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Twenty years of India's Liberalization: Experiences and lessons

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Summary prepared by the UNCTAD secretariat

1. A joint publication of UNCTAD and the Centre for WTO Studies, responding to the need of developing countries to share policy and liberalization experiences among one other, was launched in Doha during UNCTAD XIII – *Twenty years of India's Liberalization: Experiences and lessons*. The panellists were Mr. Richard Kozul-Wright, Director, Economic Cooperation and Integration among Developing Countries, UNCTAD; Mr. Amar Sinha, Joint Secretary, Ministry of Commerce and Industry, India; H.E. Mr. Jayant Dasgupta, Ambassador and Permanent Representative of India to the World Trade Organization; and Mr. Martin Khor, Executive Director, South Centre

2. India had been a success story for the past two decades. As one of the fastest growing economies in the world, it had faced many challenges common to most developing countries – widespread poverty and unemployment, and growing income inequality. Though these challenges still remained, the country had grown at an annual average rate of 8 per cent in the last decade. One of the most striking features of India's liberalization was its cautious and calibrated financial liberalization, compared with the fast-paced and broad-based approach of many other developing countries. Financial liberalization in India was not considered an end in itself but a means to facilitate and encourage a competitive business environment without risking a deep coupling with the global financial markets.

3. The publication estimated the impact of reforms in the manufacturing sector, concluding that tariff liberalization and export promotion had played an important role in pushing manufacturing growth from 5 per cent in previous decades to 8 per cent in the 2000s. That had eased the import compression witnessed during the previous decade and had made it easier for exporters to obtain inputs and intermediates at competitive prices from global sources. Nevertheless, the role of domestic demand in the growth of this sector

could not be ignored, since India's per capita income had – for the first time – risen above 5 per cent per year.

4. India had followed a flexible trade policy for agriculture that had responded quickly to changing global conditions. The guiding principle for opening up trade had been to allow domestic prices to move in tandem with global price trends, but to insulate the economy against sharp spikes and troughs. An important lesson to be drawn by the agricultural sector from India's experience in its trade policy was that market forces could not protect against global shocks such as food and financial crises. Therefore, government regulation and intervention were essential to safeguard domestic economies and vulnerable groups. India's liberalization experience in agriculture, manufacturing and finance had been gradual, voluntary and tailored to the meet the needs of the economy. The role of the State had been to use markets not only to reach commercial objectives, but to attain social objectives as well. The cautious approach towards liberalization had provided the State with enough policy space to pursue development-led liberalization.

5. Remittances played an important part in lowering India's growing trade deficit, but they did not suffice. The steadily rising trade deficit in India, as in other developing countries, was a matter of concern. Because of growing deficits, inflation and income disparities, policies should focus on inclusive growth by targeting employment generation. However, India's services sector had not been able to absorb the growing working population. As a result, the agricultural sector still accounted for the lion's share – 58 per cent – of total employment, despite the claim that growth was led by services. Generating and sustaining growth in the manufacturing sector was now a major policy target. In this respect, India would soon be coming out with a new manufacturing policy that would help create jobs.

6. Many participants said that more detailed work should be carried out on India's services sector and the policy experiences of other developing countries, a point that UNCTAD would be well served to consider. India had taken major steps to achieve autonomous liberalization, especially in that sector, but had not been given any credit for this in multilateral negotiations. Some participants expressed interest in India's experience in the liberalization of the services sectors, in particular software services. There was a need to analyse to what extent the signing of the Information Technology Agreement had contributed to growth in India's software and information technology (IT) hardware services. Given the large size of the IT market, India may have missed an opportunity to develop its IT hardware industry because of the Agreement.

7. The participants discussed the importance of linkages with global and regional supply chains and the related concerns of industries "hollowing out" when the import content of the industries rose and the growth of value added in the industry fell at the same time. One panellist said that the impasse in the Doha Round had provided a window of opportunity for countries, for example, South Africa, to reconsider their tariff policies. The growth of the pharmaceutical industry in India was in danger due to international rules; therefore, it was urgent to revisit domestic regulations to determine to what extent they could provide space for generic industries to provide new drugs.

8. The participants also discussed the gradual and calibrated liberalization of the Indian banking sector and the growing productivity and efficiency of domestic banks owing to the competition from foreign banks. It was agreed that India's conservative approach to the banking sector had served the country well. Further, it was necessary to do future research in the context of the global economic slowdown, the impasse of the Doha Round and the growing number of free trade agreements by developing countries.