CUTS Secretary General, Pradeep S Mehta

17th CUTS 30th Anniversary Lecture on

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

Good evening and a warm welcome to 17th CUTS 30th Anniversary Lecture

At the outset I would like to express my gratitude to FICCI for partnering with CUTS International to help organise this event. This occasion marks the 17th of a series of Anniversary Lectures that are being organised around the world to celebrate the 30th Anniversary of CUTS International, a global non-governmental think-tank headquartered in India with offices in Asia, Africa and Europe.

Today we will be discussing the issue of *India's Export Competitiveness, Prospects & Challenges* in today's global economy. I am looking forward to a robust and engaging conversation on the topic. I am sure that we will all benefit from hearing the views of the distinguished panel of experts that will be providing us with their insight on the topic.

Before we begin I briefly want to touch on four points that I think are pertinent to this conversation. The first point I want to say is that to build India's export competitiveness, Trade Policy is not the only instrument, but certainly an important cog in the wheel. Several other policies are relevant to improve our export competitiveness. For example, manufacturing policy. As a nation, we have resolved to raise the contribution of manufacturing from the current level of 15-16 per cent to 25 per cent by the year 2025 so as to create 100 mn jobs and fill in the vacuum that China will leave as it too is growing and its labour costs are increasing. Other countries like Vietnam and Bangladesh are already entering the space. Can we afford to miss the bus?

Secondly, I wish to discuss the fallacy that the transatlantic economic crisis of 2008 adversely affected all nations. Few countries suffered negative growth after the 2008 crisis. In spite of the ubiquitous notion that the economic crisis was global, India was one of around 100 countries that managed to log positive economic growth during the aftermath. India's GDP grew by 8.5 and 10.5 per cent in 2009 and 2010 respectively and remained the second fastest growing economy in the world. Among those who suffered negative growth rates were most notably the EU member states. The US jumped out swiftly from negative growth rates in 2009. This subsequently resulted in a decline in demand for developing country

exports and while indeed India's merchandise exports registered declines of about 30 per cent, its exports of services continued to do well throughout the crisis.

While our services sector helped insulate us from the negative repercussions of the financial crisis in the Tranatlantic world, six years after the fact, today's pertinent question is: how can we further tap into the potential of our services sector? Recently senior economists in the finance ministry stated that there is an urgent need to have a proper institutional framework to tap into the opportunities in this sector in a coordinated way, which is easier said than done. A nodal department for services that is dedicated to addressing issues such as those related to the linkages between services and other sectors is imperative.

This brings me to my third point: India's national trade policy in its current form has in fact not succeeded to accommodate linkages between sectors such as services and manufacturing and has instead been adopting an ad hoc approach. While India has a number of schemes to facilitate growth in a number of sectors – schemes constitute a set of implementation tools, not a policy. Furthermore, there is almost nothing in regard to imports in our trade policy. This is surprising because not only our intra industry trade, particularly in manufacturing, such as chemicals, is

increasing but also it does not help in our aspirations to become a major player in global value chains.

In order to have a policy, India needs to put in place a coherent course of action to guide and determine present and future decisions. In other words, India needs a clear strategy and coherence among its ministries and states.

A cogent strategy requires a concerted effort at improving inter-ministerial cooperation within our government and with state governments. According to the finance ministry's economic advisors, even the inter-ministerial committee for services that was set up under the Department of Commerce for this very purpose has failed to meet up to its expectations. Indeed, a <u>whole-of-government</u> approach to increasing our competitiveness is a complex issue as it requires having to confront a number of turf issues therefore such a strategy necessitates a strong prime minister who would be able to provide the requisite leadership and direction.

Lastly, to ensure the smooth flow of goods, India needs to adopt a number of regulatory reforms within the country. Inefficient procedures such as delays in clearances and business approvals have adverse effects on our competitiveness and need to be addressed. Externally, our global commitment to a trade facilitation accord also has an important role in easing the movement of goods from and to our trading partners. The shift

towards global value chains means that the flow of goods across borders has an integral role to play in fostering a country's competitiveness and given that global value chains are increasingly making extensive use of services, in which we are an insignificant player, India will therefore need to proactively find ways to tap into the opportunities that present themselves as time progresses.

To conclude, I thank you once again for coming to this event and now invite you to watch our 10 minute film: 30 Years of Social Change. After this I would like to invite Mr Didar Singh of FICCI to add to my welcome address.