

George Osborne: Open markets, free and fair trade

Speaking today in a keynote address to the Confederation of Indian Industry in Delhi, the Shadow Chancellor, George Osborne said:

On free and fair trade

“The strong message I will take back home is that our business relationship is not just about Britain investing in India. It’s not even just about India investing in Britain – although that is important too. Our relationship is of two countries investing in each other.

“We can’t take increased world trade for granted. Improved prosperity is not inevitable. We must not only make the case for free and fair trade. We must put in place the policies that achieve it. Too often trade policy is unfairly biased towards the rich. The EU’s Common Agricultural Policy is the most obvious example. US steel tariffs are another. Skewed agreements are precisely the opposite of free and fair trade.

“Free and fair trade means equal partners on a level playing field. Each side benefits from a relationship that they choose to enter. We need to make the case for free and fair trade again and again.

On skills

“I was impressed by IIT Delhi this morning, where 300,000 people compete for the 4,000 places. The University will increase in size by half over the next three years. They are tying in technical with managerial skills.

“They also told us that most of their academic link ups were with Germany, France and the United States. And all their business partnerships were American. Britain is missing out. I want us to take practical steps to build our relationship. Let India and Britain build on our shared interests, so that the leaders of tomorrow can build a shared future.”

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Notes to Editors

Full text of speech to Confederation of Indian Industry- Delhi, 6 September 2006

(CHECK AGAINST DELIVERY)

“I’d like to begin by thanking the Confederation of Indian Industry for inviting me here today. I am honoured to speak to such an impressive array of British and Indian business leaders. I have learnt a huge amount about your exciting country in the short time that I have been here.

You at the CII captured this excitement when at Davos you used the slogan: “India everywhere”. And you were right. I have heard this week how Indian business is reaching out and taking on the world.

I am here with my good friend, David Cameron, who was elected Leader of the Conservative Party just eight months ago. I know some of you met him with CII in London earlier this year, and he was hugely impressed with your organisation.

I know that you too have strong links with Conservative Friends of India and with the CBI.

As the new leadership team of the Conservative Party, with David as our aspiring Prime Minister, and me as the aspiring Chancellor of the Exchequer, we are here in India to learn, to meet your politicians and your business leaders.

We are near the end of a packed trip.

On Monday, David opened a JCB factory in Pune. It is good to see a leading British manufacturing company expanding a successful Indian operation.

Then in Mumbai Subramaniam Ramadorai showed us round the new TCS campus

at Banyan Park. He told us that TCS's UK operations employ over seven thousand people. We met Ratan Tata, Mukesh Ambani, Naina Kidwai, and many other business leaders.

Anand Mahindra told me that Mahindra & Mahindra now controls a sixth of the US tractor market.

And Lalita Gupta told me about ICICI bank's progress in Britain. Initially set up to serve the Indian diaspora, their flourishing operation their now has 70% non-Indian diaspora clients.

Then this morning in Delhi we were shown around your impressive IIT university, and met your political leaders, your Prime Minister, Sonia Gandhi, and LK Adavani. We discussed how to develop further India and Britain's many common interests. I want to build a special relationship with India so that we can face the great challenges of our time together.

And the strong message I will take back home is that our business relationship is not just about Britain investing in India. It's not even just about India investing in Britain – although that is important too. Our relationship is of two countries investing in each other.

My conversations over the past few days have shown me the huge opportunities that our relationship has to offer in the age of globalisation.

For globalisation is one of the great challenges of our time. New technology is shrinking the world. Opportunities are growing. Over the next ten years, two billion people – that's a third of the world's population – will leave subsistence poverty and connect to the new global economy. The impact is being felt throughout the world.

And of course one of the great drivers of this change is India. I do not need to tell you that the Indian economy is growing at a startling rate, more than three times as fast our own. Indian exports are booming, and Indian investments overseas are rising rapidly.

As India's economy grows, so do our common interests.

The horrific bombings in Bombay in July, almost exactly a year after the terrorist attacks in London, were a bloody reminder that no corner of the earth is free from the scourge of terrorism.

We stand united in our determination to root out extremism. And both our nations recognise the need to grow and develop while at the same time working to protect the environment.

Partners in this, as in so much else.

As partners, there is much that we can learn from you.

We can learn from India's capacity to respond to change. Throughout its history India has absorbed new ideas and peoples and all the while maintained its unique cultural identity.

It's clear from India's history that change doesn't mean giving up what's important to us.

In a changing world, it's only through reform that what is most important can be preserved.

In the new global economy, we must be open to new ideas and possibilities. Otherwise, we'd fall behind.

India certainly isn't missing too many chances these days.

Your skilled workforce, your entrepreneurs and scientists are pioneering new technologies and markets.

Ratan Tata told me about his new R&D operation in Coventry.

Mahindra and Mahindra is developing an environmentally friendly hybrid SUV for the UK market.

And we saw presentations by two spin-offs from IIT this morning – ambitious, innovative companies competing to be the Infosys and Wipros of tomorrow.

These new technologies are not just generating revenues, but by eliminating obstacles to trade like time and distance, they're opening up new markets and possibilities.

Trade is a powerful force for good. It is the most effective means we know for promoting prosperity and economic development.

But a spectre is haunting the world: the spectre of protectionism.

It comes in different forms.

Sometimes it's called "supporting national champions" so they aren't bought out by global competition. But actually, that shuts out much needed investment from foreigners.

Other times it's called an "infant industries" policy, to protect small companies in the face of global competition. But companies developed behind a fortress wall cannot prepare for global competition. As we have seen here in India, the best small companies will survive and flourish.

Or tariffs are raised in the name of "protecting consumers". But consumers aren't helped by removing competition. Consumers are the biggest beneficiaries of

competitive markets.

We stand on the cusp of what could be a golden age of technology, openness and prosperity, but some argue that instead we should keep the world out.

It amazes me to say, but every generation must make the case for trade. And that task now falls to us.

Sadly we can see the protectionist threat all too clearly today.

We see it in European attempts to block Mittal Steel's takeover bids for France's Arcelor steel.

And we see it in the collapse of the Doha round of trade talks.

So now, more than ever, it is time for those of us who recognise the immense benefits of trade to stand up and be counted.

The opponents of trade have been much more noisy at making their point than we have.

Perhaps it's because we're too complacent about the centuries of evidence on our side.

We think that because global trade has grown twenty times since Indian independence, that it's inevitable that the future will bring more integration, more trade and more openness.

We forget that in the four decades up to 1950, most of the world's economies turned inwards. The share of the world's output that entered into international trade fell sharply.

It wasn't until the 1970s that the level of global integration returned to that of the early twentieth century.

And of course it wasn't until the 1980s that India's economy started to become re-integrated with the world.

So we can't take increased world trade for granted. Improved prosperity is not inevitable. We must not only make the case for free and fair trade. We must put in place the policies that achieve it.

There are three arguments protectionist like to deploy. First, they say that trade is bad for rich developed countries. Second, they say that trade is bad for poorer developing countries, and third, they say that skewed deals make trade unfair.

Let me first consider their case that trade is bad for developed countries like Britain.

They say that trade leads to economic decline, as high wage countries can't possibly compete against low wages in the developing world. We will inevitably lose our jobs and investment. Countries like Britain will lose out, they say.

Of course we know that in a competitive market, as some firms expand, others fold. Losing your business or losing your job to a new competitor is hard. If that new competitor is from overseas, the impact can be harder still.

A fair society knows this, supports those who lose out. As David Cameron said yesterday we need a determined focus on economic empowerment to help allay the fears of those who see globalisation as a threat. Economic empowerment means fixing the rungs at the bottom of the ladder from poverty to wealth – to help those left behind by globalisation.

In short, these critics say that instead of embracing change we should shut it out.

They are wrong.

Trade boosts both wealth and well being. Not just for those who produce goods more cheaply, but for all.

By focusing on areas of comparative strength, activity is higher than under the protectionist alternative.

It is wrong to think that if poorer countries win, rich countries must lose. We can all gain from trade.

Adam Smith recognised this back in the 18th century. As he wrote in *The Wealth of Nations*: “If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.”

Yet three hundred years later, even the World Trade Organisation negotiating process is based on the false presumption of winners versus losers.

According to the logic of each trade round, the pain to rich countries of cheaper imports must be balanced by the pleasure of increased exports.

But as any consumer knows, it's good to be able to buy an Indian car, or have your tax return filled out in Bangalore.

That freedom expands our range of choices, and helps keep costs down.

And yet more striking for me is that India is the third largest investor in Britain.

Like the Tata research plant in Britain that develops engineering design for cars built in India.

Or the pharmaceutical Huddersfield factory whose output has increased since it

was bought by Nicholas Piramal because it concentrates on high-end tasks, and is close to market, while the Indian operation can reduce costs by taking on the mass manufacture.

These are classic cases of comparative advantage in action.

Both countries benefit by each doing what they do best.

Whether a consumer, a producer or an employee, developed countries gain from trade.

The second argument protectionists use is that trade is bad for developing countries – like India. They say that developing countries cannot compete against the might of the developed world. They say workers in poorer countries are inevitably exploited.

Well they're wrong too.

India has almost been a case study for the benefits of trade.

Before the 1980s, India's economy was largely closed off from the world. Internal trade was restricted. Your economy grew by under four per cent per year.

But since your economy began to open in the early 1990s, this growth rate has almost doubled.

Not only are there new jobs and opportunities, but according to some measures, absolute poverty has been halved too.

The same trend can be seen all over the world. Research on 142 countries between 1995 and 2002 showed that those that opened their markets the most grew twice as fast as those that opened them the least.

One per cent of Indians are being lifted out of poverty every year. Over 500 million people worldwide could join them if markets were opened and economies freed.

The Indian middle class has quadrupled in size over the last two decades. Indian companies are growing and expanding. As a result of this economic growth, 35,000 Indians based overseas have moved back to Bangalore, with thousands more returning to other cities.

Trade does not lead to a race to the bottom. It is a race to the top. As the director of the Delhi IIT told me this morning - not so much a 'brain drain' as a 'brain gain'.

So the anti- trade campaigners who claim that trade liberalisation does nothing to help the developing world could not be more wrong.

Yet there is more that can be done. I am told that development, especially in your smaller cities, is too often held back by a lack of access to credit, and insufficient capital. Yet HSBC, one of the largest banks in the world, finds it difficult to open new branches. This doesn't just hold HSBC back. It holds India back too. So I hope that India will continue to liberalise still further, in retail and insurance and financial services.

So there is more that India can do, and I get the feeling, more that India wants to do. Everyone tells me too of the need to develop your infrastructure, though I was struck when riding Delhi's metro system this afternoon by just how far you have already come.

Finally protectionists make a third argument against trade. They say rich countries skew trade agreements in their favour.

Well, in this case, they are right.

Too often trade policy is unfairly biased towards the rich. The EU's Common Agricultural Policy is the most obvious example. US steel tariffs are another.

When trade agreements are skewed they help no-one. They don't help developing countries, who lose access to lucrative markets. And they don't help rich countries, who lose the benefit of lower prices and costs.

Those who criticise these skewed deals are right.

But that is no argument against free trade.

Skewed agreements are precisely the opposite of free and fair trade.

After all trade isn't something that happens between countries. It is something that happens between people. It's what happens when people enter into agreements, of their own free will, to their mutual benefit.

Free and fair trade means equal partners on a level playing field. Each side benefits from a relationship that they choose to enter.

Some argue that Britain gives away her negotiating cards when we argue the case for free trade. They say we should keep our mouth shut, play hardball and negotiate for the best deal. We should keep our tariffs, and get our competitors to drop theirs if we can.

They are wrong.

We need to make the case for free and fair trade again and again.

Free and fair trade means a level playing field. No negotiated deals skewed in favour of the rich. A goal of no barriers to trade. Strong institutions in all countries, so trade is fair and not exploited by the powerful. Free and fair trade means using competitive markets as a force for good in the world, so that we all share the fruits of trade.

That means reforming skewed trade policies like the CAP. It means that as we ask the Indian Government to liberalise its markets, so we should do the same at home.

I am astonished that ICICI, India's biggest private bank, has been waiting more than three years for a US banking license, so holding back their investment into the United States.

Not only does free trade mean fair agreements, but for markets to be a force for good we need infrastructure so that markets work.

A recent study found that Indian states with weaker institutions and poorer infrastructure have seen lower growth since India opened up to global trade. The same conclusion is reached by global studies too.

The same lessons are valid for Britain.

That's why we Conservatives understand that if people everywhere are to receive the full benefits, real trade must go hand in hand with reforms to strengthen skills, transparency and property rights – so those left behind are empowered.

Free and fair trade will help fight poverty and increase prosperity in every corner of the earth.

Not only must we expand the opportunities that free and fair trade bring. One of the things I have learnt here is that Britain must seize the opportunities that we already have.

Britain must do much more.

With our shared history, common language, and what has been described to me as “cultural comfort”, the opportunities are huge. Two per cent of our population is of Indian descent. And we are both service-oriented economies whose skills fit together.

Of course there are British success stories in India. I am delighted to see British companies making a success of their Indian relationship.

But too often it isn't happening. Time and again I have heard that Britain could be doing more. As India grows her economy and grows in self esteem, I hope that we in Britain are not missing the bus.

We must take practical steps towards free and fair trade. _

First of all, Britain needs to make sure that as the EU develops its internal market, it does not at the same time put up barriers to the outside world.

And we must try to restart the Doha round. But if we cannot get a multilateral breakthrough, we should consider a EU/India free trade agreement.

One form this could take is a deal for India (and other developing economies) which opens EU markets in the same way as the 'everything but arms' initiative has opened markets for the poorest small countries.

Second, we could do more to help trade in services. Mutual recognition of some professional qualifications would help enormously. Several people have raised with me the need to look at our double taxation treaty, to make sure British investment in India, and Indian investment in Britain is taxed fairly.

And finally I want us to develop much stronger links in education.

I was impressed by IIT Delhi this morning, where 300,000 people compete for the 4,000 places. The University will increase in size by half over the next three years. They are tying in technical with managerial skills.

And professors are returning from the United States to join in the excitement of India's future. The students no longer dream of a career abroad. They told me that "there's no need to leave India any more. The best place to start a business is in India. And we are the torchbearers of the nation."

But they also told us that most of their academic link ups were with Germany, France and the United States. And all their business partnerships were American. Britain is missing out.

I want us to take practical steps to build our relationship. Let India and Britain build on our shared interests, so that the leaders of tomorrow can build a shared future.

I am confident that UK and Indian business can be an unstoppable partnership in the years ahead.

You at CII are a powerful force for the success of that partnership. It has been my great honour to address you tonight. Let us work together in the months and years to come."