.

“A major dilemma of governance institutions in a developing country is a trade-off between autonomy (from populist pressures) and accountability, that is inevitably involved in most governance, including in the centralization vs. decentralization debate” Bardhan averred.

On the one hand, one needs arms-length institutions with credible commitment to insulate the system from political interventions, from special interest groups and partisan or faction politics. On the other hand, too much insulation often means too little accountability. This leads to high-handed arbitrary centralized governance, leading to abuses and waste.

Dr Bardhan further said that in one important sense Indian local elections are not fully democratic, making local accountability problematic. Political polarization, as in West Bengal, makes things worse, with opposition politicians usually

not participating in the panchayat decisions as well as monitoring processes, as originally envisaged.

Welcoming the guests Mr. Pradeep Mehta, Secretary General, CUTS International, said that governance is one of the issues that CUTS has been working since its inception and thus this subject has been chosen as the topic of discussion for the lecture. Decentralisation in governance is very essential for a democracy to function properly and welfare of people can be promoted, Mr. Mehta asserted.

Chairing the lecture event, Dr Ajay Chhibber, Director General, Independent Evaluation Office, stated that decentralisation is yet to be achieved in India. Comparing India with China, he said that though China is not a democratic country, but has a more decentralised and accountable government. The delivery of service at local level is one of the main deciding factors in the recent elections in India, he said.

M. N. Roy, former Member, Expert Committee on Leveraging Panchayati Raj and TR Raghunandan, Member said that governance means how the government performs and how the citizens choose their government. Thus citizens are equally responsible in running a transparent government by electing the right people.

The second panellist, Mr T. R. Raghunandan, Member of the West Bengal Committee on Panchayati Raj, said that the young population in India are going to be the deciding voters in the coming elections and so they need to be governed in the right direction.

More than 100 people attended the event which comprised of academicians, scholars, media persons and others.

Mr. B. G. Roy, President, Calcutta Citizens' Initiative (the partner for the event), in his welcome remarks said that decentralisation in governance system has gained a lot of importance in the last few years and the subject of discussion has immense importance now. Dr. Keya Ghosh, Director, CUTS International extended vote of thanks.

### 13. Economic Governance Calls for Statesmanship in India: Rajiv Lall

Mumbai, January 22, 2014

“Economic Governance cannot be seen in isolation and would need to go hand in glove with political governance”, said Dr. Rajiv Lall, Executive Chairman, IDFC Ltd while delivering the 14th CUTS 30th Anniversary Lecture in Mumbai yesterday

While discussing political governance, he opined that India has done remarkably well in so far as democracy, which has thrived over the years. However, economic governance has become challenging in terms of contest between socialist and republic values, adopted after independence as against newly adopted market economy after 1991.

He further discussed three broad areas, such as degree of state intervention, state regulators conduct *vis-a-vis* the private sector and the lack of independence in their functioning and inter-generational linkage between democracy, economy and policy making.

He concluded by suggesting that there is a need to refurbish the Planning Commission of India so that it becomes a true national level institution, such as the RBI to deal with evolving economic governance challenges. For this to happen, we need a statesman in the country to lead.

Welcoming the guests Mr. Pradeep Mehta, Secretary General, mentioned that CUTS International has now entered its 30th year, and to celebrate the same we are organising series of public lectures, by eminent friends around the world

in cities where we are well known, on contemporary issues which are related to our work agenda.

The aim of the lecture series is to address CUTS future interventions to promote inclusive growth from the point of view of their impact on consumer welfare in the light of contemporary policy discourse on trade, regulation and governance. CUTS aims to publish the lectures in a volume and produce a video tape of the same, at the mid-2014.

Dr Siddhartha Roy, Economic Adviser, Tata Group laid emphasis on the importance of regulatory uncertainty and its negative impact on investments in the country. He referred to the example of certain private companies being allowed to seek higher tariff for their imported coal fired power projects that are under implementation, which was not part of the original contract that was based on a bidding process. Such discrepancies in enforcement of contracts needs to be avoided so as to ensure predictability of policies/rules that are laid down by the Government.

Sucheta Dalal, Managing Editor, Moneylife spoke about the absence of consumer participation in the policy making process. She mentioned that the biggest stakeholders in India are consumers/citizens, which unfortunately are left out from discussions on economic governance.

Pradip Shah, Chairman, IndAsia Fund Advisors emphasised on the importance of efficiency and effectiveness of regulations and public institutions in India. According to him, effectiveness of implementation of law is weak and is one of the key issues that need to be analysed and rectified. Shailesh Vaidya, President, IMC Managing Committee also spoke at the event, which was attended by over 50 participants in the hall.



## 14. Trade Policy and Domestic Economic Reforms are inseparable: Peter Varghese

Canberra, February 04, 2014

“One can change a country by changing trade and industrial policy,” said Peter Varghese, Foreign Secretary of Australia. He was speaking at the 15th CUTS 30th Anniversary Lecture in Canberra yesterday on the subject of “Trade and Domestic Reforms: The Australian Experience”.

Comparing the generations of economic reforms in Australia, Varghese underlined that by placing consumers at the centre of policy thinking, one can attend crucial social objectives of development. “Through a sustained domestic reforms programme for an open, market-driven economy, Australia has attained greater competitiveness and prosperity,” he added.

While welcoming the guests, CUTS Secretary General, Pradeep S Mehta said: “For trade policy to be an effective instrument of development, one needs to adopt a whole-of-government approach to policy-making and implementation and that requires more effective regulatory regimes.”

Mehta highlighted that for trade to be an effective tool of development, one needs to see and feel the benefits of trade liberalization and there should be convergence between trade and public interest goals. In this context, he underlined the need for adopting a Geneva Consensus for Trade which should be based on balanced rules.

He also emphasized on the need for developing a broader competition culture within and across borders so that there is

continuous enhancement of productivity and good governance and, for that to happen in a balanced manner, he highlighted why a multilaterally agreed regime on trade and competition policy linkages is needed.

The event was organized in partnership with the Australia South Asia Research Centre of the Australian National University, which is celebrating its 20th Anniversary. More than 75 participants attended the event, chaired by Professor Margaret Harding, Deputy Vice-Chancellor (Research) of the Australian National University.

Dr. Varghese emphasized that foreign direct investment is an important part of trade liberalization agenda and this is one of the subjects of Australia's focus on free trade agreements.

Speaking on the occasion, Professor Raghbendra Jha, executive Director of Australia South Asian Research Centre, underlined the importance of trade reforms in the context of India's food security regime. In order to make this regime more effective in terms of its reach and efficiency, he noted that trade reforms could be an effective tool.

Dr. Shiro Amstrong of the Australian National University spoke about Japan's experience on trade reforms. He questioned whether Japan's economic partnership agreements were trade-free or not. He underlined that Japan's external trade policy is not closely connected to domestic economic reforms.

Following the presentations, many participants expressed their views that there should be more emphasis on transformative, particularly consumer welfare, effects of trade policy reforms and anti-competitive dimensions of emerging trade policies, particularly as a result of more stringent intellectual property regimes, should be looked at more specifically. They also underlined the need to have a closer look at linkages between trade and inequality.

## 15. Regional integration crucial for Zambia's developmental challenges: Fundanga

**Lusaka, March 12, 2014**

Regional integration is an important factor in fostering competitiveness and ultimately efficiency among small and medium businesses, said Dr Caleb Fundanga, former Governor, Bank of Zambia (BoZ).

Speaking at the 16th CUTS 30th Anniversary Lecture here on 10th March, Dr Fundanga, currently President of the Institute for Finance and Economics, said a lot needs to be done at the individual enterprise level if products were to enter the regional market.

"It is important that Zambian products must be of high quality because they will have to compete against similar products from the rest of the region. Aggressive marketing and proper branding and packaging are also key ingredients," he added.

He however observed that Zambia's external trade was being hampered by trade barriers and anti-competitive practices by other countries/ firms within the region.

"The scope for expanding intra-regional trade in SADC exists if only South Africa can open up more to the products of other SADC member countries. South Africa still has in place a number of non-tariff barriers. A number of agricultural products from the region cannot enter the South African market for one reason or another and this reduces the scope of SMEs," he said.

He also advised that *Zambian SMEs* must learn to be outgoing by learning to speak languages of potential customers as this would enhance their bargaining power in the trade process.

In view of this, Dr. Fundanga has appealed to *Zambian SMEs* to invest in learning additional international languages like Portuguese, French and Swahili in order to gain access to regional markets.

Speaking at the same event, former Minister of Commerce, Trade and Industry (MCTI) Commerce Hon. Felix Mutati encouraged *SMEs* to exploit the local markets before looking beyond borders because “a dollar was the same regardless of its source”.

Hon Mutati, who was recently elected as a member of the COMESA Committee of Elders, also raised the concerns on the growing non-tariff barriers amongst countries in the region and indicated that this was eroding the efforts being made on the free trade agreement negotiations.

Dr. Kundavi Kadirasan, World Bank Country Representative reiterated Dr. Fundanga’s sentiment that promotion of external trade was key in fostering the much needed growth through improved competitiveness and efficiency.

She added that *Zambia* had potential to grow its non-traditional exports especially in the field of professional services.

Mrs. Yvonne Chileshe, Director of Foreign Trade in the *Zambian Ministry of Commerce, Trade and Industry*, stated that regional integration would only be beneficial to the country if value added products were being sold out of the country.

She hinted that Government had identified certain viable sectors for *SMEs* to venture in, in its different development plans.

In view of the issue of languages raised by Dr. Fundanga, Mrs. Chileshe was of the view that, indeed, government also needed to leverage resources towards capacity building of trade negotiators in different languages.

Mr. Edwin Zulu, Project Manager of Zambia-COMESA SME Toolkit, implored government and international cooperating partners to provide practical interventions when assisting SMEs.

Speaking earlier in his welcome remarks, Mr. Rijit Sengupta, Africa Regional Director at CUTS International, stressed the important role that CUTS International played in bringing together the grassroots, government, international organisations, development partners and other key players to discuss developmental issues within the context of its focus areas which are trade, regulation and governance, all from a consumer's perspective. CUTS Lusaka Centre Coordinator, Simon Ng'ona proposed the vote of thanks.

## 16. India to mainstream foreign trade policy: Rajeev Kher, Commerce Secretary

New Delhi, April 05, 2014

“India needs to mainstream its foreign trade policy with the governance system of the country so as to enhance its competitiveness in a holistic and dynamic manner” said Mr Rajeev Kher, Commerce Secretary of India.

He was delivering the 17th CUTS 30th Anniversary Lecture on “India’s Export Competitiveness, Prospects & Challenges: The Role of Trade Policy”. It was organised here yesterday evening in partnership with the Federation of Indian Chambers of Commerce and Industry (FICCI). More than 80 participants representing various interests participated.

“Foreign trade has to be looked as a composite economic activity as against in silos. Various government departments and the state governments need to work in tandem. The foreign trade policy should have strategic objectives to address, should be contextualised and not just an amalgamation of a set of instruments towards export promotion”, said Mr Kher.

“Exports should no longer be considered as a function of surplus generated over and above domestic consumption. It should be an intrinsic part of a vibrant economy. Imports also play a very important role because more than 60 per cent of our imports are intermediaries to manufacturing. Intra-industry trade is growing,” he added.

Welcoming the participants, Dr A Didar Singh, Secretary General of FICCI, said: “There should be synergy between trade in manufacturing and services.” He underlined the value

that consumer advocacy groups like CUTS bring to the trade policy discourse of India, and recalled that FICCI and CUTS have a long partnership working on these issues.

### **Three decades of working globally on trade and development**

In his welcome remarks, Mr Pradeep S Mehta, Secretary General of CUTS International, outlined the journey that the organisation had undertaken over three decades including the crucial role that it is playing as a pro-trade, pro-equity voice in Geneva, the headquarters of the World Trade Organisation and in promoting South-South cooperation through its three centres in Africa and two in Asia.

Mehta highlighted why foreign trade should play a much greater role in transforming India's manufacturing base from low to high value products and its overall contribution to the growth and development of the Indian economy.

### **Whole of government approach needed: Pradeep Mehta**

"We need a whole-of-government approach to trade policy-making and it should be a crucial cog in the wheel of generating 100 million new jobs over the next five years as visualised by our National Manufacturing Policy and Plan," he added.

Chairing the event, Ms Lise Grande, Resident Coordinator of the United Nations in India, said: "For India to grow faster and improve its competitiveness, continuous enhancement of its entrepreneurial and intellectual capacity is an imperative. India needs to further diversify its product mix."

Speaking on the occasion, Mr Ajay Shankar, Member Secretary of the National Manufacturing Competitiveness Council emphasised on the importance of economies of scale in India's production structure to be able to enhance its competitiveness.

**Shying away from labour reforms: Ajay Shankar**

In this context, Mr Shankar said: “Why are we shying away from labour reforms? We need to look at all cognate issues of the country’s competitiveness and a national consensus is needed for creating new jobs and going up the value chain of production.”

“There should not be any dichotomy between domestic and global competitiveness issues. We need to get right the sequencing of reforms with right safety nets including trade adjustment programmes”.

Talking about free trade agreements (FTAs) that India has negotiated with some of its major trading partners in East and South East Asia in recent years, Mr Kher said: “Indian industry should make full use of them as they will serve as vehicles to enter the global value chains of major products and services of India’s interest.”

“India is likely to be adversely affected by mega FTAs such as the US-led Trans-Pacific Partnership agreement and, in this context, successful negotiations of the Regional Comprehensive Economic Partnership agreement in the Asia-Pacific region can be a potential game changer,” he added.

“India needs both locational and product diversification of its trade composition. Strengthening of regional value chains should be a stepping stone for getting into global value chains.”

The Lecture was followed by a round of lively discussion. Questions ranged from the need for generating more awareness among the Indian industries about advantages that the country can draw from its FTAs to relationship between standards and job creation to the role of exchange rate management for enhancing trade competitiveness. There was a broad consensus that the forthcoming foreign trade policy, which is due to be announced by the new government, should have clear objectives and roadmap for mainstreaming trade into India’s national development strategy. A strong institutional



mechanism for greater engagement of other relevant departments and state governments should be in place so that there is coherence between trade policy and other major macroeconomic policies.

“We need to activate the Interstate Trade Council, established in 2005, which has never met”, said Mehta in response to a query on engaging states.

CUTS International is pursuing consumer sovereignty through evidence-based policy- and action-research and advocacy on cognate subjects of trade, regulations and governance issues for enhancing consumer welfare through job creation and poverty reduction. It has become a Southern voice of consumers through its activities across Asia and Africa.

"There are parallels between the evolution of CUTS and the growth of the multilateral trading system over the last 30 years, in their quest to develop truly global organisations that are open to organic growth, reflecting the ever-changing global economy"

*Pascal Lamy, Director General, WTO*

"Globalisation saw little reversal during the recent crisis mainly because of WTO, the role of social safety nets and the success of emerging economies in global trade, among others"

*Martin Wolf, Chief Economics Commentator, Financial Times*

"UK government and DFID firmly believe that trade will play a key role in poverty reduction and the developing countries should be helped to reap the benefits of free and fair trade"

*Justine Greening, UK's Secretary of State for International Development*

"...We welcome the opening of the CUTS Centre in Accra and look forward to its active participation in providing research support to Ghana and the West African region on critical economic policy issues"

*Hanna S. Tetteh, Minister for Foreign Affairs and Regional Integration, Ghana*

"The multilateral trading system is dead and the Doha round is in trouble largely because of lack of US leadership"

*Jagdish Bhagwati, University Professor, Columbia University*

"Neighbours and boundaries cannot be changed, but mind sets will need to be changed...trade between India and Pakistan is a win-win situation for both the countries, as supported by studies done undertaken by CUTS and SDPI"

*Khurram Dastagir Khan*

*Minister of State for Commerce and Textile Industry, Pakistan*