



OECD-India Symposium  
in cooperation with the  
Indian Council for Research on  
International Economic Relations (ICRIER)

India and the OECD:  
Growing cooperation in support of a  
stronger, cleaner and fairer world  
economy

Remarks by Angel Gurría,  
Secretary-General  
OECD

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Chairman Mr. Rangarajan, Excellencies, ladies and gentlemen, good morning:

It is a great pleasure to be in New Delhi to participate in this India-OECD Symposium on the Global Economic Prospects and India's Economy. Let me start by thanking the Indian Council for Research on International Economic Relations (ICRIER), represented today by their Executive Director, Dr. Rajiv Kumar, for their valuable cooperation.

As the global economy recovers from the greatest financial and economic crisis since the great depression, we have to make a pause to reflect on the implications of our interdependence. The type of global economy that will emerge from this crisis will depend on our capacity to build it together. It is time to build bridges and develop shared solutions, and this is what the OECD and this symposium are all about.

I would like to start by sharing our assessment on the global economic situation with a particular focus on the Indian economy. I will then turn to the challenges in the Indian economy and the potential new sources of growth. I will conclude by sharing my views on how substantive cooperation between India and the OECD can support global efforts to build a stronger, cleaner and fairer world economy.

### *1. Finally, a way out of the crisis?*

The good news first: a recovery is now underway with most OECD and emerging economies growing once again. Financial market conditions are slowly continuing to normalise and world trade is showing signs of a rebound. Emerging countries, especially those in Asia, have weathered the global economic downturn better than many high income countries, and they are now at the forefront of the nascent global recovery.

India is no exception, with growth bouncing back sharply this year despite suffering poor monsoon rainfall which has hit agricultural production hard. We expect the recovery in India to continue to gain momentum and growth to exceed 6% in the current fiscal year. Looking further ahead we expect growth to rise above 7% in 2010 and 7,5 % in 2011 which is amongst the fastest projected growth rates globally.

Nevertheless, we're not out of the woods yet. Economic growth in OECD countries is likely to be relatively modest for some time to come. The international financial system is still suffering from a lack of trust. Global flows of trade, investment and tourism will take time to recover. And unemployment rates are still at record levels in many countries.

The unprecedented policy response to the crisis by governments around the world is starting to bear fruit. However, as the recovery strengthens, preparing and communicating an effective exit strategy is becoming critical. Managing the path to recovery will be challenging everywhere, including in India, where double digit inflation has re-emerged early in the recovery.

The recent moves by the Reserve Bank of India to begin the process of tightening monetary policy are in our view appropriate and further tightening will be required in the months ahead. However, as in many OECD economies, India needs to reduce fiscal deficits of both the central and state governments. As we have learned in Latin America, during the so called "lost decade" of the 1980s, highly indebted governments are a comparative disadvantage and a burden for our people.

## ***II. The foundations of future growth.***

Looking ahead, we must be very careful to align our short term emergency policies with our long term structural challenges; thus, we can consolidate recovery in the short term while establishing the bases for more resilient, sustainable and inclusive long term growth. This will contribute to create a stronger, cleaner and fairer global economy.

To achieve this objective it is crucial that countries rethink their sources of growth. In the case of India, a renewed reform effort could get it back to the sustained high rates of growth achieved prior to the global crisis. This will in turn reduce poverty and lift living standards around the country.

We see four key areas where reforms in India can reap significant benefits in the coming years: product markets; labour markets; innovation and green growth.

### *Product market reforms*

Product market reforms are like taking care of a garden, nourishing it with the right ingredients to create the conditions for business to flourish. The experience over the past few decades in India has demonstrated that reforms yield significant growth dividends. Output has expanded very rapidly in a number of service sectors which have been the focus of major reforms, such as telecommunications. For instance, India has nearly tripled its share of the world's exports of services to 2.7% in the decade to 2007. Further reduction of barriers to competition while continuing to invest in education and infrastructure will provide a formidable boost to the already vibrant entrepreneurial capacity of India.

### *Labour market reforms*

Growth in labour intensive industries has been relatively slow in India; unlike in many other emerging countries. Creating an environment conducive to employment and productivity growth is critical for ensuring broad based participation. For this purpose, further reform is necessary to facilitate entry, expansion and exit of enterprises in the formal sector. Moreover, India's labour laws have deterred enterprises from hiring more unskilled workers by making reallocation of employees difficult. As a result, Indian enterprises are small relative to counterparts in other countries and adopt more capital-intensive technology than is warranted by India's resource endowment. This limitation is leaving many workers out. In our Investment Policy Review of India – which I will be launching tomorrow – we argue why it would be desirable to carry out reforms in this respect.

### *Last but not least: Innovation*

Innovation has provided a major spur to growth in India in the last decade. Innovation is also moving to the centre-stage in economic policy making everywhere. We have come to realise that a broader view of innovation is necessary. We see innovation involving

more “open” practices – firms collaborating with external partners to keep ahead of the game. We see innovation becoming increasingly international, with multinational enterprises playing a key role in its geographical location, and emerging economies participating and innovating intensively.

And, the pursuit of innovation need not be a zero-sum game of “competitiveness” amongst countries. The OECD is in the process of developing an Innovation Strategy to help countries update and improve policies to boost innovation. India has much to contribute and we look forward to working more closely together with you in this field.

### ***III. We must look forward to greener and more inclusive growth***

A further challenge faced by India, and by the global community at large, is of course climate change and the need to promote green growth. The OECD is actively engaged in this endeavour and is developing a Green Growth Strategy to help identify the policies and framework conditions required to achieve clean, resource efficient, sustainable low carbon growth and development.

Promoting growth while reducing GHG emissions is a particularly complex challenge for a large, rapidly industrialising country such as India. On a per-capita basis, India contributes much less to global GHG emissions than high income countries. However, Indian emissions are expanding rapidly as a by-product of strong economic growth, and they are expected to continue rising sharply in the years ahead. Thus, adopting policies that delink emissions and economic growth as much as possible is vital.

An important element in this strategy – of particular relevance in India -- is eliminating energy subsidies and introducing taxes or other market-based mechanisms to ensure that energy prices provide the right signals to households and businesses. This will help ensure that energy is used as efficiently as possible while also providing an incentive for investment in new green technologies.

Focussing on low carbon energy sources will also need to figure prominently as generating capacity is expanded. In this respect, the ongoing debate concerning the expansion of non-fossil fuel based energy sources in India is to be welcomed. The government's action plan for solar energy endorsed two weeks ago is a very promising example.

Green growth goes well beyond clean energy and climate change and encompasses objectives such as preserving biodiversity – an area where India was among the first to recognise the need for public policy. Green growth could be a very important field of cooperation and mutual benefit. We are at the starting block and we would like to encourage and would welcome full Indian involvement in jointly building a framework for analysis and policy development.

#### ***IV. Global challenges as well as national development goals warrant an enhanced partnership between India and the OECD***

The current crisis has proven that countries cannot address global challenges in isolation. National governments must contribute to and learn from other countries, to generate social and economic progress for their own people. And international organisations have to be more open; more inclusive, more plural and more global. The global governance architecture must reflect this changed world reality.

The emergence of innovative schemes like the Major Economies Forum (MEF), the Heiligendamm-L'Aquila Process, or the G20 – in all of which India is an important player -- suggests a growing realisation that we cannot build a sustainable, resilient world economy without a meaningful participation of emerging economies in the global policy coordination process.

In this context, cooperation between India and the OECD has been growing steadily. In the past years, we have been working hand in hand with Indian policymakers in a wide range of policy areas. For example, in the newly established Global Forum on

Transparency and Exchange of Information for Tax Purposes, in the OECD's Development Centre or in the G8-G5 Heiligendamm L'Aquila Process, supported by the OECD.

I had the privilege to launch the first *Economic Survey of India* here in Delhi in 2007 and tomorrow I will launch the first *Investment Policy Review of India* with Minister Sharma. We have also conducted important studies on energy, agriculture, trade and will soon begin work on the second *Economic Survey of India*, forthcoming in 2010.

Ladies and Gentlemen:

An enhanced partnership between India and the OECD would help shape a better functioning world economy. We are also delighted to continue to work with India to help this country fully achieve its enormous potential. And we look forward to learn from India's knowledge, understanding and experience in economic and social development and incorporate such perspectives in our work.

Thank you for your attention.