

**Prof. B R Shenoy Memorial Lecture 2024**

**by**

**Prof. Pravin Krishna on Trade Policy and India's Structural Transformation**



**Centre for CIVIL SOCIETY**  
SOCIAL CHANGE THROUGH PUBLIC POLICY

**ERC**  
Ideas for a market economy

**BR SHENOY  
MEMORIAL LECTURE  
2024**

**TOPIC:**  
**TRADE POLICY AND  
INDIA'S STRUCTURAL  
TRANSFORMATION**

**SPEAKER**  
**Dr Pravin Krishna**  
Chung Ju Yung Distinguished Professor,  
International Economics and Business,  
Johns Hopkins University

**Register Now**

**DATE: THURSDAY, 21 NOVEMBER 2024 TIME: 6:00 TO 7:30 PM IST**

ccs.in | erc.org.in | Lecture will be streamed live on  **zoom**  **YouTube Live**

The B.R. Shenoy Lecture 2024 was delivered by Prof. Pravin Krishna, the Chung Ju Yung Distinguished Professor of International Economics and Business at Johns Hopkins University, where he is jointly appointed in the School of Advanced International Studies (SAIS) in Washington, DC and the Department of Economics in the Zanvyl Krieger School of Arts and Sciences (KSAS) in Baltimore.

Prof. Krishna delivered a talk emphasizing the importance of structural improvements and productivity. He highlighted that the Union Budget of India has mentioned total factor productivity as a key element that needs to be incorporated across various spheres of activity, including the state sector, private sector, central and state governments, and institutions under their leadership.

This approach should also be applied to public sector business enterprises, voluntary institutions, and the private sector across business, social, and economic spheres, as well as in the political arena. On an individual level, people must understand the factors of production - land, labour, capital, and organization. As Prof. Drucker has noted in his writings, this century will focus on how knowledge is valued.

India must communicate these aspects effectively to its citizens, ensuring that interactions within political, economic, and social spheres evolve and magnify India's role as one of the largest democratic nations.

***Prof. Kumar Anand:***

*Good evening, everyone and welcome to the B. R. Shenoy Memorial Lecture 2024 to be delivered by Prof. Pravin Krishna of Johns Hopkins University. My name is Kumar Anand and I will be your host this evening.*

*Professor Bellikoth Raghunath Shenoy was born in 1905 in the small Kerala village of Bellikoth. He was one of 11 children of a poor farmer educated up to class 5. He ran away from home while his movement where he was arrested carrying the flag. He was jailed in the same prison as the educationist Madhan Mohan Malaviya who had recently founded a university in Banaras. He finished high school and then travelled alone from Bellikoth to Banaras, a 2000km journey away in search of education. He was given a scholarship up to his M.A degree in Economics. He won a scholarship to do B.Sc. in Economics at the London School of Economics where one of his teachers was Professor Frederick von Hayek.*

*At the young age of 26, Prof. Shenoy was among the first Indians to publish a scholarly Economics article in the Quarterly Journal of Economics in 1931. Appointed Indian representative to the IMF, he dissented from the then national emphasis on Soviet style investment in heavy industry and instead of more appropriate employment generating agriculture. He left his official positions to argue publicly for market-oriented policy reforms as the only road to prosperity for a poor country.*

*Prof. Shenoy was one of the few lonely voices from within the country who advocated for the 1991 kind of economic reforms. Abolition of the License Permit Raj in 1991 changed everything. B.R.S. spoke frankly on the corruption inducing and production distorting effects of import licenses in foreign trade.*

*He wrote, “The Aladdin’s lamp of import licensing produces fortunes as though from nowhere for a large community of importers and dealers in import licenses. How can corruption be prevented when an import license, a piece of paper which costs nothing but the signature of the concerned official to produce, authorizing the import of say, copper worth Rs. 5 crore fetches in the market over Rs. 12 crores?”*

*Prof. Shenoy continues, “As part of the policies of planning, we have brought about a pressurized expansion of industrial sector; import substitution to save foreign exchange, physical restraints on imports and exchange controls contributing to this process in no small measure. This industrial bulge has inevitably involved a colossal diversion of resources into new industries at the expense of traditional and export industries.”*

*After economic reforms, our foreign trade grew enormously from 15.5% of GDP in 1990 to 27% in 2000 and it now stands at around 50% of India’s GDP. Foreign trade is an essential component of our economic development. We are hence privileged to have B. R. Shenoy Memorial Lecture 2024 given by an expert on foreign trade, Prof. Pravin Krishna.*

*Prof. Pravin Krishna is the Chung Ju Yung Distinguished Professor of International Economics and Business at Johns Hopkins University, and a Research Associate at the National Bureau of Economic Research. Prof. Krishna’s fields of research interests are international economics, international political economy, the political economy of economic policy reform, economic development, and the political economy of India. His many scholarly articles have appeared in journals such as American Economic Review, Journal of Political Economy, and the Quarterly Journal of Economics.*

*He is also the author of **Trade Blocs - Economics and Politics**, Cambridge University Press 2005, and co-editor along with Prof. Jagdish Bhagwati and Prof. Arvind Panagariya of **Trading Blocs: Alternative Approaches to Analysing Preferential Trade Agreements**, MIT Press 1999.*

*Prof. Krishna holds a Bachelor's Degree in Engineering from IIT Bombay and a PhD in Economics from Columbia University. He has previously held appointments at Brown University, University of Chicago, Princeton University and Stanford University. He has also served as a consultant to the World Bank and the International Monetary Fund.*

*Before we begin with today's event, just a small housekeeping announcement. So, today's memorial lecture will be followed by a question-and-answer session with Prof. Krishna. So, please write your questions in the chat or comment section on the Zoom or YouTube, wherever you are joining from. And with that, on behalf of the Economic Research Centre, Mangalore and the Centre for Civil Society, New Delhi, it gives me great pleasure to invite our speaker, Prof. Pravin Krishna to speak on **Trade Policy and India's Structural Transformation**.*

---

### **Professor Pravin Krishna:**

Thank you very much. It is a great pleasure and a tremendous honour for me to give this year's B.R. Shenoy Memorial Lecture. I should start by saying that economists of my generation did not really have the opportunity to meet Dr. Shenoy or to hear him speak. And what we know of Dr. Shenoy, we know primarily from his writings and from what others have written about him. Nonetheless, the clarity and the prescience of Prof. Shenoy's writing in arguing against government interventions, his early warnings about the consequences of heavy-handed central planning, import substitution, and more broadly, the License Raj, make him an intellectual legend and a tremendous source of inspiration to all of us.

I grew up in India in the 1970s and the 1980s, when the consequences of government intervention - heavy government intervention - which Prof. Shenoy had prophetically warned about, had become evident to everyone. Almost all of Prof. Shenoy's fears had come true. Indeed, his warnings were so accurate that the Nobel laureate Milton Friedman famously had

written, Prof. Shenoy's writings sounded more like a retrospective description of what had happened rather than a forecast. This is the clarity with which he was able to see the future. Prof. Shenoy's boldness in making his case, when it was unfashionable to do so, and his ability to speak the truth to power, show a singular intellectual and moral courage, making him a true hero. I am deeply honoured to be giving this lecture today.



My topic is **India's International Trade and Trade Policy**, an area in which Prof. Shenoy's warnings about the adverse impact of government interventions proved to be especially relevant. And I will be discussing this topic with reference to the challenges of the structural transformation of the Indian economy. So, with this, let me share my slides - **Trade Policy and India's Structural Transformation**.

And, so as far as the outline for today's talk, I would like to touch upon sort of three sets of issues. One is India's Development Trajectory, the transition from agriculture to industry and services. How has India done? How does it compare with other countries that have been through similar transitions?

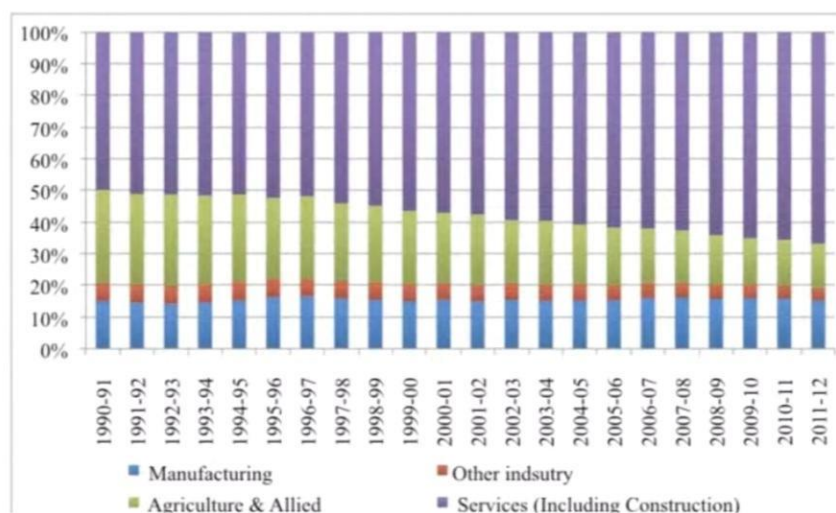
How does it compare with developed countries that have managed this transition successfully? And where does all this stand in relation to the employment challenges that India faces, arising in particular from India's demographics? So, that is one piece of just a characterisation about India's development trajectory.



In the second part, I want to talk about India's international trade. So, what does India's trade look like and the connection between these two issues, which is the development trajectory and international trade, will be clear in the sense that I will make the case that in order to address the employment challenges that India faces, greater participation in international trade and expansion of India's export footprint and a greater ability to leverage global markets is going to be completely the key, and essential.

I will talk about the reasons why India's export footprint remains still quite low, about how relative to its GDP share or relative to other countries in sort of similar stages of development, how India could be doing better with respect to international trade. I will talk about the particular reasons including domestic policy that have inhibited India's competitiveness and induced an outcome that is less than optimal from this perspective, from the standpoint of trade, and then talk about India's trade policy options.

## India's Development Trajectory (Sectoral Output Shares)



In particular, when I discuss India's trade policy, I would want to do this with reference to essentially what is going on in the background.

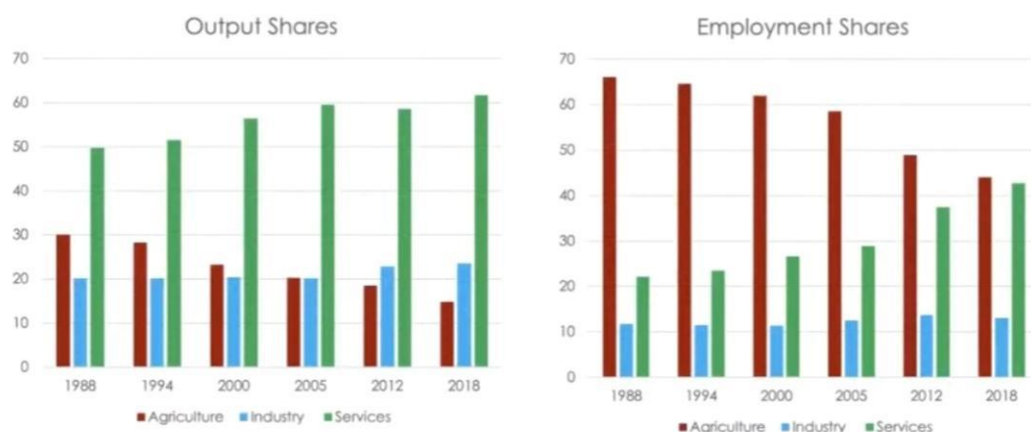
So, what was the history of the multilateral system of which India is part. What were the trends in that system?

How was India's own trade policy chosen? How did they sync or not sync with what was going on globally?

And where that stands with respect to our unilateral policies, bilateral choices with respect to trade blocs and so on, as well as where we stand with respect to the multilateral trade system, the World Trade Organization. Let me start with India's development trajectory, as I mentioned.

We see here shares of the different sectors in overall output, and we are talking about manufacturing, agriculture, services. And what one sees is that the share of agriculture over time has diminished, but remains reasonably high. The share of manufacturing, despite a tremendous number of economic reforms undertaken, let us say, starting in the 1990s, both on

## Output and Employment Shares



Agriculture: 45 percent of the workforce producing only 15 percent of the output  
 you contrast that with the percentage of the workforce

the international margin as well as domestically, looks relatively flat and services have expanded a bit.

The transition out of agriculture or the share of agriculture in India's economy looks as if there is a kind of a particular contrast that is worth noting when one looks at the kind of the fraction of output relative to the fraction of the workforce that is taken up in this sector.

So, one looks at output shares, one sees that agriculture accounts for about 15% of India's output, but you contrast that with the percentage of the workforce in agriculture, and that number is much larger, as you see here in the panel on the right.

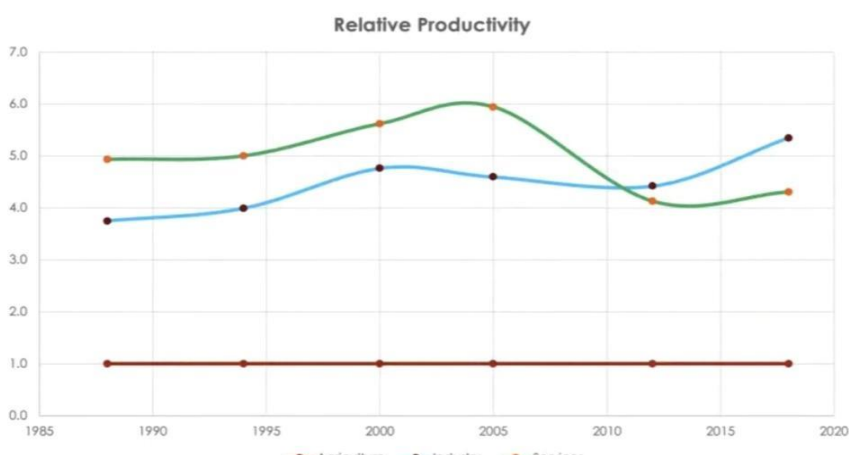
What you have here is a very substantial share of the workforce that is in agriculture. We are talking about roughly 45% of the workforce producing only 15% of the output.

What this points to is the very low relative productivity of the agricultural sector relative to industry and services, and what you have here is a plot of the relative sectorial productivity. This is output per worker, in industry as well as services and the trends over time in relation to agricultural productivity. And you see that the output per worker productivity measure in

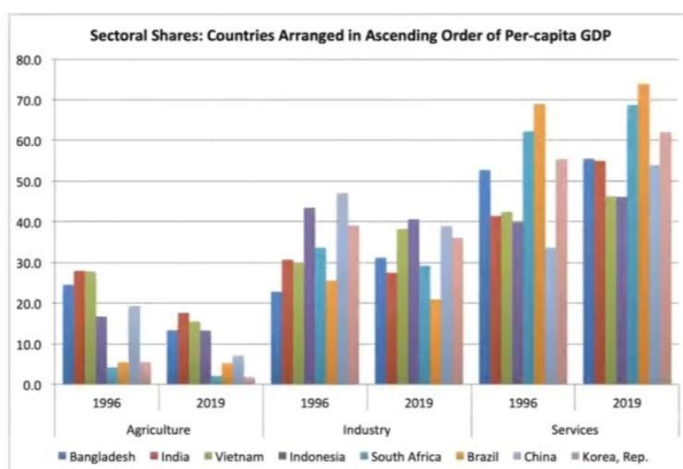


industry and in services is several multiples, essentially around three, four, five times higher than what you have in agriculture. Suggesting that agriculture perhaps is the sector that one wants to move workers out of one way or the other into the higher productivity industry, higher productivity services activities.

### Relative Sectoral Productivity (Output Per Worker)



### International Comparisons



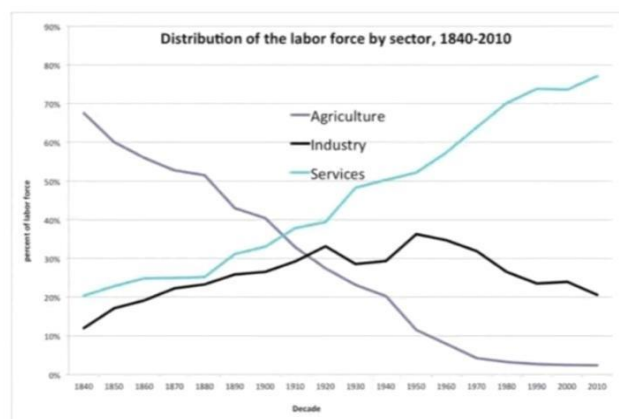
India's agriculture, industry and in services are nearly the lowest

This is a chart showing you international comparisons, where does India stand in relation to these other countries that one might loosely think of as comparative countries, or countries whose economic performance we aspire to, Bangladesh, Vietnam, Indonesia, Southern Africa, Brazil, and so on, and you see here that India's agricultural share is very high in 1996.

It continues to be high in 2019 and certainly the highest among these comparative countries. And by contrast, what you have in industry is that it is relatively low, and in terms of comparisons, you are doing better than Bangladesh in 1996, but slightly worse by the time you get to 2019, similar to Brazil, but worse than the other countries.

So, this is suggesting that India's transition, the movement out of agriculture into these other sectors has been somewhat stagnant relative to what has happened even in these other economies. Here is another comparison. This is now with the perspective of what a developed country like the U.S., what were the transitions that it went through. These are sort of fractions of the labour force by sector. You see a very rapid decline in agriculture from close to 70% in the 1850s to something like, you know, 2 or 3 or 4% by the time you get to 2010.

## United States



United States at 45 Percent labor share in Agriculture over 100 years ago

Just to get a sort of a broad historical perspective of



It is around 2% is the number currently, and you see that the time in which the U.S. agricultural labour share was similar to what is where we are in India today, which is about 45%, was over 100 years ago. So, you are talking about sort of 1880 to 1900. This was the time period when you have a very palpable sort of distribution of the labour force by sector, the agricultural sector.

A different chart here showing you an evolution of South Korean manufacturing.

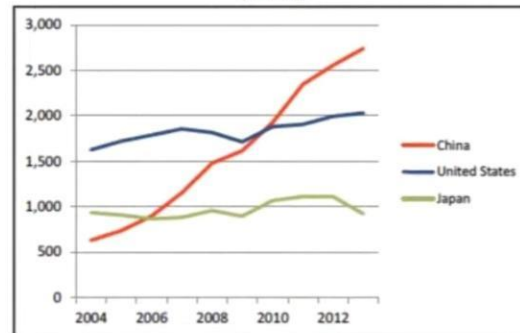


So, if you go through the 1960s, 70s, and the 80s, and so on, you see a very rapid increase that the axis on the left is the share of manufacturing in total employment. And you see that they have gone up from the 10% or so, which is where India roughly is, to over 25% by the time they peaked in 1990. This is the Korean growth miracle, the East Asian growth miracle, and this was the nature of the increase in labour force in manufacturing relative to essentially workers coming out of the agricultural sector into manufacturing, a very successful example.

A different chart altogether showing you kinds of global value manufacturing. In China, you see a very, very rapid increase, just a short few years between 2004 and 2012, an extremely rapid rise in value added manufacturing.

## China

Figure 7. Gross Value Added Manufacturing in China, the United States, and Japan:  
2004-2013  
(\$ billions)



Source: United Nations, UNdata.

China: Extremely rapid increase in Manufacturing Value Added  
example, a different chart altogether showing you

China, very vastly different from what we are seeing in India. So, this is roughly the picture in terms of the necessary structural transformation. That is what you can take away from these graphs that I have just shown.

## Structural Transformation

- India: Around 17 Percent of the World's Population and 3 Percent of World Output. Large fraction in Agriculture.
- Need to transition out of low productivity agricultural jobs into higher productivity jobs in industry/services
- Demographic Pressures
  - Youthful population – Over 30 percent less than 15 years of age
- Job Creation – Global Markets – Exports

We are about 17% of the world's population, 3% of the world's output. One reason for this very large fraction of our workforce that is used up in agriculture. And overall, the picture that what I take away from all of this is the very urgent need to transition workers out of low productivity agricultural jobs into higher productivity jobs in industry and services.

This challenge, the need for this is all the more urgent given the demographic pressures in India. we are a very youthful country. Over 30% population that is less than 15 years of age, which suggests that the number of workers entering the labour force each year is going to be a very large number. It is the important and urgent question of where these workers will be accommodated within the labour force. And we would certainly want to see more and more of that take place in industry and services, high productivity services.

If agriculture is not going to be where these high wage jobs are created, or relatively high wage jobs are created, one has to look for ways in which industry can potentially expand.

One very obvious solution here is kind of a key part of the structural transformation discussion, is that this will have to come from India's ability to leverage global markets.

## India – Trade

- India's Share in Merchandise Exports has grown from 0.5 percent in 1990 to just below 2 percent now.
- India's Services Exports have grown to over 4 of global exports
- Trade footprint is quite small

So, we still have a very small share of global markets. There is an enormous space out there for Indian manufacturing to be able to expand and supply to Indian services as well, of course. But international markets, exports are very low fraction of the export market as it currently stands, give us a sense that there is tremendous potential for job creation through export growth, given again, that our trade footprint is quite small. As you all probably know, Indian share of marginalized exports was a really small number, maybe half a percent in 1990.

And this is a good trade. it is just below 2% at this point, which tells you that there is kind of tremendous opportunity there still for us to grow.

A comparison with China here is valuable, perhaps.



These are the trends in terms of our global export shares. As you can see, India's export shares have grown over time, relatively modest increase from about a half a percent to close to 2%, as you see on this chart. But at the same time, a country like China went from a number that was not too much higher, maybe 2.5% or so, to something like 14-15% of the

world's export markets, slowly having become the export sort of manufacturing hub, export factory of the world.



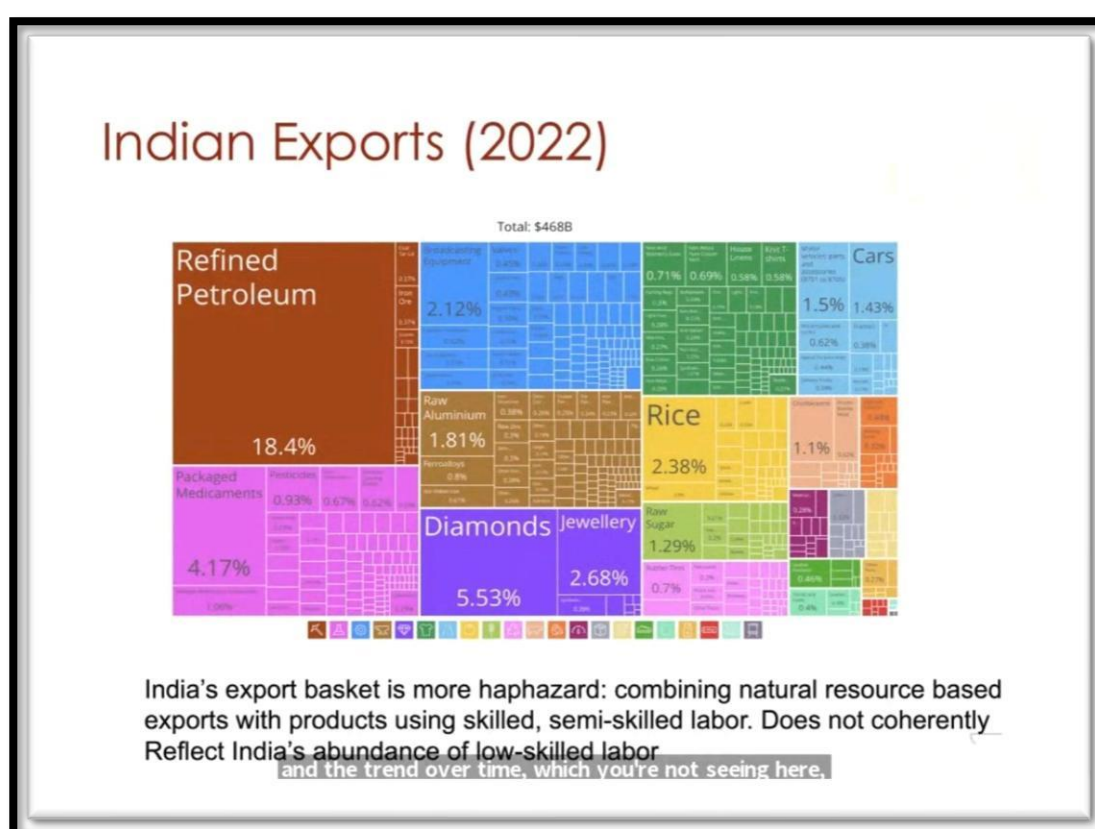
There is another angle from which one can compare India's trade performance with China and other countries, but I will focus a bit here for purposes of this discussion on the comparison with China. And this is through the composition of our exports. These different angles through which one can look at trade performance, not just looking at the aggregate outcomes, which tell you essentially the share of global markets, but these different angles through which one can look at it, particularly now looking at the slide, the composition of exports, indicate other issues with India's international trade performance. And this has to do with, let us say, the composition of the Chinese export basket relative to India's export basket. So, what you see here is a composition of Chinese exports, and you see a very consistent pattern.

So, if you compare this with these pictures from 2022, you see a lot of use in the exports that they produce of their low-skilled labour.



And over time, if I look at the same sort of profile for the 2020s, 2010, 1990, and so forth, you see very steady increase in skilled and capital-intensity over time.

So, essentially, as China went from being kind of a low-scale abundant country to accumulating its capital, to accumulating skill in the labour force, you see that they moved from having an export basket completely consistent with international trade theory, that they had went from having an export basket essentially, they made very good use of their low-skilled workers and moved towards higher-skilled and more capital-intensive exports over time.

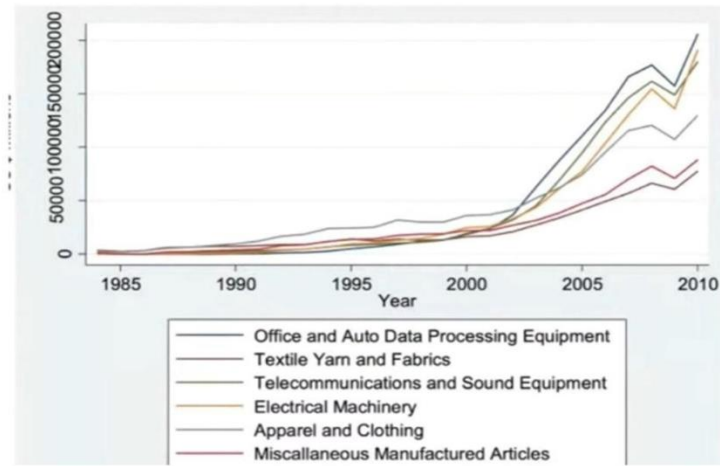


The same picture for India looks a little more haphazard. So, we have an export basket that combines on the one hand natural resource exports, on the other hand, sort of skilled labour, semi-skilled labour, and so on.

It does not quite reflect in the same way that China's export basket does, and the trend over time, which you do not see here. But the way the Chinese export basket trended over time in terms of their use of low-skilled labour, we do not necessarily see that in the Indian case.

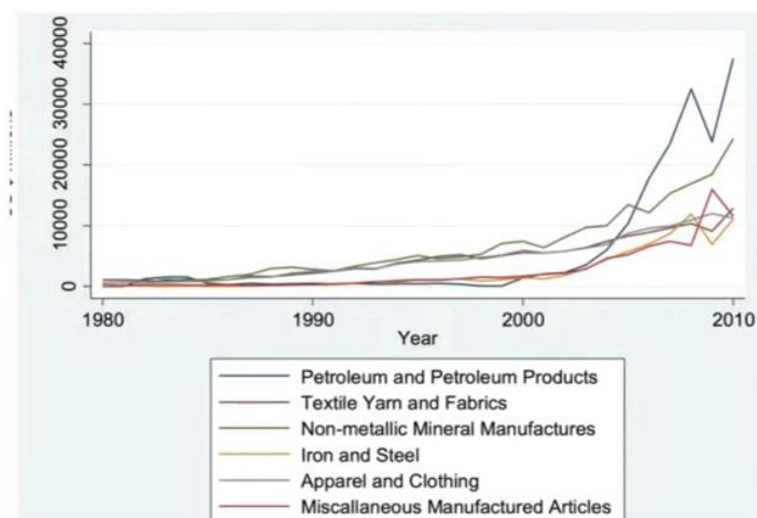


### Top Six Merchandise Exports of China (1980-2010)



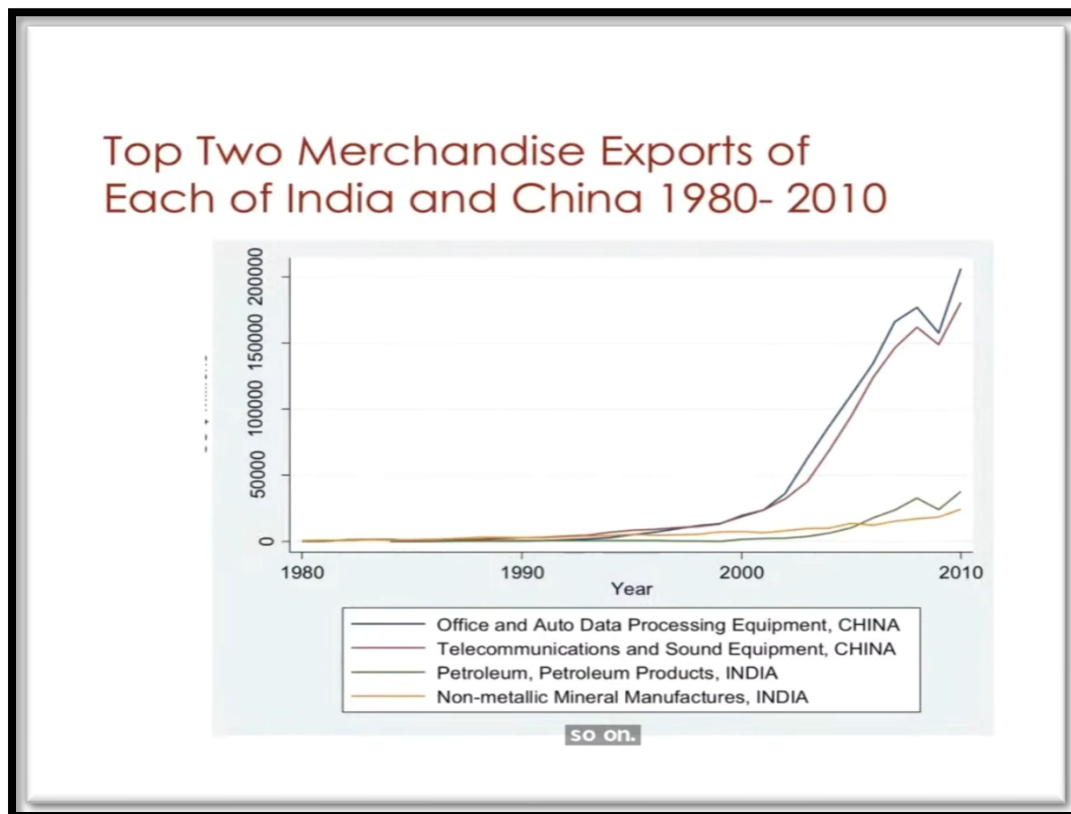
You could look more narrowly at the top six merchandise exports of China, and you see that same picture of consistency in the sense of their labour force being employed in manufacturing, being employed in assembling, and so forth, trending over time.

### Top Six Merchandise Exports of India (1980-2010)



Again, a picture that you see here, but trending over time into more capital-intensive and skill-intensive production, whereas the Indian profile for the top six merchandise exports is a little haphazard again.

Once again, a combination of kind of, you know, natural resources, some low skill activities, some mid skill activities and so on.



You see a very similar picture if you look at the top two merchandise exports for India and China in 2020. So, my overall point here is very clearly reflected in India's export basket is the lack of the connection between the abundance of resources we have, which is low skill labour and the nature of the products we are producing and exporting.

This has been commented upon by many experts in this field but nevertheless a significant feature that one ought to recognise and sort of question as to why it is the case that we have been able to make less use of our abundant resources.

## Factor Intensities of Leading Exports

- Haphazard in India
  - Software (skilled-labor intensive)
  - Gems and jewelry (semi-skilled-labor intensive)
  - Apparel (unskilled-labor intensive)
  - Engineering goods; Textiles; and Petroleum and petroleum products (capital intensive)
- More Coherent in China
  - Apparel, textiles, toys, footwear, sports goods in 1990s
  - Office machinery, telecommunications, electrical machinery, apparel currently
- Skill and capital intensity of exports rose in China with its rising endowment of skills

The sort of theory I would suggest we should and we would and why have we not been able to do that In the Indian context in a manner other very successful countries like China actually have.

## Global Value Chains

- Many countries have embraced the opportunities provided by global value chains (GVCs), wherein countries can leverage their comparative advantages more effectively by specializing in parts of a product's production process.
- Countries in Asia, such as China, Japan, and Korea, have efficiently integrated their economies into these networks, which account for a significant fraction of global trade.
- India's share in these value chains is unfortunately quite small.

Yet another angle through which one could look at India's trade performance through Global Value Chain in India's participation in global value chain.

Many countries have embraced the opportunities provided by global value chain, essentially where you have a great deal recently of production fragmentation taking place in the world. Where it is not as if the intermediate inputs and the final goods are all necessarily all produced in the same country. But these will produce in different places.

Countries have been able to leverage their competitive advantage more effectively by specialising in different parts of a product's production process. And this is especially true in terms of countries of Asia – China, Japan, and South Korea, and so on– which have very efficiently integrated their economies into these networks. And the networks in turn accounting for a significant fraction of global trading.

## India – GVC share..

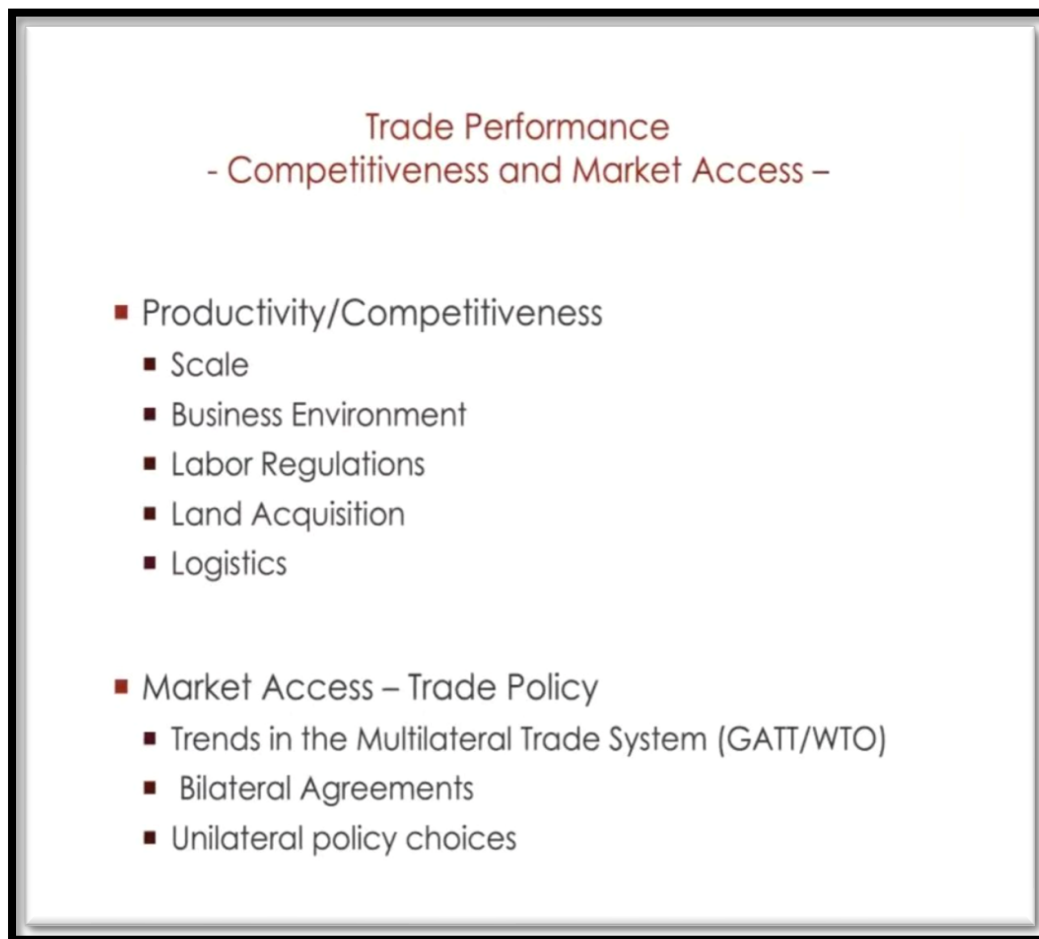
Table 1 Selected indicators of export performance: India and East Asian countries (%)

	1989–1990†	1999–2000†	2009–2010†	2015–2016†
Share of world manufacturing exports				
India	0.5	0.7	1.4	2.0
China	1.8	7.3	16.3	23.5
Korea	2.4	3.1	3.4	4.3
Indonesia	0.3	0.7	0.7	0.9
Malaysia	0.7	1.9	1.2	1.4
Singapore	1.1	1.5	0.8	0.9
Thailand	0.6	1.2	1.5	1.8
Vietnam	0.0	0.1	0.5	1.6
Share of GPN products in own manufacturing exports				
India	34.4	31.8	35.3	32.8
China	62.5	72.6	69.4	66.0
Korea	71.2	69.8	64.4	60.2
Indonesia	32.5	50.6	55.7	57.1
Malaysia	79.9	84.4	68.9	68.9
Singapore	87.3	90.1	79.7	75.3
Thailand	62.5	62.5	62.5	64.6
Vietnam	62.5	62.5	67.6	79.6

How does India do with respect to share of Global Value Chains? Unfortunately, this is actually quite small.

So, if you look at this kind of panel at the bottom here, the top panel really is talking just about a point we already discussed, share of world manufacturing exports. But the bottom panel is about the share of GPN, the Global Production Network Products or Global Value Chain Products within manufacturing exports.

And you see that India's numbers are actually really quite small relative to some of these other countries like China, Korea, Indonesia, Malaysia, Thailand and so forth as well. We have been less able to integrate into these global value chains, which are increasingly providing opportunities for countries that might be very, very good at producing one piece or one intermediate input that goes into a larger kind of production process without necessarily being producing things all the way up to the final product.

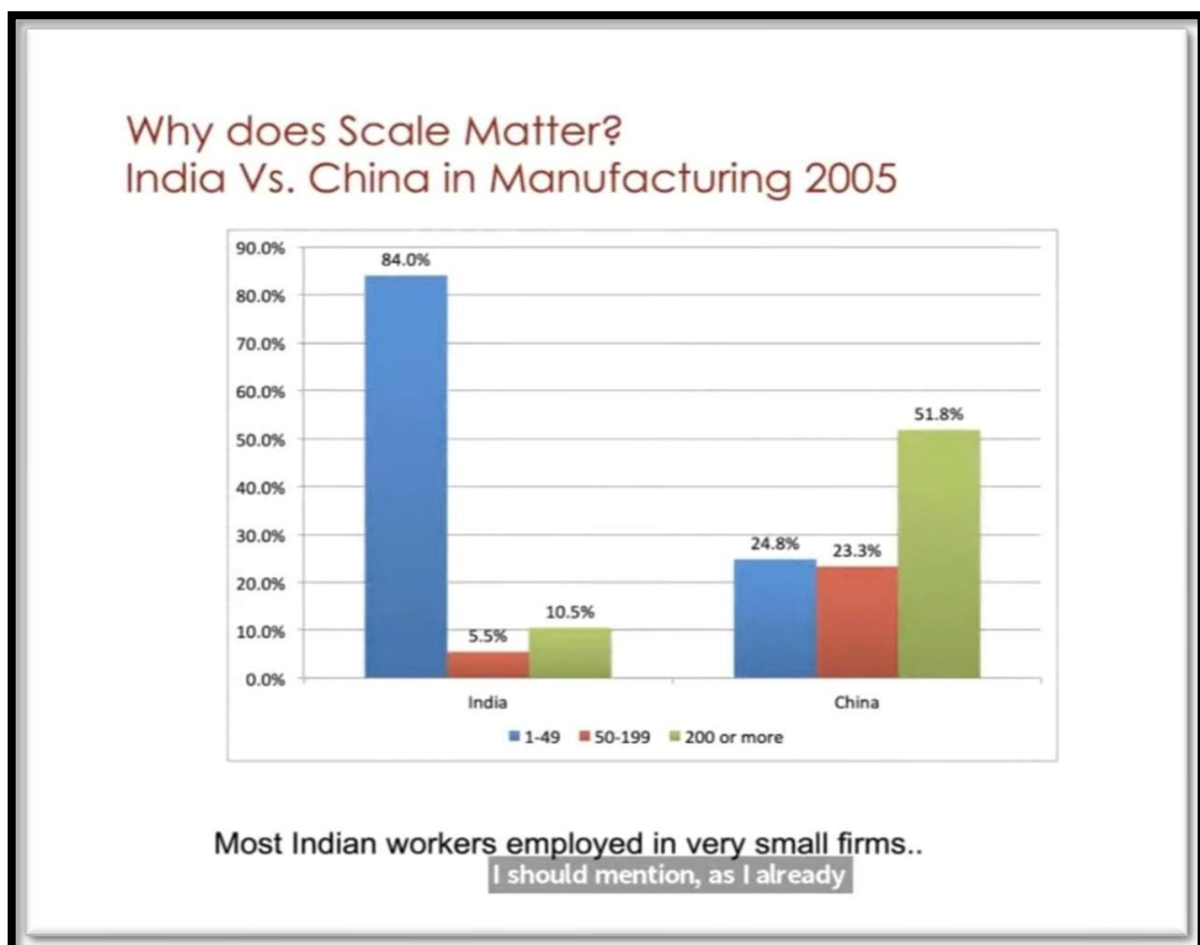


All of these point to sort of weaknesses and different ways of looking at India's trade performance. Overall, one knows, it is very clear that not so impressive trade performance comes from a combination of two things - one is competitiveness, the other is market access.

So, in general, in international trade you want to do better you think in terms of greater competitiveness you think in terms of greater market access, and it should be clear that all the competitiveness in the world will probably not get you very far if you do not have any market

access and you are shut out from the rest of the world, and all the market access in the world will probably not get you anywhere if you have a very low level of competitiveness.

So, in the Indian case this has been subject to an enormous amount of discussion and a number of prominent Scholars over the years have written about this. Most recently, Professor Arvind Panagariya and Prof. Jagdish Bhagwati and various others have talked in great detail about the various issues that bedevilled India's competitiveness in a manner that is relevant for international trade and international trade performance.



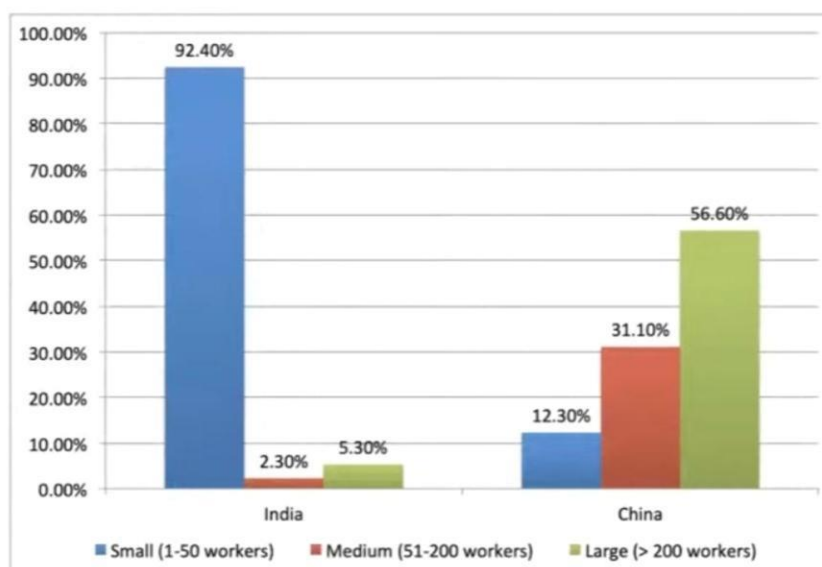
I will point out just a short list here and I will just focus on one of these. So, there is a question of the scale of production - How large are Indian firms relative to firms in the rest of the world? What fraction of the Indian workforce is employed in small low productivity firms? There are other questions more broadly about the business environment, labour regulations, challenges that they create for expansion of one's operations for hiring more workers, land acquisition challenges, logistical challenges and so forth on the one hand. So,

there is a series of reasons for why you have kind of domestic, in a sense, factors for kind of low performance.

One could ask this question about trade policy - How well have we integrated with the international trade system? What are the trends in the multilateral sphere? What have we done with respect to our bilateral agreements and what is the story - with respect to our multilateral - with respect to our unilateral policy choices.

So, I want to speak very briefly to this question of productivity and domestic competitiveness which again is extremely key of course to our ability to do well, and to expand and gain a greater foothold in terms of exports in international markets. But we will focus most of my comments on the topic for today, which is trade policy against the broader global environment with respect to trade openness.

## Apparel: India Vs. China in 2005



Extreme concentration in small firms in the apparel sector  
This is a well-known set of figures first produced, I

I should mention as I already have that I am going to focus on the issue of international scale. Much has been written about this. Prof. Panagariya has been a very articulate contributor to

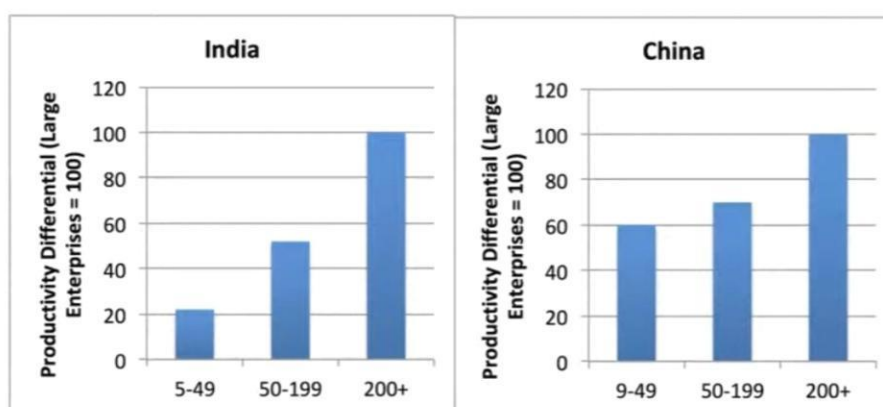
this debate, some of this work is based on his analysis, and the analysis of others including Dr. Rana Hassan of the Asian Development Bank who has done quite a lot to document, what it is that I am about to talk about which is the kind of the employment distribution - the size distribution of Indian firms, and why it matters from the standpoint of Indian trade.

So, what you are seeing here is Indian manufacturing and distribution-scale of the different firms and small-medium-large firms in India relative to China and this is really very striking. You see that roughly 84% over here. This is in 2005.

Indian firms essentially employed less than 50 workers and the fraction of firms that are in could be considered in a sense large employing 200 or more workers is about 10%. That is very big contrast with what you see in China where you have only about 25% at the lower end of this distribution and over 50% large scale firms.

Why does this matter? There is a great productivity differential. If you look at output per worker in small firms relative to the large firms you see this distribution. So, of these numbers presented in the panel on the left the output per worker is about five times as high in

### Why Large Firms Matter? India Vs. China in Manufacturing in 2005

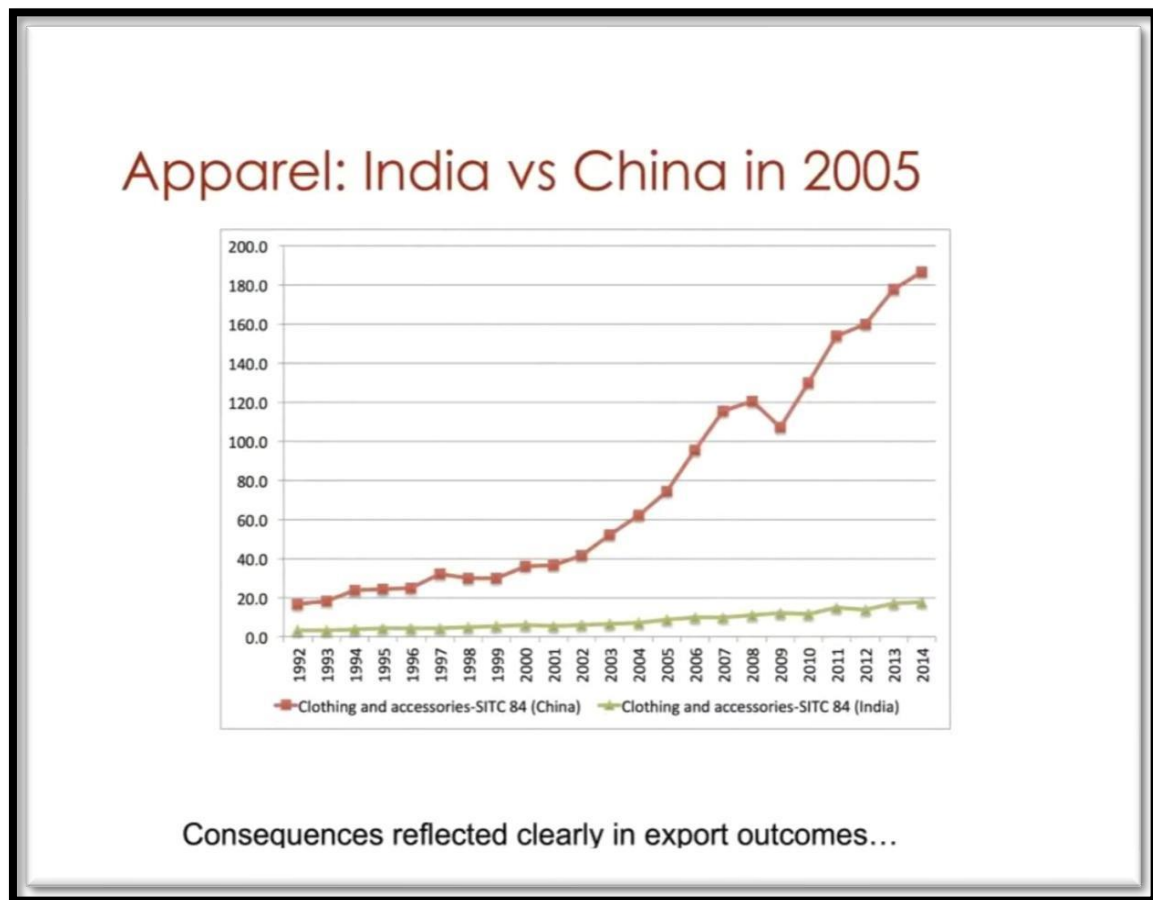


Scale matters for productivity and competitiveness:  
Output per worker is 5 times higher in large firms.  
Even more dramatic than in China.

Why does this matter?



large firms relative to the small firms. This is the comparison of the 200 plus to the 5 to 49 workers. In the Indian case this is productivity differentials on the y- axis and you compare that to the Chinese case where you have a similar profile, but all suggesting that productivity is considerably higher and in fact the productivity differential in India is even more dramatic than it is in China suggesting that scale matters a lot for productivity for competitiveness. This is a well-known set of figures first produced I think by Dr Rana Hassan looking at the apparel sector, India vs China in 2005, where you know a sector is very important for Indian exports.



You see the very, very dramatic contrast. And the sector in which China has done extremely well in recent decades. And you see the extreme concentration in small firms in the apparel sector on, you know, 92% of Indian workers are in sort of small firms, whereas that number is only a little over 12% in the Chinese case, and most of their workers being concentrated in large firms.

The consequences for international trade are shown on the slide where you see a bit of a rather different performance in terms of Chinese sales in global markets relative to where India is, and this is an important sector for us to kind of look at and to focus on, and to see the implications of scale and the implications of lack of competitiveness and low productivity manifest themselves so clearly in export performance. This distribution is not unflattering for India just by comparison to China.



This profile here shows you a comparison of the size distribution of Indian firms to the Philippines and Indonesia and South Korea and so on, and it is clearly sort of at one end of the story which is by the extreme concentration of workers in very small and once again low productivity firms. So, this is the reason I wanted to mention that is to say that as far as trade performance is concerned, a very big part of that story lies in terms of its own productivity without even any particular reference to, you know, our market access and what is going on with the international trade system and so on. There is a challenge of low productivity. That challenge is for different reasons.

One of those important ones may be, less commented on in a public discourse has to do with scale, which is why I thought I would point it out. But the other reasons that I briefly mentioned in reference having to do with various distortions in factor markets, various challenges within the Indian system, all of which are improving and perhaps improved quite a bit in recent years. These all remain issues that are worthy of one's attention from a government standpoint, of how to improve things on these margins and how to facilitate market operations to a greater extent.

All right, so with that, having talked a bit about domestic competitiveness issues, let me come to India's trade policy and the world trade system. In this discussion, I think it would be useful for me to talk a bit about just the trends in the world trade system by themselves. What has been going on outside of India? How well have we matched our own actions with what it is that has been happening in the rest of the world in terms of the trends in the international trade system? So, I will break this into three pieces.

## India's Trade Policy and the World Trade System

- World Trade System - GATT/WTO
  - Trends in The WTO System
  - Nondiscrimination and Trade Agreements – WTO Rules
  - Doha Failure, US Trade Policy
- India's Trade Policy
  - Trade Agreements
  - Outcomes under India's Trade Agreements
- Future Policy

I will talk a bit about trends in the world trade system, the GATT/WTO system. I will talk in particular about the evolution away from this kind of very nice, rules-based, non-discriminatory architecture that had been set up in the immediate post-World War II years, and how the system has evolved from that architecture towards trade agreements and bilateral

trade agreements and deviations from the multilateral, non-discriminatory architecture that had been set up.

I will talk about the challenges that that WTO system has faced, in particular with the failure of the Doha Round, which began more than years ago, has not seen successful closure, and the more dramatic challenges that we face today, given the ways in which US trade policy itself has evolved in rather aggressive positions in past years. The US and Washington have taken, both under the Trump administration, the previous Trump administration, the Biden administration, that was continued under the Biden administration, and what particular challenges this poses for countries that are part of the system.

I will talk about India's trade policy with reference to the developments of the GATT/WTO, and talk as well a bit about India's trade agreements. For many years having not really participated in any significant way in terms of bilateral agreements, India signed a few trade deals in the last decade or two. I will talk a bit about what these agreements have delivered, and what we could be doing differently, and talk a bit more generally about future trade policy, what the opportunities are for India in that space.

## General Agreement on Tariffs and Trade (GATT) & the World Trade Organization (WTO)

- Interwar Years (1919-1939)
  - Failure of international economic cooperation
  - Tariffs and competitive devaluations
  - Prolongation of economic depression
- US emerges from WWII committed to free trade
- GATT - Basic treaty for trade - linchpin of post-war liberalization
  - 23 countries initially joined the GATT (agreement covered 10 billion dollars worth of trade)
  - **Non-discrimination**
    - Most Favoured Nation (No discrimination between trading partners)

Let me start with a bit of a background, so the audience here is probably well aware of these points, and so, I will be very, very quick.

So, the general agreement on tariffs and trade, signed in 1947, really was a product of one level of the global experience in the interwar years. So, between 1919 -1939, the Great Depression, and the rather dramatic failure of international economic cooperation, with countries attempting to raise tariffs, and then attempt to offset this kind of declining domestic aggregate demand, using trade policy to direct demand towards their own output, and through the use of competitive devaluations.

And the overall judgment of one looks back, and it is already quite clear back then, that this sort of aggressive use of tariffs, and the aggressive use of competitive devaluations, really did not do much other than to prolong what was already about the Depression turning into the Great Depression. And so, the US, as it emerged from World War II, had in mind, so very committed to free trade, wanted to set up a kind of a rules-based international system, where it would be difficult for countries to abandon agreements, or to raise tariffs arbitrarily, or devalue in this competitive manner, to improve their export positions, and so forth.

And so, you have got the International Monetary Fund, that essentially monitored some of these issues, in particular with respect to exchange rates, and the GATT emerged as the sort of basic treaty, which was in a sense governed, provided the rules, under which international trade between the member countries would take place.

The GATT was impressively different from most agreements that preceded it in history, in one of its features, which is the Article 1 of the GATT, which insisted on non-discrimination in trade relations between trade partners.

So, essentially, this is sometimes referred to as the most favoured nation clause, the GATT Article 1, insisting that whatever treatment you give to your most favoured nation, is the treatment that you would give to all countries. Essentially saying you will not discriminate between your trading partners, whatever imports come in, they should be coming in, you know, they should receive the same treatment, whether the US is importing from Japan, or Germany, or Great Britain, and so on, all of them would be subject to the same tariffs, an essential feature of the GATT, that was insisted upon by the US.

And the US, in fact, resisted very heavily at the time, approached by various European countries to incorporate into the GATT some possibility, with an exception from Article 1. So, the Europeans already had in mind, and had this imagination, that maybe one day we will integrate and greater interdependence between our countries, European countries will prevent wars of the sort that ravaged the continent previously. And so, they did not want to sign on to any deal that will prevent such an integration from taking place, and lobbied very heavily.

### However...Preferential Trade Agreements

- Preferential Trade Agreements (PTAs) within GATT/WTO
  - Article XXIV -- Formation of customs unions (CUs) and free-trade areas (FTAs)
  - Enabling Clause (1979) – Member countries may accord ‘*differential and more favorable*’ treatment to developing countries
    - Arrangements between developing countries which may fall short of CUs or FTAs

These are very interesting exchanges between the European delegations, the delegation of the UK led by Keynes, the Americans, and so forth, that Britain was talking about the sort of where the Europeans were pushing for Preferential Agreements to be allowed, and where the US was pushing back against. So, all this being said, in the end, as much as the US was a champion of non-discrimination in that system, the Article XXIV was included within the GATT, which permitted Preferential Trade Agreements, and in the form of Free Trade Areas and Customs Unions, provided that these Free Trade Areas were very substantial. So, in order to form a Free Trade Area, and to kind of deviate from this non-discrimination role of the

GATT, by giving trade preferences to some partner country, you have to get into a very substantial trade agreement with a partner, involving liberalization of essentially all trade.

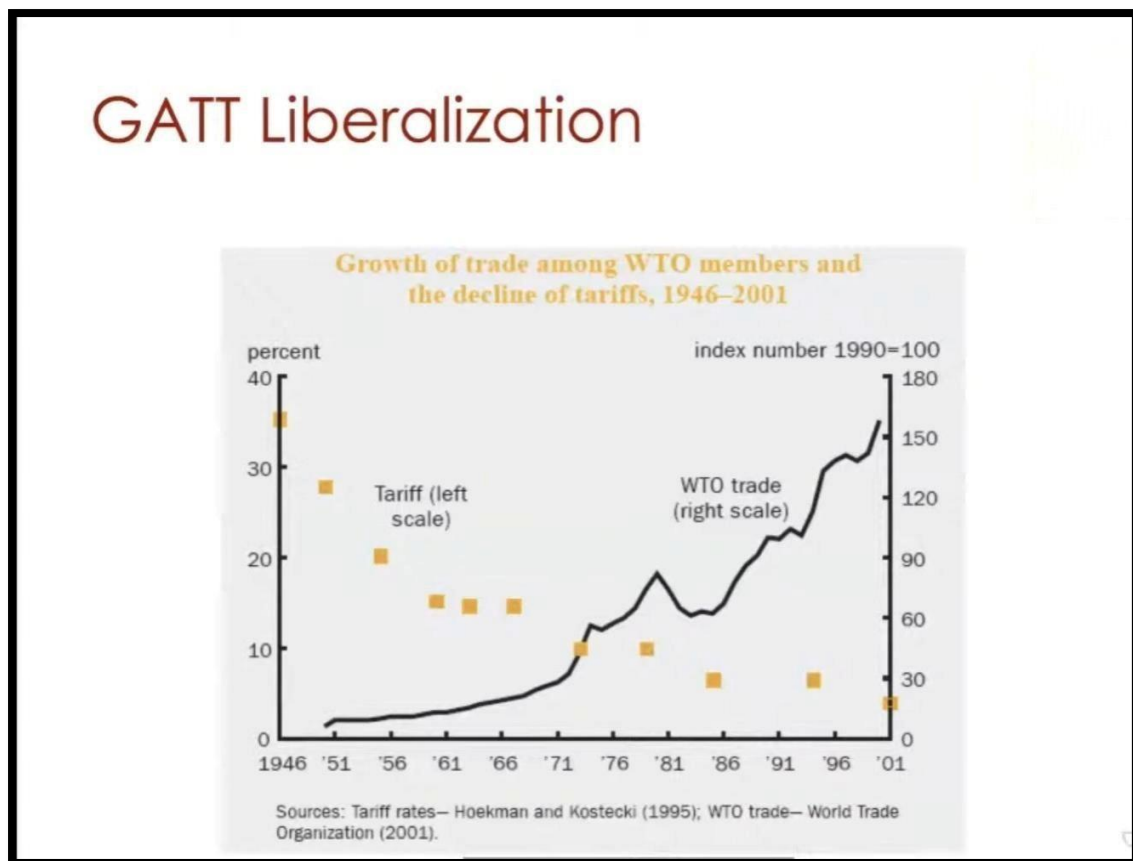
And that was the intention of Article XXIV, that if you are going to deviate, you have to do so, because you have some greater intention of really deep integration with this partner country.

Later on, it was included in the GATT, something called the Enabling Clause, which diluted this requirement somewhat. It was a very interesting development that is not commented upon as much. Which is that in 1979, the developing countries, for very interesting reasons of history, which we can discuss in the Q&A if you would like, were permitted to offer preferences to each other. In particular, to get into sort of trade agreements with each other, but agreements that would fall short of the Article XXIV of the architecture, which is to say that you could have very limited trade agreements with the developing countries, but you could wake up one day and say, I would like to liberalize my tariffs on one particular good with respect to some other developing country partner, and that other country liberalizes equally on a handful of goods. And then you would call that a trade agreement, and that would be legal under the GATT.

## GATT/WTO Trends

- Broad Multilateral Liberalization: 1950-1995
- Spread of Preferential Trade Agreements (Free Trade Areas and Customs Unions) starting mid 1990s
  - Hundreds of PTAs signed since 1990, PTAs covered about 35-40 percent of world trade (50 percent with intra-EU trade) by 2010.
  - Mega-Regional Agreements: Regional Comprehensive Economic Partnership (RCEP), Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

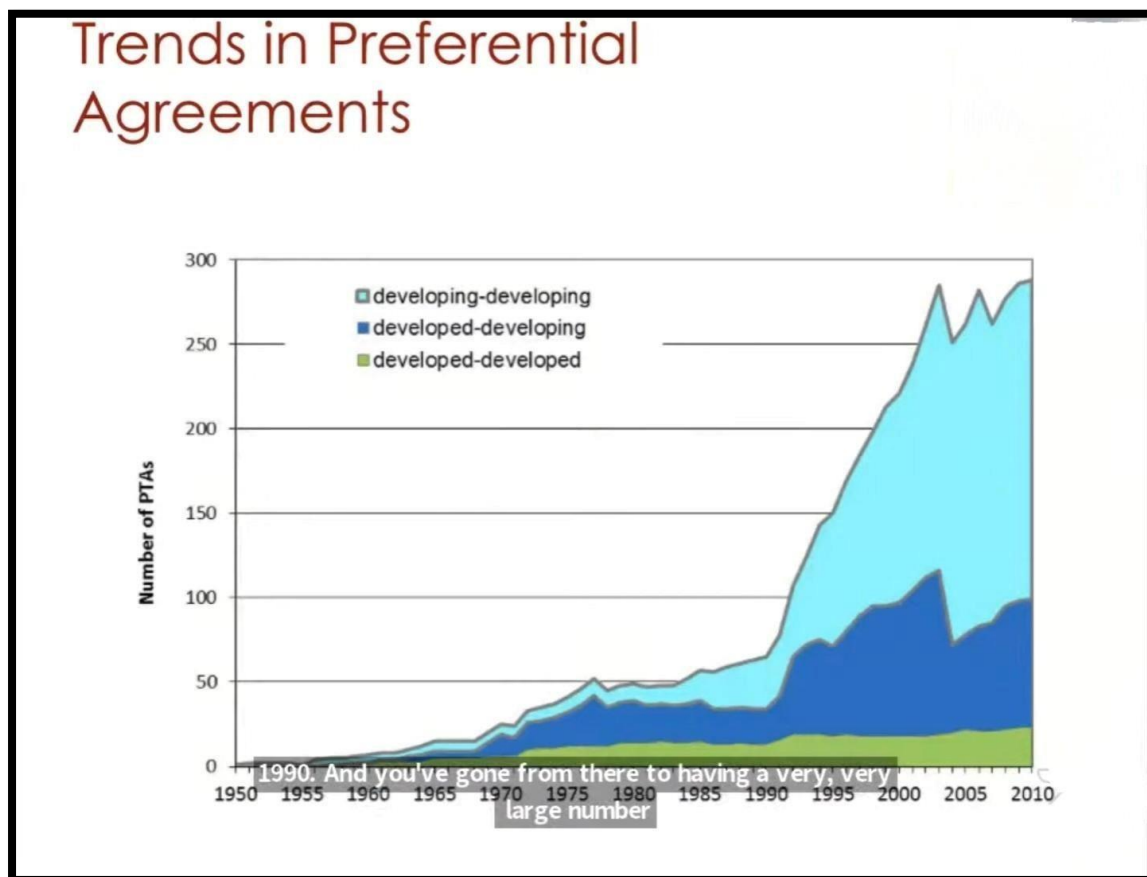
What you have seen at the GATT is on the one hand, very broad multilateral liberalization that took place under kind of non-discrimination and reciprocity in the multiple realms of trade negotiation that took place under the sponsorship of the GATT between roughly 1950-1995, a very substantial reduction in tariffs, a very substantial increase in international trade, and this is kind of a wonderful period for the GATT and for world trade. But around that time, the US, which had been the principled supporter of this idea of non-discrimination, started to look more aggressively and started to get more interested in bilateral arrangements, got into a trade agreement with the Canadians, expanded that trade agreement to include Mexico, to form NAFTA.



At that point, various other countries around the world started to think about, why it should be the case that they should not themselves look at other trade deals with bilateral partners, and went from having just really a handful of trade agreements, bilateral trade agreements, which are again, a violation against the strict non-discriminatory architecture of the GATT, into a kind of, you know, you had a handful of agreements prior to 1990 and you went from there to having many, many hundreds of agreements today.



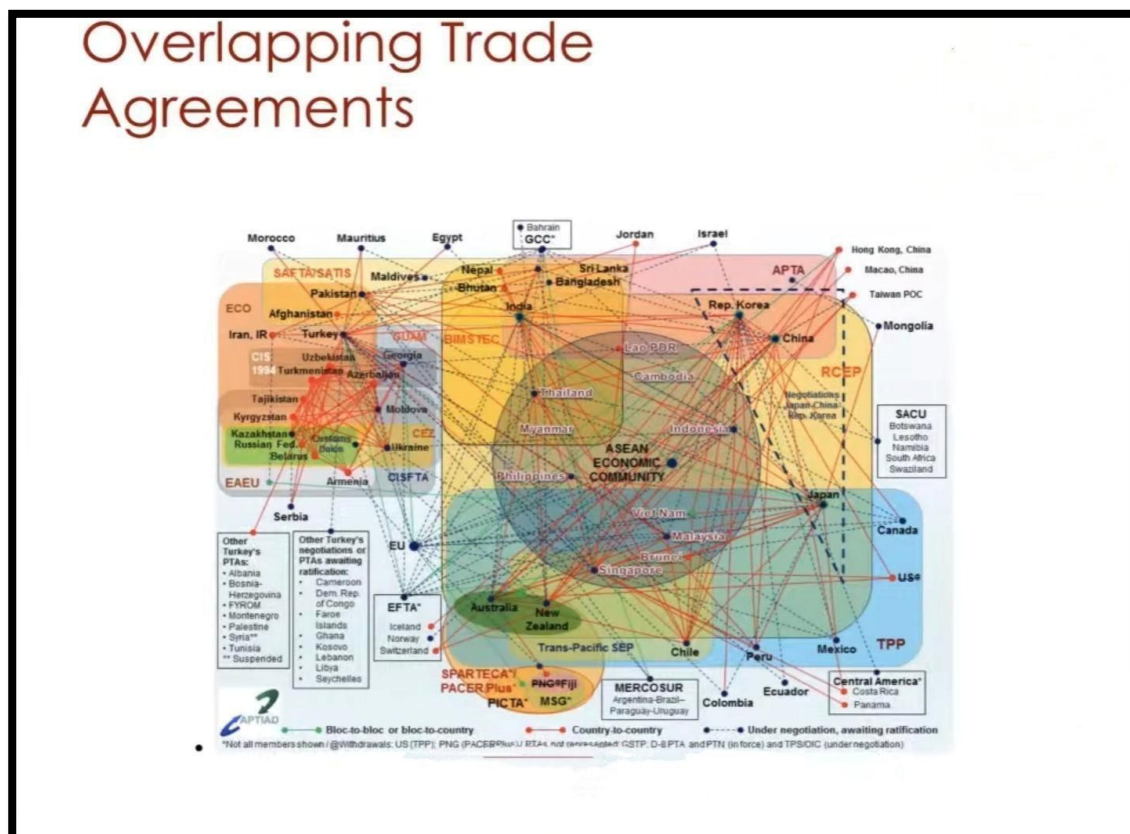
Every country, member countries of the GATT is part of some special trade agreement, bilateral deal, or the other, and the average number of trade agreements that a country is part of is about seven or eight at this point, so, it is really a dramatic number. So, you have here, just once again, an indication of just putting some numbers on the success of GATT sponsored liberalization, a reduction in tariffs on the left scale, an increase in trade on the right scale.



Here you see this other picture that I wanted to talk about, which is Preferential Agreements. So, very small number of agreements, really in terms of operational agreements, which have, you know, significant volumes of trade, you are talking about the European trade was, kind of the one exception in 1990, and you have gone from there to having a very, very large number of trade deals being signed.

The one thing I would point out here in this picture is that a very large fraction of the trade deals that were signed in recent decades is that they are between developing-developing countries. This is showing up here in the light blue, or the sky blue, one might call it,

suggesting that these have all been notified to the GATT through the Enabling Clause, and suggesting again that the kinds of liberalization one might imagine when one thinks about a Free Trade Agreement is not actually what has been undertaken, because these are developing-developing country agreements, and it could be the case, and it is the case in the context of many of these trade deals, that the kind of liberalization that was undertaken was actually quite partial.



Nonetheless, you have had, as we see, hundreds of trade agreements here, a very, very complex web of overlapping trade agreements and a complete departure, really, from this kind of uniform, non-discriminatory platform that was envisioned in GATT by the post-war years, into what Professor Jagdish Bhagwati has very famously referred to as a Spaghetti Bowl of arrangements.

Multiple linkages, the sort that you see here, where, you know, each country is linked to many other countries through a different trade deal, a different sort of trade rule, a different

## Spaghetti Bowl...



sort of rules of origin, and so on, so forth, vastly complicating the picture of international trade.

With that, let me turn to Indian Trade Policies.

## Indian Trade Policy

- Increase in protectionist measures through the late 1960s-early 1970s, turning India into a near-autarky
- Tariffs: In 1990-91, the highest tariff rate stood at 355 percent, simple average of all tariff rates at 115 percent and the import-weighted average of tariff rates at 85 percent.
- Substantial trade reforms began in the early 1990s. Average Tariffs reduced to just over 10 percent (have risen slightly recently)
- Trade Agreements – Entering the Spaghetti Bowl

So, very clearly, we had some increase in protectionist measures, turned India into a near autarchy by the early 1970s – a very, very substantial liberalization and impressive undertaken in the early 1990s.

Everybody here is familiar with the numbers of the highest tariff rates, about 300%, and the simple average being over percent 100%, that over time being reduced to just over 10%, although these numbers have risen a bit slightly. India has also gotten into some trade agreements in the past, and let me say a couple of words about both of these.

### Indian Reforms – WTO -Asynchronous

- Just as India had liberalized its trade regime (more or less unilaterally) and integrated more fully with the multilateral trade system.....the WTO system had begun to get less liberal, in the sense of conforming less with its own primary norm of non-discrimination – evolving towards bilateral agreements.
- Just as India started to rationalize its trade policy regime, specifically its tariffs and non-tariff barriers.... trade negotiations started to focus on issues that were less about trade in goods – Intellectual Property, Environmental regulations, E-Commerce
- Just as India started to consider bilateral agreements, the world is starting to move in the direction of a reversal of globalization..

The way that I see some of this, essentially, in India's trade reforms, is that there is a certain sort of asynchronous feature with respect to what was going on in the rest of the world. So, when the rest of the world, which is kind of the richer countries and other GATT members, had liberalized very substantially in the period between the 50s up until 1990 and so on, India was, you know, very protectionist, close to an autarchy at some point, and just as India began to liberalize unilaterally, it's strategy through the reforms that initiated the early 90's, and started to be integrated more with the multilateral trade system, the WTO system itself started to become less liberal, right?

So, the multilateral trade system started to move more in the direction of bilateral agreements, just as we became fully ready to attach ourselves to the multilateral system. Just as we started

to rationalize our trade policy regimes with respect to tariffs and non-tariff barriers, trade negotiations at the worldwide round, and otherwise, had started to focus, as a significant feature of trade negotiations with the United Nations, the United States, and the European Union, to focus on issues, other issues, intellectual property rights, environmental regulations, e-commerce, and so on and so forth.

And just now, much more recently, as India has started to consider its own bilateral trade agreements, the world is starting to move in a different direction yet. So, having moved away from multilateral to bilateral, you are now starting to see perhaps the beginnings of a more substantial reversal of globalization altogether. Certainly, the developments in the United States, what is going on with Brexit, and so on, suggest to you that this process of globalization is slowing this various, you know, a lot of economic nationalists talk about the globalization, reassuring, and ensuring so on, and so forth.

So, with that, let me talk a bit about the trade agreements that India got into. So, having gone through this, these unilateral reforms in the mid 2000's, and beyond, India entered into a set of Free Trade Agreements.

## India – Free Trade Agreements (2005-2019)

Trade Agreement	Notification
India - Afghanistan	Enabling Clause
India - Bhutan	Enabling Clause
India - Chile	Enabling Clause
India - Japan	GATT Art. XXIV
India - Malaysia	Enabling Clause
India - Nepal	Enabling Clause
India - Singapore	GATT Art. XXIV
India - Sri Lanka	Enabling Clause
India - Thailand	Enabling Clause
India - Republic of Korea	GATT Art. XXIV and Enabling Clause
India - ASEAN	Enabling Clause
Asia Pacific Trade Agreement (APTA)	Enabling Clause
South Asian Free Trade Agreement (SAFTA)	Enabling Clause
South Asian Preferential Trade Arrangement (SAPTA)	Enabling Clause
Southern Common Market (MERCOSUR) - India	Enabling Clause



So, the list of Free Trade Agreements is provided here on the left column, but you see as well the manner in which these agreements were notified to the government. So, most of these, the vast majority here, were notified through the Enabling Clause, which is to say, repeating myself here, that the kind of liberalization of undertaking these agreements probably falls short of what one imagines when one thinks about Free Trade Agreements, which is to say that it is not a very substantial liberalization, and I should take away the word probably, but it is in fact the case that the amount of liberalization undertaken within these agreements was quite limited.

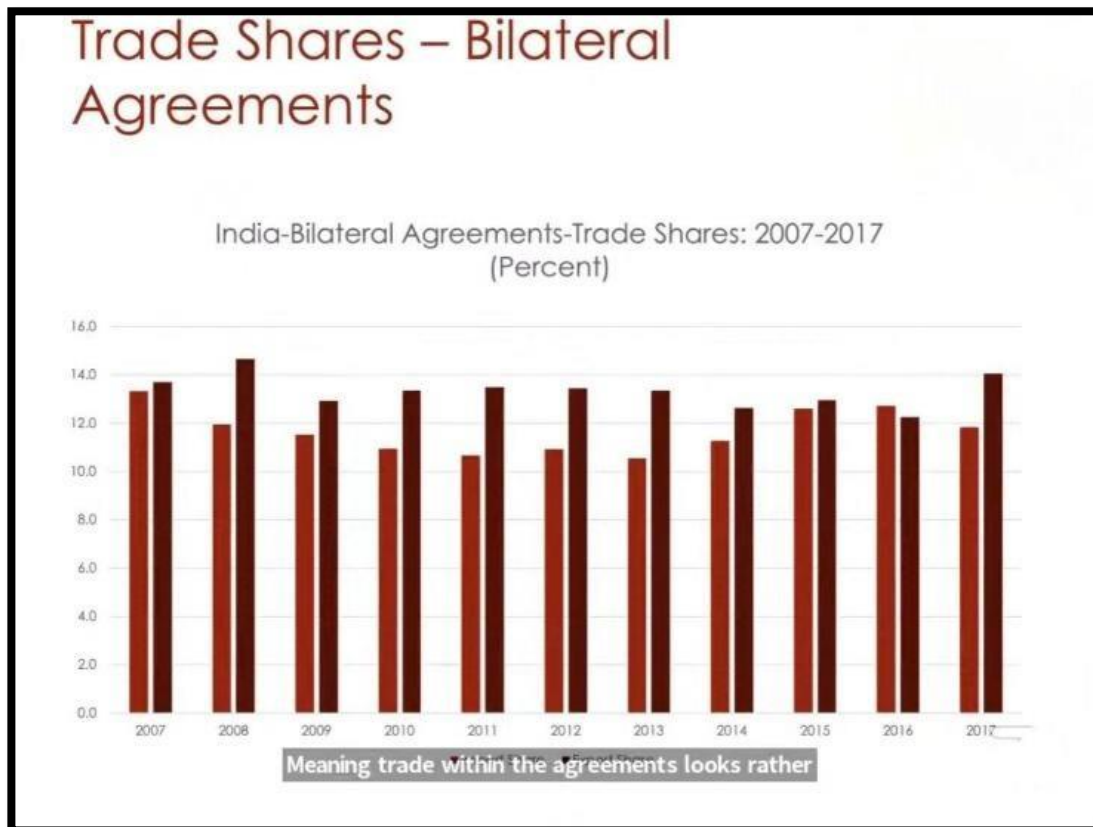
### Trade under FTAs (2007-2017)

	2007			2017		
	Import Share	Export Share	Trade Balance Share	Import Share	Export Share	Trade Balance Share
<b>India-Bilateral</b>	<b>13.3</b>	<b>13.7</b>	<b>12.6</b>	<b>11.8</b>	<b>14</b>	<b>7.5</b>
India - Afghanistan	0.3	0.1	-0.19	0.09	0.21	-0.15
India - Bhutan	0.09	0.04	0.18	0.05	0.13	-0.13
India - Chile	0.86	0.15	2.27	0.25	0.25	0.63
India - Japan	2.7	2.2	3.5	2.3	1.52	3.9
India - Malaysia	2.6	1.27	5.3	2	1.8	2.2
India - Nepal	0.2	0.8	-1	0.09	1.8	-3.4
India - Singapore	3.1	4.3	0.7	1.6	3.9	-2.9
India - Sri Lanka	0.2	1.7	-3	0.15	0.15	-2.5
India - Thailand	1	1.1	0.7	1.4	1.2	1.9
India - Republic of Korea	2.5	1.7	4	3.6	1.5	7.8
<b>India - ASEAN</b>	<b>9.6</b>	<b>9.5</b>	<b>9.9</b>	<b>10.2</b>	<b>12</b>	<b>6.6</b>
India-MERCOSUR	0.7	1.5	-0.8	1.7	1.3	2.6

The consequence of this is indicated in this table here, which is that if you look at India's imports or exports with respect to these kinds of bilateral partners, the rows indicated in yellow are the immediate numbers across India's bilateral agreements, you see that very little has actually changed as you go from the year 2007 to 2017. I just chose a kind of a one-decade period here to see what had changed, and you do not really see a very substantial change, meaning trade within the agreements looks rather different with trade outside of these agreements.

It is just a different way of illustrating the same thing year by year. Trade profiles showing you that not very much has changed, and so the outcomes under these trade agreements are

not what one might have hoped for.



## Reasons for low impact..

- Limited amount of liberalization
  - Partial Scope Agreements, exclusions
  - Liberalization in sectors with low MFN tariffs
- Timing
  - India-Japan: Full liberalization only by 2021
  - India-Korea: 60 percent of tariff lines liberalized only by 2017 (20 percent excluded)
- Rules of Origin, Preference Utilization – Approximately only 25 percent

The reasons for this low impact already hinted at, but to say this more strongly now, partial

scope agreements, a number of exclusions, liberalization mostly undertaken in sectors with already low amount of tariffs and already low volumes of trade, and low liberalization being undertaken in those sectors where you are actually trading a lot with this bilateral partner. There is also a question of timing.

Most of these agreements have sort of phase and periods, full liberalization takes place, you know, typically 10 years later, and most of the liberalization sort of back loaded, so you end up with, you know, 60% of the tariff lines being liberalized at the very end, and so on and so forth different agreements are of course quite different. But my overall impression, having looked at these, the details of these trade agreements more closely, is that the ambition already was quite low and the liberalization was intended to be a bit slow. On top of everything else, there are quite significant and complicated rules of origin, which are rules that restrict what kinds of goods get trade preference and so on, and so preference utilization is probably quite low within these agreements as well.

So, on the one hand, unilateral liberalization, which India did undertake, took a very dramatic level in the 1990s, perhaps was not helped quite as much by the fact of our low domestic productivity for the various reasons that we have mentioned. Our bilateral agreements have been somewhat limited in their ambition.

## RCEP – Missed Opportunity for GVCs?

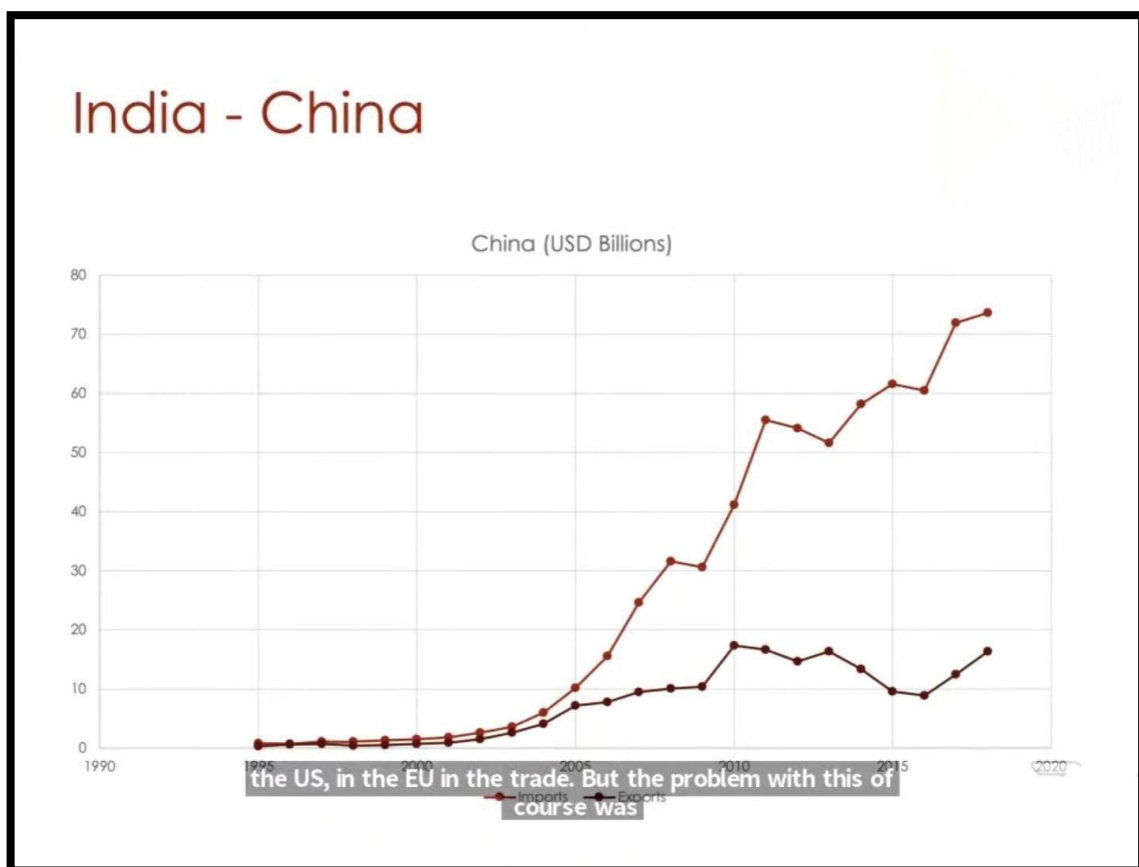
- RCEP is a free trade agreement between ASEAN nations and ASEAN's FTA partners.
  - 15 participating countries, which include: Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Korea, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand and Vietnam.
- The trade group constitutes about a third of the world's trade with a total population of 3 billion and a gross domestic product (GDP) of about US \$20tn
- RCEP – the deliberate avoidance of contentious issues, such as labor standards and environmental standards –issues that are championed by the US/EU in their trade deals



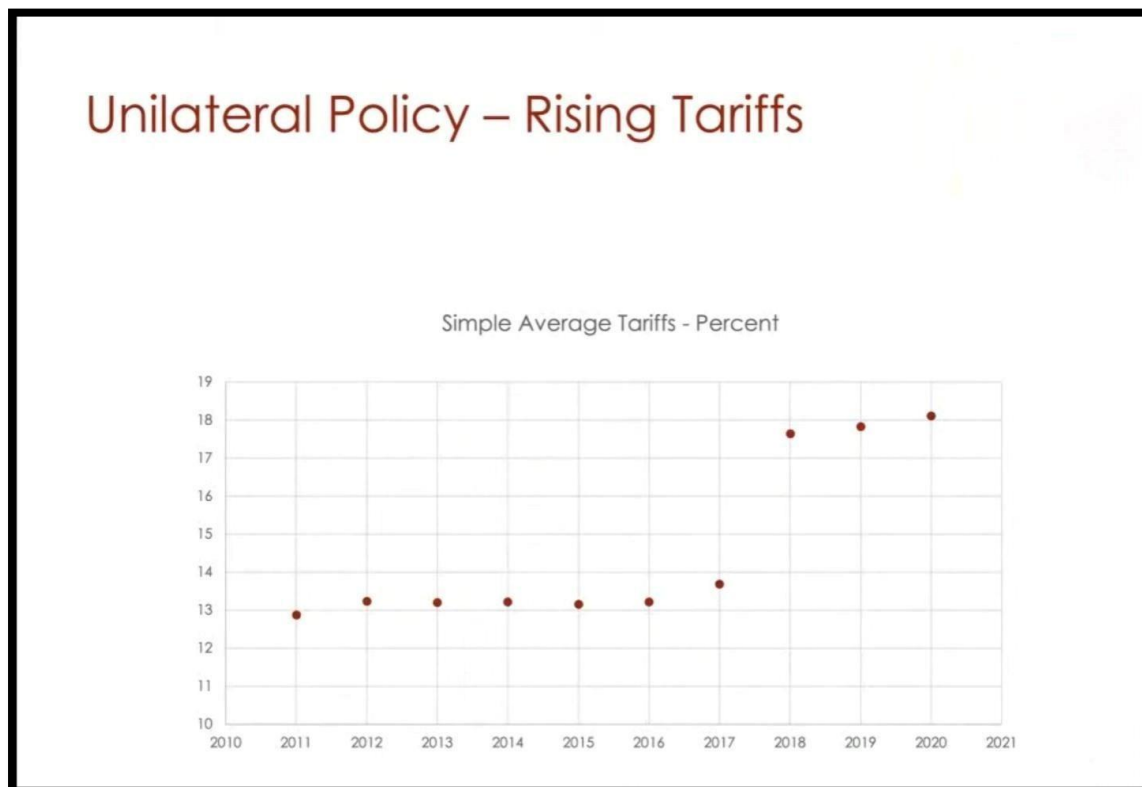
There was one big opportunity to integrate with this sort of Asian trading partners through the regional comprehensive economic partnership. One of the features of this was China's prominence within this agreement, India have been negotiating with RCEP for possible entry into RCEP for quite a while and ultimately in 2019 decided not to join.

One of the benefits of RCEP would have been it is a very large market. It is a lot of trade of the Global Value Chain Pipe that takes place within the system. Having free trade with the member countries here would have been very beneficial to India in terms of the ability to participate in a more frictionless way in the GVC system.

The other feature about the RCEP, which potentially could have been nice for India was RCEP deliberately chose to avoid issues that might have been contentious, such as labour standards, environmental standards, etc., that are championed to a much greater extent in the U.S/EU in the trade.



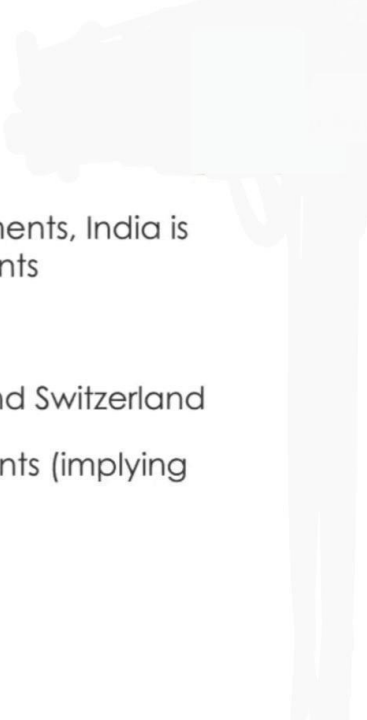
But the problem with this, of course, was a fear of greater trade imbalances with China, fear of sort of trade dependence on China. None of these fears have been alleviated given the geopolitical and the border frictions with China that took place in 2020. And so as much as at one level the RCEP could be seen as a missed opportunity, I see very little prospect of us, even though as I understand it, there is an open invitation for us to join RCEP if we should choose. It appears as if there is a limited likelihood of that.



One of the other developments in the Indian system has been with respect to unilateral policies, our own tariffs. And while one could have hoped, I had certainly hoped that these would be lowered, perhaps further or rationalized in some way, made uniform, provided greater clarity, and a more systematic structure of incentives for domestic value addition and so on, what you have actually seen in the last few years is an increase in these tariffs. It has gone up from the simple average. It has gone up from maybe 13.5% to about 18% or so.

It is not some super giant increase, but significant enough and certainly a move in the wrong direction, adding frictions to trade, making it more challenging to participate in Global Value Chains rather than to limit them.

We have of course negotiated much, much more recently a number of additional Free Trade with the UAE and Australia, and this European group, and you know, Iceland, Norway, Switzerland, and so on. I understand, I have not looked at these agreements closely, but that there is a greater, kind of a broader liberalization that has been undertaken within these agreements, a more ambitious level of liberalization, and perhaps therefore these will yield better outcomes.



## Recent FTAs and Ongoing Negotiations..

- In a substantial deviation from past agreements, India is now negotiating several broader agreements
- UAE, Australia: recently concluded
- Europe: Iceland, Liechtenstein, Norway, and Switzerland
- Many of these will be Article XXIV agreements (implying broader liberalization)
- **Larger Impact: CPTPP or the US/EU**

Having said all this, maybe the opportunity for India, the greater opportunity for the volumes of trade in these agreements is so quite low from an Indian perspective, would be a kind of an ambitious sort of possibility here, would be to consider joining the CPTPP, this grouping of Pacific Rim countries that the US was going to be part of and then exited from under the Trump administration. A very large grouping of countries providing tremendous opportunities for India, including trade with Korea and Japan and so forth, separately trade deals with the US and EU, if there is enough economic and political will within the system to make these things happen. These would perhaps provide a more substantial stimulus to the Indian system and greater opportunities in terms of market access for Indian exporters.

So, with that, I am almost out of time, so let me conclude with the following thoughts. One is to say that India's early round of unilateral trade reforms was very impressive, but perhaps succeeded only partially for all of the reasons that have kept domestic productivity relatively low, including the issues of scale, various logistical infrastructural challenges, technology and so forth. India's bilateral agreements have been relatively shallow, limited levels of liberalisation have been undertaken.

## Conclusions

- India's early round of unilateral trade reforms only succeed partially due to low domestic productivity.
  - Scale, Infrastructural challenges, technology
- India's Bilateral agreements have been relatively shallow
  - Limited liberalization undertaken
  - India's GVC participation is low. Raising import tariffs does not help
- On the multilateral front, there are vast uncertainties about the future of the international system
  - US reversal of interest in the WTO, Economic Nationalism
- Very impressive improvements in digital and physical Infrastructure....should be accompanied by equally bold moves in trade policy
  - CP-TPP, EU FTA? Unilateral Reforms
- Lowering of frictions at the border and domestically (factor markets) – in a manner that Dr Shenoy would applaud.

Our GVC participation is low. Raising import tariffs recently has not helped this process. We could perhaps do better on this margin.

On the multilateral front, I did not talk about this too much, perhaps this will come up in the Q&A, but there are genuinely vast uncertainties about the future of the international trade system stemming from the fact that the US seems to have reversed, at one level, its interest in the WTO. It seems to be a spirit of economic nationalism that has taken over in a bipartisan manner, both Republicans and Democrats in the US and what this brings, we will see.

Having said this and having talked about the potential uncertainties, the multilateral system in my view still offers India tremendous, tremendous opportunities.

If nothing were to change and there was no greater liberalisation undertaken at the WTO level, this is still an enormous market for India. This still offers great opportunities.

We would be well advised to take as much advantage of the opportunity that the WTO system presents as we could.

We have seen, and this is for me what gives me tremendous optimism about India, is the very impressive improvements in digital infrastructure, in physical infrastructure, in the business environment, and the move towards sort of relaxation of the various restrictions with respect to factor markets. One can hope that these will be accompanied by equally bold moves in trade policy, perhaps some integration with the CPTPP, perhaps with the Europeans, that there is some type of an FTA - Free Trade Area, perhaps through some combination of these with unilateral reforms that may make things relatively frictionless at the border or certainly lower the frictions at the border.

This would ensure greater sort of ability for markets to function appropriately in a manner that I think Dr. Shenoy would certainly applaud.

With that, let me stop and take any questions that you might have. Thank you very much.

---

***Prof. Kumar Anand:***

*Thank you very much, Prof. Pravin Krishna. That was very illuminating. Of course, over the years, I have read you, Dr. Panagariya, Dr. Bhagwati and others in newspapers on talking about similar issues, but that generally gives you 800 to 1200 words of space to make your case. And so yeah, this was a bit at length.*

*I am glad to see that there are a lot of questions and queries from the audience. So, what I will do is some of the, directly or indirectly, you might have covered a few of those answers, but I am not going to assume it. Maybe that will give you an opportunity to delve deeper or make other remarks that you would like. So, with that, I will start.*

*The first question comes from username AZB, and he/she has this question – “Why has productivity in services declined over a period of time?”*

*The second part of the question is kind of different – “Should India join trade blocs like RCEP, or will it be against India’s strategic interests?”*

**Prof. Pravin Krishna:**

Before answering the question let me start by saying that, you know, I am a faculty member, a professor now, but at heart, I very much consider myself to be still a student.

And a lot of what I have said today really reflects what it is that I have learned from the work of others, most notably Prof. Bhagwati and Prof. Panagariya and so on. And if they were watching this, or if they see this in the future, they will recognize both their thoughts and their arguments, as well as some of their slides even being reflected directly in the presentation. So, I owe a lot to my predecessors in the field, both on the academic research side, from whom I have learned a lot, as well as the practitioner side, Dr. Montek Singh Ahluwalia and so forth, from whose work and from whose writings I have learned a lot and am deeply grateful for that.

Coming to the question, on the RCEP issue, where I think I could be more detailed, it is a difficult challenge for us, right? So, on the one hand, it was a very interesting, enticing opportunity. It is a very large market, roughly one-third of world trade.

And if we have been in a position to join, either because of the strength of our own sort of domestic productivity, if we had felt more confident that we would not be swamped in a sense by Chinese exports to us, maybe one could have seen that a little differently. I think quite apart from the geopolitical issue, which is very significant, and certainly cannot be diminished in any way. Quite apart from that, there were concerns just about our economic

ability to do this in the sense of, can you integrate with China in a way that does not completely swamp your domestic producers?

It is a reasonable question, right? So, as much as one wants that stimulus from import competition and so forth, there is a question of how our ability to absorb, “China shock,” various other countries like the United States feel that they paid a very large, significant domestic price by having done this too quickly. And so, it is a question for policymakers to think about.

I felt a bit positively about RCEP, partially because I thought this would give us that great opportunity to join essentially the Global Value Chains. And maybe there was some way within the negotiation that we could slow down, have some phased entry into RCEP, maybe 10 years - 15 years, and so on, figure out some manner in which to negotiate our entry.

At this point, because of the geopolitics, and because of what has happened, not just even broadly in the geopolitical sense, but what has happened specifically with respect to India and China in Galwan and so forth, I think the geopolitical question probably dominates and our willingness to be dependent on our imports on China is probably uppermost in the minds of policymakers when they think about this particular trade relationship.

So, I see very little prospect for joining RCEP. Maybe it is a bit of a missed opportunity, but I do not see much else that could happen in this context.

The one thing that we could still consider, is this trade relationship with China cannot be ignored altogether.

We are, of course, trading with China. Even the United States, which, you know, now has clearly articulated that it sees China as a major competitor, adversary, and so forth, it trades a tremendous amount with China, right? So, there is a question of whether we can manage our strategic concerns about China and geopolitical concerns with respect to China by nevertheless engaging in international trade, nevertheless engaging Chinese foreign direct investments, and so forth. And maybe there is a path here that you think about those goods where there is not this kind of, you know, strategic concern.

You think about those investments where your national security is not compromised, or you are not properly reliant on China, and so forth. And maybe the set of goods and the set of industries where these are very heavy concerns are a limited number. And so, one could

certainly engage China a lot. One could certainly have a lot of trade investment relations with China, but maybe not through RCEP. So, that would be my answer to that.

On the issue of services productivity, I am not quite sure I am well positioned to answer that question.

My understanding of the services sector is that there is kind of a bimodal structure to this.

You have very high level, high productivity, high value-add, high-wage services, IT, and so on, and so forth, where Indian businesses are doing extremely well. These are subject to high productivity growth as well.

And equally, on the other end of this distribution, kind of low-wage, low-productivity service sector jobs. So, what is going on on that end with respect to productivity growth, I can only speculate. But I could certainly see, if you said, you know, selling chai or selling pakoras or something like that on the street side is a service, which it is, then maybe the manner in which chai was being sold, you know, 30 years ago is the same in which it was being sold right now.

So, there has not been that kind of productivity growth that you see, of course, on the other end of that distribution. So, when you aggregate all of these together, maybe there is a compositional effect and you are overly influenced by the other end of the distribution. But I should say that I do not know more than that.

Thank you.

***Prof Kumar Anand:***

*Thank you. We talked a little bit about China, and therefore, probably it is better to take the second set of questions from Anirudh.*

*And he asked that all Asian export miracles have generally been dictatorial countries, probably he is meaning, less of a democratic nature. So, will or does the world need another China, and, or is the export driven growth model over?*



**Prof. Pravin Krishna:**

Yeah. So, let me start with the last piece about whether the export driven growth is over or not. I am old enough to remember, this is the pre-China days when I was a graduate student at Columbia University, and we had our seminars on international trade. And by that point, Korea had done very well and Japan had done very well.

So, these are the countries that are already, in a sense, peaked in terms of their manufacturing and their exports to the US. And people at that stage were talking very confidently that the manufacturing and export growth was over. They said there is no room anymore. Japan is doing everything. Korea is doing everything. And look, there is some little pieces left over from Beijing and so forth.

And since then, you have had this tremendous amount of change with China's entry and Chinese exports and really a very dramatic transformation with Chinese economic growth. Right?

So, whether the Indian system could equally succeed in the way that China is bringing, you know, hundreds of millions out of farms into factories and out of poverty into, you know, greater incomes and so forth. Maybe the opportunities have dimmed somewhat, right? So, with the obvious presence of China in there.

But from an Indian perspective, that would not be my worry in the sense that we are operating at such a low share. We were at 2%, right?

So, even if we went from 2% to 4% or from 2% to 5%, this is great for us. And from 2% to 5%, I do not think that opportunity is exhaustive. From 2% to 7%, I do not think that opportunity is exhaustive, right?

And so, yes, the opportunity perhaps is not what it was maybe before Korea entered and before, you know, somebody else entered and before China entered and so forth. But that opportunity is still there. And improvements in our domestic productivity, and there is a lot of room for us to do that, and improvements in market access and whatever else, mostly domestic productivity here, there is still huge opportunities left within the system.

Look at what Vietnam and Bangladesh have done as well, right? So, even after China entered, people said there is no more room for anybody else to do anything. And Vietnam has done some good things. The Bangladeshis have done some good things in recent years.

So, the opportunity is there, whether it is the highest possible level or somewhat diminished, I do not think that is an interesting question, it is an academic question. From a practical perspective, maybe we do not need to worry about it quite as much, right, in the sense that we do what we can, we improve our productivity, and the results will come. And we improve our market access, the results will come.

On the issue of authoritarian versus democracies and so forth, this is really above my paygrade as an economist. And maybe political scientists can comment upon the question with greater authority.

I will say that, you know, certainly in some respects, maybe the state in the manner that some of these countries have pulled off in organizing their economic activity could have worked over there.

This is really an issue that there is not some choice that we face in India in any case. We have a robust democracy. It has its own successes. It grows at its own pace.

I think tremendous opportunities are still available to us with our system. And so maybe this sort of alternative of whether things would have been a little different if you had a more authoritarian structure, more able to control things and so forth, again, an interesting academic question.

But just looking at our opportunities from our perspective, I think there is a lot that we could achieve.

***Prof Kumar Anand:***

*I think on a related note, and that is the nature of doing things online, the next question is from anonymous.*

*And the question is, "What is your opinions about Rajan and Lamba's argument about India being able to use services mainly instead of manufacturing for high growth?"*

**Prof. Pravin Krishna:**

Yeah, this argument has been around for a bit now in terms of the policy space. And I will just start by saying that maybe we do not need to frame this debate as manufacturing versus services. It does not have to be manufacturing versus services.

It is manufacturing and services. I do not see any particular governmental trade-off in thinking about should we support manufacturing or should we support services. Support both.

And the issue is let us improve our domestic infrastructure. Let us make India a better place to do business and so forth. These are perhaps at one level, a simple way of looking at things, equally relevant for manufacturing, equally relevant for services.

It is not as if on the marginal rupee that one is thinking, why should I put it in services or should I put it in manufacturing? So, at one level, I would say we do not need to frame this question for ourselves as a manufacturing versus services. It is all about manufacturing and services.

I am pretty sure that if you talk to Professor Rajan or if you talk to people on the other side of this debate, they would agree that one does not have to look at this as this, an exclusion of that, to the exclusion of that or that to the exclusion of this.

That said, it is true that Indian manufacturing has been somewhat disappointed. And this was the core of the talk today. And so, you know, it is sufficiently disappointing that one could ask the question about, you know, what hopes could one rest upon manufacturing for the future, right?

So, I think I have made the argument that a variety of things that we could improve on could help us expand manufacturing, could help us bring workers out of farms into factories and so forth. But let us look at that question from the services perspective, right?

I think the argument that many have in mind when they think about services, they have this imagination about the high-end services, right? So, you are talking about your IT workers are very happy and proud of the success of the Indian IT sector and so on. You know, but how many workers of Indian farms can you transition into those kinds of jobs, right?

So, those high-skilled jobs are really symbols of India's success over there. So, you know, when you are thinking about services, one has to be careful about the fact that, you know, it is not as if we have an unending supply of high-skilled workers that can keep on staffing these service sectors that require a high level of skill.

But coming back to the question, if the issue is, listen, should we not be also focused on services and non-services and manufacturing? In fact, related to the manufacturing linked services, there are services linked manufacturing activities. All of this is good. So, you know, I do not necessarily see these as this versus that and that versus this. I think we could be doing well on all fronts.

***Prof. Kumar Anand:***

*Yeah, so most of the debate has been about manufacturing and services and therefore, and probably vis-a-vis or as a complementary or supplement. So, here, therefore, in addition, this is an interesting question from Abhinav Singh and he asks, "What is India's position in trade negotiations for agriculture goods? And what are the main reasons why India is not a bigger exporter of agriculture commodities?"*

**Prof. Pravin Krishna:**

Agriculture is a bit of a complicated sector. And let me come back a bit to the kind of the Doha Round of trade negotiations and India's role with it, right? So, the broad picture with respect to agricultural trade is that you have agriculture as a sector for many, many years was an excluded sector within the world trade system, right? So, there was no liberalization that was undertaken. It was not systematically considered. In some ways, it has been incorporated into these negotiations now, but the Doha Round was supposed to be the big round that sort of took care of the agricultural sector, right? And what it was supposed to achieve, Doha, from a developed country standpoint, right?

So, what is the United States supposed to do, you know, under Doha? What are the Europeans supposed to do under Doha? Essentially is to remove or reduce their agricultural production

subsidies and the extent to which production subsidies in effect become export subsidies, right?

So, you want the U.S. to reduce, and I am going to come to India in a minute, but you want the U.S. to reduce agricultural subsidies. You want the Europeans to reduce agricultural subsidies. The overall impact of that is to reduce agricultural production and to increase prices for agriculture, you know, for food in the world, right?

And, you know, as soon as you see it that way, you can understand India's, maybe reluctance is, you know, kind of there is a complicated attitude that one might have towards agricultural liberalization and agricultural negotiations, recognizing the fact that what you are really asking the other countries to do, meaning the Europeans and the Americans, is to reduce subsidies, raising agricultural food prices. Is that something that we want, right?

So, that might be good for, let us say, our farmers, right? So, if you are a farmer or you are on the agricultural production side of things, then those sectors will benefit from maybe those individuals and they will benefit from the higher agricultural prices.

But what about the urban poor? So, if you are an urban poor, you have nothing to do with agricultural supply, you are not part of the agricultural food supply chain, you are only a consumer of food, right?

What is going to be your attitude with respect to an increase in food prices? Not going to be a very good one. And if you are urban poor, living close to subsistence level and so forth, a big part of your kind of expenditure is on food. And so, rising global food prices, which were potentially a consequence of agricultural liberalization, make it a challenging thing to think about, right?

So, if I were a policymaker, you know, I would also be slightly challenged by this proposition of, you know, how far do you want to go with respect to agricultural liberalization in the form that the negotiations were sort of evolving under Doha.

I am not, again, an expert on the agricultural sector, so I know a little bit less about nuances and details. Each sub-sector within agriculture has its own concerns and so forth. And I have read a bit about this, but one could see why you could be challenged by this idea politically and for good economic moral reasons, you know, out of concern for what rising food prices would do to your own population, right?

With respect to agricultural exports and so on, I am not sure whether India does export enough agricultural commodities, maybe we could be doing more. Some of this has to do with productivity.

And in this, let me offer one observation, not about India, but the United States, which is that the U.S., in the immediate post-war years, when the GATT was being negotiated, did not perceive itself to be a country that had competitive advantage in agriculture.

In fact, it feared the competitive advantage of the other countries, developing countries, and was not unhappy with having agriculture being excluded from discussions at that time.

Over time, it has become very clear because of the remarkable productivity of U.S.

agriculture, right? That the U.S. actually has comparative advantage in agriculture, which is kind of, in a certain sense, a very strange thought. The highly developed country actually could be specializing in agricultural production, but they have remarkable productivity, right?

So, the capital to labour ratios in agriculture are extremely high and very different from the patterns of production you see in developing countries where labour capital ratios are so much higher, right? So, the kind of productivity you see on American farms is actually stunning.

If you have lived in this country a while, you get a chance to drive by the farms every once in a while, and you are actually stunned by the total lack of human beings, you know, you do not see any human beings, right?

It is all machines that are being operated by drones, and these machines are of some scale that I did not previously imagine. And it is no surprise, therefore, that you have American apples now being exported to India.

Just imagine how high their productivity must be if they are able to make these apples, package them, ship them all the way to India, and they still are able to gain a foothold in the Indian market when we have our own apples, right? So, a lot of this has to do with productivity as well.

Of course, various things come into agriculture as well, about logistics and the ability to support commodities that are perishable and so on and so forth. It needs an extra element there that people in the agricultural sector might be able to comment on.

**Prof. Kumar Anand:**

*So, on that related note, the question from Amit is on the topic of productivity.*

*He has two-part questions. One is, your recommendations to make India a developed nation by 2047 and how can India improve its domestic productivity?*

**Prof. Pravin Krishna:**

These are in a certain sense, maybe the same question, right?

So, our ability to be a developed nation, and let us take up 2047, it is a nice goal, and a developed country is a nice goal. But just even more generally – How does one get better?

How does one produce more? How does one become more productive?

It has a very long list of reasons, and then some of these are hinted at in the question already, having to do with on the one hand, distortions in the factor markets, the quality of our labour supply, skilled labour relative to the stock of our labour force at the moment, people's participation in the labour force. Anything that has to do with inputs that get into the production process, whether it is land, capital, labour, various other inputs require a certain type of investment in the form of skilling of workers; whether it requires some sort of deregulation of onerous rules that prevent easy access to land or easy access to something else, capital. All of these, in the end, contribute to our productivity.

We are victims, in a sense, of policy history, on the one hand, has taken the Indian economy in different directions. I am very optimistic, nonetheless, about the future and India's trajectory as we head towards 2047 for a number of reasons, including the fact that all of the things that we have just discussed have seen improvements in recent years, and there is an active part of the policy discussion. People are aware of these things, no doubt.

I hope that the discussions on these issues are followed by concrete policy actions that push India faster and more quickly in these directions. But I think at one level, the answer is simple, which is that the production function, as the economists like to call it, every aspect in

that could be improved. The inputs, the production function itself - greater productivity, better roads, better everything, better business environment.

So, that is very easy for an economist to sit in your office, and for me to sit in my office here and talk about. Of course, everything depends on the actual implementation of these. So, it is certainly within India's reach.

We have the right demographics. We are poised very well. Things feel very different, in a positive sense. I mean, each time I have come back in the last many years, things feel better. Things feel more improved. It is great.

Young people seem to feel that things are going very well. There are various other high points, like, you know, what is going on in the Silicon Valley, established in different parts of the country, the tremendous amount of innovation and energy of our youth. So, at one level, I feel great.

But it is also very clear that, you know, changes are needed, including at the policy level for this to happen - for all of these - on all of these different dimensions we have discussed.

**Prof. Kumar Anand:**

*So, your answer to the question, the things that you touched upon are exactly the part of the question that Giridhar Prabhu asks, maybe you can make a brief remark on that, which is, "With India's talent basket, progress in computing, how rapidly can we have improvement of actual competitiveness and productivity? And the concept of total factor productivity was rarely talked of, and now finds mention in the budget. So, some benchmarks, please."*

**Prof. Pravin Krishna:**

Of course, we need to improve productivity. We need to improve total factor productivity. We are improving, perhaps, our total factor productivity, and all of the changes that we have already seen, with respect to infrastructure, with respect to the digital economy, with respect



to all of the things that India is doing, will improve our productivity. Is it sufficient that we have a high-quality group of computer-savvy engineers, who are able to achieve great things on that margin. I think probably not, right? So, that is a very thin slice of the labour force overall.

They are very proud of their accomplishments, and they have really done tremendous things at the national and at the global level, readily recognisable to everybody. But is that, in itself, maybe I am misunderstanding the question, but if the question is, is that, in itself, going to achieve for us the kinds of things that we want, then my answer would probably be, no, it will help us achieve those things. But it is only a small part of something that is much, much larger.

Even just thinking about the labour force itself, and the skill set of the labour force, you know, one hears very often, I am sure you have all heard this argument, including Mr Prabhu, that the skill set of Indian workers does not match the skill requirements of the employers. We are graduating lots of students at every single level, from schools, middle school, to high school, to colleges, and so forth. Everybody is getting different sorts of degrees, and the actual competency level is below for many workers.

Maybe the vast majority of the workers is far below what is indicated on the degree. So, at one level, there is a very broad problem about skilling. And again, I am just talking about the workforce - what the workforce is able to do. Surely, high skilled computer sector workers are great to have, and then we are producing more of those year by year. But the problem is a broader one. If we are able to achieve this sort of skilling, again, whether it is in the manufacturing sector, or whether it is in the services sector, there could be across the board improvements on all of these things.

I think that would be what is necessary for this kind of full transformation, and for us to be able to achieve that very high level of total factor productivity that we are looking for.

***Prof. Kumar Anand:***

*Yeah, the thing that you talked about was you are driving through rural America and seeing all the capital. And recently, a lot of people have started to make a case that population, you*

*know, rising population is not a problem, but probably declining population. For many countries already, maybe even the case of China, India, and others. From among others, even Elon Musk was making that case. I come from the state of Bihar and traveling whenever I go back to my hometown; I see the median age of an average Indian is about 28-29 years. Median age of a Bihari resident is 21. So, the only thing I see is young people all around, nothing else. So, Elon Musk, you have a problem, we have a solution. You know, just take care of that; the capital factor productivity, all of that can happen.*

*So, I will now move to the questions which relates to probably trade agreements, etc. The question comes from Anishree, and she asks, "What role can India play in the multilateral system, especially when WTO is facing an appellate paralysis?"*

**Prof. Pravin Krishna:**

Yeah, very good question, let me say something about the appellate body crisis, so that everyone is on the same page here.

So, one of the negative things that has happened at the WTO is that starting with the Obama administration, actually, the U.S. has sort of refused to appoint judges to the dispute settlement mechanisms.

I am speaking loosely, this is the appellate body of the dispute settlement mechanism, for a variety of reasons. Their own concerns with the way that dispute settlement systems are going, their own issues about particular technical details, about how the dispute settlement works and the cases of anti-dumping and so forth. But it surprised me that for these, what I thought were very narrow technical issues that could be resolved with some negotiations, that the US took this kind of fairly big step of saying, well, we are not going to appoint. So, this began under the Biden administration.

And judges, I think they are appointed for maybe four years. And so, after that runs out, you have to step down and you essentially go home, right?

So, over time, you have reached a point now that the judges are not being appointed, they are not being reappointed, new judges are not being appointed.

And in fact, the dispute settlement body has run out of judges. There are no judges left to bench cases at the WTO. This system, this situation has been very convenient for the Trump administration and in fact, the Biden administration that followed it, because a lot of things that the US has done in the last seven or eight years are in fact illegal by the WTO rules and have been, you know, it can easily be shown to be.

So, if you take a case against the US to the WTO, there is nobody left there, in a sense, to rule against you. So, it is convenient to be that you are violating the rules. And at the same time, you are preventing any judgments from being against you because there are no judges left, right? So, that is a real crisis for the dispute settlement system.

And in the end, it reflects the basic reality that if the most powerful members of any organization want to paralyze their organization, then, you know, that organisation will probably get paralysed.

So, I am at least happy that there is a basic functioning of the WTO and the things that were agreed to at the various multilateral rounds and so forth that outside of the U.S.'s violations with respect to India with the steel and aluminium types and so forth, which had their impact but they were not super great in magnitude, that for most part India has not been adversely affected by some of these things that have gone on at the WTO.

With respect to what role, we want to play or we could play, there are discussions going on about an alternative dispute settlement body that countries opt into. So, it is recognized by now that the U.S. does not want this to function but it could be the case that the Europeans and India, for example, just to pick two, that they decide that they want a separate dispute settlement body and they agree to be governed by the rules of the dispute settlement body. So, this is an idea that has been floated by the Europeans.

I believe it is on the table at this point being discussed actively by countries. I am not sure of the exact status of that discussion, but India could play a role in shaping the rules of that new system. India could participate in that system if it wants to. India could encourage other countries to participate in that system.

I personally am not sure because I do not think I have read much about India's views, certainly official views, on how they see this paralysis of the WTO, whether they themselves want to improve upon things, whether they are happy with the status quo of the WTO. I have

had the opportunity to ask one or two Indian government officials this question about how they see the WTO.

Are they happy with the way things are?

Do you want changes to take place?

Do you want a resolution of these issues?

Do you want a new round of trade negotiations?

And I have to say the answer has not always been clear, right?

So, maybe the way that India sees itself at the moment, it is not too unhappy with, and this is just speculation on my part, with the status quo of the WTO. We are trading to the extent that we want, and markets remain reasonably open to us, and so we see this as an okay situation, maybe. But if you wanted to play a role, especially with respect to this dispute settlement, there are active initiatives that are out there one could be contributing to.

***Prof. Kumar Anand:***

*So, Dr. Krishna, we are out of time, but there are a lot of questions remaining. So, I wonder if you have some few more minutes, maybe 5-10 extra minutes?*

**Prof. Pravin Krishna:**

Sure!

***Prof. Kumar Anand:***

*Okay, cool, so we can continue. The next question is from CR\_12, I think he is a fan of Cristiano Ronaldo.*

*The question is, “Would you think that tax carve-outs in BITS could play a role in affecting investment in Indian sectors, especially considering how India is a key partner to the BEPS framework?”*

**Prof. Pravin Krishna:**

I have to say, I am not terribly well informed about the BEPS framework or this particular issue of the tax carve-outs and investment. I am actually, yeah, you may pass on that question. Broadly speaking, tax incentives could incentivise investment, but I am afraid I do not know too much beyond that.

**Prof. Kumar Anand:**

*The next question, has come from Prof. Panagariya, and this should be a top question given the current political economy around the world.*

*He asks about, “The threat of Trump tariffs!”*

**Prof. Pravin Krishna:**

Very good we get a question from Professor Panagariya!

But, on Trump tariffs, I have to say there is a tremendous amount of uncertainty, right? So, what Trump has said at least three or four different things.

One is that there will be a 10-20% tariff on everybody and everything, which would affect indeed.

Then there would be either an additional 60% or just a 60% tariff on everything that comes from China. That is the second thing.

The third thing that he said is that if the American companies decide to leave America and start producing somewhere else, like John Deere in hardware, or tractors, and so forth, then

the American companies' imports back into the U.S., let us say they manufactured something in Mexico, would be subject to 100% or 200% tariff. So, this is a punishment for American companies if they leave.

And finally, that he might replace income taxes in the U.S. altogether with just trade taxes, which at one level seems impossible to do because trade taxes currently account for maybe 1% or 2% of the tax revenues of the U.S. And so, even if you put the maximum possible that the revenue-maximizing tariff in the U.S., that would be probably around 40% or 50%, then revenue generated under that is not going to equal what you need when you are getting otherwise from income. But could he go a bit in that direction? Possibly.

So, it is the big question of the moment right now in Washington, Professor Panagariya, and it is very hard to say more than that.

The only thing I will add is that in 2016 when Donald Trump first became President, during his campaign, he said a number of things about trade policy, which people, many people, including myself, thought were just sort of campaign speeches, that he was not going to deliver on some of these things, especially with respect to China and some of these other things with respect to India as well. And this willingness of the U.S. under him to invoke national security clauses and exceptions and unfair trading practices, rules, and so forth, to take a fairly aggressive stance with respect to one's trading partners. But in the event, he did so.

And so, what felt unlikely in the December 2015 of started to become a reality by 2016/2017/2018. And so, as much as some of the things that he is talking about now, like this broad-based tariff on everybody and the high tariffs on China and so forth, it seems unlikely that he would do this. And you ask the question, why would he do this to an ally like Japan or India or somebody else or the Europeans? But the steel and aluminium tariffs that were put on in 2016-2017 they began with his allies, the tariffs were on Canada with Mexico and India and South Korea and Japan and the Europeans, and of course, the Chinese.

So, he is not above using this as an instrument to maybe get some concessions for preferred sectors on allies. And he is certainly not above using this against "strategic competitors like China." So, it is hard to see what to make of it.

I would fear that he makes good on his promises. But at the same time, we live in a world where it seems like a dramatic, maybe extreme thing to do. And so, you are conditioned to believe that maybe it will not happen and it is just maybe an instrument through which he might seek to extract some concessions from partners.

**Prof. Kumar Anand:**

*Yeah, I think he is started to be the dealmaker. So, we need to be a good dealmaker as well when we go on the table. So, last couple of questions.*

*Maybe you have touched upon it already briefly. Bhavya asked this, "You mentioned a global shift towards the reversal of globalization, de-globalization. So, what opportunities, challenges do this trend bring for India?"*

**Prof. Pravin Krishna:**

On the one hand, simple economic nationalism, maybe it is not the best thing for India.

So, if every country said, listen, we have had enough of international trade, which they are not saying, but just for argument's sake, if they said, we want to just move back to a simpler, different world in which we just produce everything ourselves, we have a great deal of self-reliance and so forth, then that decreases our opportunities. But that is not where we are in the sense that there has been a bit of a reversal. It is not the uniform expressions of does not mean to cut away from international markets on the one hand.

On the other, the picture is, of course, complicated by the evolving geopolitics and might potentially, in that context, provide some opportunities for India as well, the very well-known China plus one sort of argument, right?

So, because of these strong bipartisan consensus, for example, in the US, so Republicans and Democrats could agree somehow, they want to rely less on China, they want to have less trade with China, and they want to have, you know, for ensuring or move away American



factories, especially critical ones, away from China into friends, and India is fortunately considered a friend in this context, and that creates its own opportunities, right?

And so, both with respect to trade, both with respect to receiving foreign direct investment, we are a more attractive place. We have become a more attractive place in any case, in my opinion, right? So, our own improvements, independent of all of this, made us a better place to be than we were maybe 10 years ago or 20 years ago. And so, on the one hand, that is happening.

On the other hand, you have a push because of geopolitics that creates, against China, that creates certain opportunities for India in ways that other countries seem to have exploited well in the recent years, including Vietnam. And so, that opportunity is still there for India, when we were able to better take advantage of it in the years to come.

So, the picture is not a uniform reversal of globalization, which would create a different type of challenge, I think for India, but we are nowhere close to some degree of retrenchment, if you will, but maybe even a movement of the pieces in the canvas in different directions that create some opportunities for us.

**Prof. Kumar Anand:**

*I am always wary when we talk in aggregates, and most of the conversation when we talk about foreign trade is generally about India, China, South Korea, etc. And in classrooms, sometimes we are taught that countries do not trade, individuals do, and do what you do best, trade for the rest, you know, comparative advantage, etc.*

*So, in light of that, the question that Subodh asks is, "What is the best way to argue for lowering tariffs and freeing trade? And what trade strategy would frontload benefits to convince politicians and public?"*

**Prof. Pravin Krishna:**

So, what is the best way to argue for lower tariffs, right? So, this is an argument that international trade economists have had to think about quite a bit.

One of the challenges, really, in terms of the political economy, trade policy - these are all arguments again - is that the people who are generally pushing for trade protection linked to higher tariffs are very concentrated, you know, focused on their interests. Generally, businesses are not able to whisper into the ears or scream into the ears of the government, asking for the things that they want. And consumers in general are more diffused, less concentrated, and of course, they see some benefits from lower tariffs in terms of lower costs of imports and so on.

And so that creates a challenge, that the power, the powerful vested interests are more concentrated, more able to communicate their interests to governments, and therefore, it is a challenge.

How do you argue in favour, make the argument in a way that, you know, in a sense, the common man appreciates this?

Sometimes you are hogged by the fact that, you know, there are intermediate inputs. So, on both sides of it, both the consumers of a good, who is a producer of this, these are both producers. And so, intermediate input users in India, no doubt, would favour lower tariffs on the use of intermediate inputs, so they can produce their final goods more efficiently and so on. So, when you have that type of structure, it becomes a little easier to argue.

But I will say, at a very broad level, if you thought about what life was like in India in the 1970s or in the 1980s, what were the quality of products that you were dealing with?

What is it that you were consuming?

What was the quality?

What was the price?

And how that has transformed itself over the last few decades following the liberalisation that we have undertaken?

I think at least that story makes it extremely clear, even from a common man - a consumer standpoint, if the people have the memory which the young of the country probably do not even remember these times, and did not experience these times.

But I think it is fairly clear, both in terms of quality, in terms of prices, in terms of the variety of goods that are available, as a result of liberalized trade, that certainly did.

Sorry, I have forgotten, what was the second part of that question?

***Prof. Kumar Anand:***

*What trade strategy would frontload benefits to convince politicians and public?*

**Prof. Pravin Krishna:**

Well, the frontloading, it is in a sense the same question, right? So, which is, in general, the opponents of lower tariffs are producers that are essentially the import competing industry. And so, nothing is going to convince an import competing industry this is a good thing.

Consumers, of course, will not see the benefit as they do. So, the age-old challenge of concentrated producer interests, lobbying the government against the interests of group of consumers continues to dictate the political economy of this, to some extent. Maybe the one strong opposition force that you have in the country is going to be consumers of intermediate inputs.

Like if you put a tariff on steel, then whoever uses steel in production is going to be unhappy. And maybe we can push back on this and see the effects immediately.

***Prof. Kumar Anand:***

*Dr. Krishna, you have been extremely generous. Thank you very much. Just a couple of last quick remarks. So, I was reading Dr. Panagariya's recent book, "The Nehru Development Model."*

*And in one of the parts, he has, I think, bifurcated the political leadership into two time periods. He calls political leadership one, which is 1950 to 1984, and political leadership two, which is 1985 to 2023.*

*Unfortunately, Professor Shenoy lived in political leadership one, the benefits of where it is not universally accepted, but economic reforms are better understood and better appreciated in political leadership two, but still not completely.*

*We still have to continuously make the case for economic reforms. So, hopefully 2024 onwards or some years very soon, we will have political leadership three when it will be unchallenged that we will have sort of economic reforms as the go-to thing, opening up free markets, etc.*

*This brings to the close of B. R. Shenoy Memorial Lecture*

*So, on behalf of Economic Research Centre, Mangalore and Centre for Civil Society, New Delhi, I would like to thank our speaker, Prof. Pravin Krishna, for such an illuminating talk and engaging with questions from the audience, staying late, getting up early for your talk, all of that.*

*So, many thanks also to my team CCS who helped organize this lecture. Good night, everyone and have a good day, Dr. Krishna.*

**Prof. Pravin Krishna:**

Thank you very much.

+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+

The above is the output of the transcription from the recording of the event uploaded on YouTube. Although the transcription is largely accurate, it may contain inaccuracies in some cases due to unclear audio.

[as2020kochi@gmail.com](mailto:as2020kochi@gmail.com)