

Opening remarks

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Overview

Last January, Doris Leuthard, the Swiss economic minister, officially announced the start of negotiations on the bilateral Free Trade Agreement (FTA) between EFTA and India. Yesterday, the Swiss negotiating team arrived in India for the first round of talks. This is the reason why they had to call off their participation at this meeting.

Within the EFTA-group (Norway, Iceland, Liechtenstein, and Switzerland) our country plays a very active role in pushing FTAs with economically-attractive developing countries. And India is indeed an attractive trade partner, with a huge domestic market and robust economic growth. In the past decade, India's GDP has grown by 8 to 9% annually. This impressive economic growth takes place in the manufacturing and services sector while the agricultural sector almost stagnates. But around 60% of the working population earns its income from agriculture and the sector contributes roughly 20% to the GDP.

Although India's aggregate economy is large, the resulting per capita income places it in the ranks of low-income countries, similar to the levels of Nicaragua, Angola, and Vietnam. Consequently, India has the largest number of poor people of any country in the world. The actual number of extremely poor people remained almost unchanged over the last 20 years or so, at about 370 million.¹ That is, one in three Indians has to live with less than 1US\$/day. Similar to most developing countries, poverty in India is concentrated in rural areas where nearly three-quarters of India's poor live.

Poverty is accompanied by widespread child malnutrition. According to UNICEF, 47% percent of children under the age of five are underweight in India. This is among the highest rates in the world. Equally worrying, the proportion of underweight children has even increased by two percentage points over the last years.

The brief overview suggests that reducing poverty must be counted as one of the main challenges for the country and its policy makers and, in our view, free trade agreements can't ignore that.

It is against this backdrop that we have a range of concerns related to the planned FTA between EFTA and India.

¹ Taking the revised PPP estimates of the ADB, this figure more than doubles, which means that almost three-quarters of the Indian population live in extreme poverty.

Unequal starting position

In spite of India's impressive growth figures, there still exists a huge economic gap between Switzerland – or the EFTA for this matter – and India. And this reality has to be taken into account when our government embarks on trade negotiations with India and other developing countries. No doubt, however, the currently negotiated FTA will reduce India's policy space to protect its infant industry and, more broadly, to pursue poverty-reducing economic policies.

In its 2007 report, UNCTAD, the UN Conference on Trade and Development, warned developing countries of such trade agreements, as they often don't have the capacity to make full use of the offered market access. According to UNCTAD "The gains for developing countries from improved market access through FTAs are not guaranteed and may be short-lived but the loss of policy space is certain." Indeed, a recent study of the Carnegie Endowment shows that the gains for India from bilateral FTAs are surprisingly modest while private household consumption would decline.

Of course there are always winners and losers of such deals. But for the hundreds of million Indians who live below the poverty line, being or not among the losers is literally a matter of life and death.

Lack of coherence

Swiss development cooperation aims at alleviating poverty and achieving the Millennium Development Goals (MDG) in particular. And in monetary terms, India is by far the number one of Swiss development cooperation. At the same time, trade agreements pushed by Switzerland seem totally disconnected from social and environmental concerns, which implies a political and moral ignorance of the potentially adverse effects of trade liberalisation.

For instance, in the context of Swiss development cooperation, SECO launched in 1998 the Swisstec Venture Capital Fund, a very successful fund. The Indian manager of the fund stated that they don't just pursue economic business principles but also social and environmental ones. But in the report of the joint study group, which paved the way for the FTA, such principles are not even mentioned, let alone factored in.

Another example: The support of Switzerland's development cooperation in the field of microcredit improved the access to credit for 37 million rural households in India. At the same time, demands for opening up the financial sector run the risk of reducing access to credit for the rural poor.

The bottom line is that there appears to be a glaring lack of coherence between Switzerland's demands in FTA negotiations and Switzerland's development policy and, more specifically, its commitment to the MDG.

The director of Swissaid in India, David Kadam, will talk more about this issue.

Lack of transparency and democratic processes

Indian civil society organisations strongly criticise the lack of transparency, public debate, and democratic processes when it comes to FTA negotiations. There is no public access to the government position, commissioned studies and negotiating texts. And the Indian Government is yet to share the details of the negotiations with the Indian Parliament and the people.

The Swiss Government must not ignore that. In the context of development cooperation, donors, including Switzerland, have demanded from developing countries all over the world to share information on strategies and policies, to initiate broad-based consultation processes, and to improve the involvement of national parliaments. So, we don't see any reasons why EFTA-country governments shouldn't similarly act in the case of free trade negotiations.

In Switzerland too, discussions on the government's negotiation position and its demands in particular must take place in the parliament. Furthermore, background studies and other relevant details have to be made public in a timely fashion. Also, consultations with civil society organisations should be initiated early on. In this context, I'm just wondering if the business community has been equally excluded and kept in the dark. A look at the list of participants of our economic minister's trade delegation suggests otherwise.

Our colleague, Smitu Kothari will further elaborate on the issue.

Bilateral FTAs may undermine the multilateral trade system

Switzerland aims for FTAs that go beyond WTO obligations and therefore undermines the multilateral trade system. This and the rapidly increasing number of FTAs make future agreements on multilateral trade rules even more unlikely. Furthermore, bilateral FTAs restrict coalition building among developing countries.

Stronger IPR in agriculture and health

In the negotiation of the FTA between EFTA and India, Switzerland demands Intellectual Property Rights (IPR) that goes beyond the TRIPS agreement of the WTO. With much effort, India recently developed a patent law and a plant variety protection act to comply with the TRIPS obligations. Switzerland's demand in the area of IPR interferes with these laws.

In agriculture, more rigorous IPRs would restrict the use of seeds for breeders and farmers, with negative implications for India's food security. In addition, it impedes the development of schemes to conserve biodiversity.

In health, tighter IPRs will hamper the introduction of cheaper generic pharmaceuticals. As a result, access to affordable drugs would become more difficult for the Indian people. Moreover, since India is a major exporter of generic drugs, many poor in developing countries would be negatively affected.

Later in the morning, our Indian colleague, KM Gopakumar will go into more detail on these issues.

Liberalisation of financial markets

The suggested FTA with India also demands opening up the financial sector. However, liberalisation of the domestic financial market will reduce India's flexibility to adequately respond to financial crises – not really an appealing outcome against the backdrop of the current financial crisis.

Moreover, stiffer competition through further liberalising the banking sector may lead to smaller domestic banks being squeezed out of business. This is worrying since these banks tend to focus on the rural area where access to credit is among the key constraints of small-scale farmers.

Also, two-thirds of the 600 districts in India have inadequate banking services. The question then is: Are Swiss banks going to meet the development needs of these unbanked regions? And more specifically: Are Swiss banks going to serve the 500 million Indian citizens with no access to banking services? And do these banks have the expertise to provide banking services to poor farmers, landless labourers or the urban poor? There are serious doubts, as big foreign banks are not primarily going to lend money to small and medium-sized enterprises, small traders, the informal sector or farmers. They typically have a bias towards wealthy customers. This is well captured in the recent headline of a Swiss newspaper that reads: “Credit Suisse and UBS are after the rich Indians”. And it probably summarises well the drive behind Switzerland’s demand to open up India’s financial market.

So there is the real danger that foreign banks entering India’s financial market would engage in cherry-picking in the first place. Finally, foreign financial-services providers are more likely to invest domestic savings abroad rather than in the local economy.

Our demands

Based on our concerns, the Berne Declaration and Alliance Sud demand from the Swiss Government:

- 1. To support *ex-ante* assessments of the potential social, environmental, and poverty impacts of the planned FTA with India.**
These assessments should be independent, carried out with broad participation, and made public. This will help to analyse trade-offs, foster debate on trade policy choices, and promote evidence-based decision making.
- 2. To ensure transparency and extensive civil-society consultations.**
Negotiating positions and other relevant information have to be timely released and discussed in public for a – here and in India. The selective involvement of specific stakeholder groups such as the business community is not acceptable.
- 3. To respect democratic processes.**
EFTA should include in its negotiating position the claim to involve the trade partner’s parliament, as a precondition for negotiations. In Switzerland, the government has to make sure that the parliament is informed about all details of the negotiations and that the MPs’ authority goes beyond the mere yes-or-no decision. This will also lead to more accepted and sustainable outcomes.
- 4. To improve consistency with Switzerland’s development policy.**
This requires to acknowledge the development gap between India and Switzerland as well as to closely coordinate and collaborate with the actors of development cooperation.
- 5. To abstain from any intellectual property provisions in the FTA with India.**
Farmers’ and breeders’ continued free access to seed and the availability of cheap drugs is key to poverty alleviation in the developing world.
- 6. No further liberalisation of financial services**
In the face of the current financial crisis, we call on the Swiss government to drop the demand to further open up India’s financial sector.