

**GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA**

UNSTARRED QUESTION NO:1090
ANSWERED ON:15.11.2010
UN PUBLICATION ON TRADE AND DEVELOPMENT
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Will the Minister of COMMERCE AND INDUSTRY be pleased to state:

(a) whether Government attention has been drawn to the flagship publication Trade and Development Report- 2010 (TDR) of the United Nations Conference on Trade and Development (UNCTAD) reviewing the experience of developing countries with export-oriented growth strategies over the past 30 years;

(b) if so, the details thereof;

(c) whether the TDR has come to the conclusion that most countries gained competitive edge by keeping domestic wages low; and

(d) if so, the details thereof and Government's reaction thereto?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF COMMERCE AND INDUSTRY (SHRI JYOTIRADITYA M. SCINDIA)

(a) and (b) The Trade and Development Report 2010 was published by UNCTAD in September 2010. The Report focuses on the need to make employment creation a priority in economic policy, especially in developing countries where it is closely related to poverty.

The Report cautions that a premature withdrawal of macroeconomic stimulus measures to expand demand in developed countries may trigger a deflationary spiral in the global economy, with attendant slumps in growth and employment. The lack of macroeconomic policy coherence among the major economies can cause global current-account imbalances to re-emerge. This, together with other remaining systemic shortcomings, such as insufficiently regulated financial markets, carries the danger of a double-dip recession.

The Report also warns that it is becoming clear that not all countries can rely on exports to boost growth and employment and they need to give greater attention to strengthening domestic demand because it is unlikely that the United States' former role as the global engine of growth can be assumed by any one country or countries. The shift in focus on domestic-demand-led growth is necessary both in developed and emerging-market economies in order to prevent the recurrence of imbalances similar to those that contributed to the outbreak of the global financial crisis.

UNCTAD draws attention to the importance of strengthening the macroeconomic policy framework to promote sustainable growth and employment creation in both developed and developing countries. Job creation for absorbing surplus labour would result from a virtuous circle of high investment in fixed capital leading to faster productivity growth with corresponding wage increases that enable a steady expansion of domestic demand. Especially for developing countries, this implies a profound rethinking of the paradigm of export-led development based on keeping labour costs low. Policies should be based on establishing a balanced mix of domestic and external demand.

The Report makes recommendations for a reorientation of macroeconomic policies and institution building aimed at strengthening domestic demand. Appropriate monetary and fiscal policies should be combined with incomes policies which ensure that mass incomes rise in line with average productivity growth and a national inflation target. The adoption of such an incomes policy would involve a set of instruments and institution-building measures, such as collective bargaining arrangements among workers' and employers' associations, minimum wages or public employment schemes.

(c) and (d) The Report recounts that the experiences of East, South-East and South Asian countries with regard to employment creation over the past three decades differ considerably from those of Latin America and Africa. Faster capital accumulation, supported by low and stable interest rates, provided the basis for rapid increases in output, employment and productivity. Even so, open unemployment in South and South-East Asia increased, mainly in the 1990s, as urban job creation was not able to absorb all migrants from rural areas. In China and India, despite the rapid growth of GDP and exports, and employment creation in modern services and manufacturing industries, a large proportion of the labour force is still employed in low-productivity and informal activities.

Generally, the Asian economies opened up more gradually to international competition, and the process took place in a more stable macroeconomic environment, where wages grew in line with productivity.

The Report also notes that enhanced wage earnings under the National Rural Employment Guarantee Act have contributed to strengthening the livelihood resource base of the rural poor in India, reduced distress migration, and become an extremely important

buffer against both the employment shocks generated by the economic crisis and the drought that swept across large parts of the country in the summer of 2009. The programme is affecting the labour market in some parts of the country quite significantly. It has raised the de facto minimum wage by 10–15 per cent in some areas and changed seasonal migration patterns to some extent. It has reduced the migration of unskilled workers in the agricultural sector within India, and there is evidence that the remuneration of construction work has risen, as rural workers are able to find some gainful employment during the lean season. Another effect of the scheme is that it raises agricultural incomes as the demand for food rises. At the same time it contributes to productivity gains in agricultural and other rural activities as the public works projects help to improve irrigation, water harvesting, soil quality and transport infrastructure.