CHAPTER VI

India's Growing Economic Constraints : Its Liberalisation and European Industry's Hesitant Response.

SECTION - I

India's Chronic Problem of Deficit Balance of Payment with the European Community.

Introduction

The European Union (EU) comprised of 12 member-state up to 31 December 1994. But since 1st January 1995, it became a Union of 15 States with a long queue of aspirants for future membership. Austria, Sweden and Finland became members of the Union on 1 January 1995. Portugal and Spain became members in 1986 and UK, Ireland and Denmark became members in 1973. The shape of the European Community first crystalised with the formation of European Coal and Steel Community in 1951. The Community first started with six members with the objective of forming a customs union but now it has deepened its process of integration extending to cover economic, monetary and political aspect as well\(^{(4)}\).

India's economic relations with the EU and its member states are based upon historical foundations and mutual trust. EU has been India's single largest and a dependable trading partner for more than two decades. The 15-member union is considered as a single contracting party to the World Trade Organisation (WTO) and that is why it is treated as a single trading partner for the purposes of global trade. EU is presently the largest economic/trading bloc in the world. It is also an active champion of multilateral trading system. Membership of the trading bloc does not prevent any country from being an active member of any other multilateral body like GATT/ WTO/ITC/IBRD. Though USA, Canada and Mexico have also formed a trading bloc i.e. NAFTA, it is still at a fluid stage and is expected to get concrete shape after 2004, when all the provisions of NAFTA agreement may be implemented.

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In respect of trade policies and treatment to be meted out towards developing countries, EU is more flexible than USA\(^{(2)}\), but in terms of trade restrictive measures, it is more protectionist than the United States\(^{(3)}\). As discussed earlier India’s main export items to the EU market are agricultural based, leather, raw hides and skins, articles of leather and fur skins (excluding footwear) and textiles and garments, chemicals, spices, light engineering goods and other low value-added manufactured goods. Textiles is the single largest export item to the EU which constitutes about 30 per cent of India’s total exports to the Community\(^{(4)}\). All of our exportables are low-value added with higher labour-intensity based on factor abundance and factor intensity.

Due to the odd composition of our exports, the trade balance and terms of trade always go in favour of the EC\(^{(5)}\). India’s chronic and excessive dependence on EU for its quality imports of capital goods and machineries, its trade deficit has increased significantly over the years\(^{(6)}\). EC’s share in India’s total exports which was 21.57 per cent in 1980-81 increased to 26.06 per cent in 1993-94 and 26.70 per cent in 1994-95. On the other hand, EU’s share in India’s total imports was 21.03 per cent in 1980-81 but it jacked up to 30.04 per cent in 1993-94 and 24.80 per cent in 1994-95.

As regards India’s exports to the EU, the commodity composition has been radically changing since the early eighties\(^{(7)}\). Our exports to the EU had registered a 52 per cent growth in 1993-94 over 1991-92. In the first quarter of 1995, the exports had crossed the Rs.4542 crore mark. The share of textiles and garments in India’s total exports to the EU was the highest among all major groups. Its share was 31 per cent in 1994-95 followed by manufactured leather and footwear (14%). In fact, India’s footwear and leather products have a major market in Italy, UK, France, Denmark and Germany. Leading markets for India’s gems and jewellery exports (11%) are Belgium and UK\(^{(8)}\).

5. (a) Monthly Statistics of Foreign Trade of India (Several Issues), DGCI & S, (Calcutta).
(b) Foreign Trade Statistics of India, "DGCI & S, (Calcutta). (Several Issues).
6. see Table No.-5.1.
7. During eights Indian export item were basically of primary in nature but the competition of the exports has changed during nineties when the exports manufactured goods including some hightech items. Now manufactured goods constitute 80 per cent of our total exports.
8. In gems and jewelleries India’s value addition is much less. India imports raw gems and stones from Belgium and after cutting & polishing she again exports it to Belgium and U.K.
Engineering products emerged as one of the fastest growing items of Indian exports to the EU in 1994. While EU's total engineering imports from Extra-EU source had increased by 20.6 per cent in 1993, those from India increased by 29.5 per cent. UK and Germany are two large markets for our engineering goods. In this category, exports of transport equipments had shown an impressive growth of 75.22 per cent in 1993-94 over the previous year.

Although pharmaceuticals form an important item of India's exports to the EU it accounts for only 0.13 per cent of EU's total imports of this category, lagging behind the other developing countries like China, Brazil, Argentina, Hungary, Poland, Israel and South Korea. Measures are needed to be urgently taken to boost exports of pharmaceuticals as they declined alarmingly by 28 per cent in 1993, compared to a compound growth of 32 per cent during 1988-92. In 1993, our export of this product group had declined to France, Germany, Italy and Greece, whereas they increased to Spain, Denmark and Portugal.

In the field of agro-products, the EU is being recognised as one of the most protectionist countries grouping is the world. But recently it has imposed an incredible rate of 100 per cent to 300 per cent import tariff on cereals and rice. With the signing of the Final Agreement of the WTO, EU has the moral responsibility to bring down its tariff rates. However, Indian Basmati exports to EU have grown steadily over last few years and even registered over 100 per cent growth in 1993 in quantity terms. It is important to note that Indian Basmati rice is among the highest paid varieties in the EU markets. Marine exports from India already enjoy expanding market potential in UK, Belgium and France. However, they have shown a slight decline in the Irish and Spanish markets. The other potential items in the agricultural trade are processed foods, vegetables and coffee. In addition to existing exports, India can also increase the exports of a wide range of other commodities to the EU markets. These include : fruits viz. mangoes, horticulture products like cut flowers, meat and meat preparations, dyes and intermediates, iron and steel

9. This is simply because of the fact that India basically an exporter of engineering goods to the EU market having higher labour content. This segment India is successful in penetrating into EU market where EC does not have any competitive strength.
bars, fine chemicals, machine tools, computer software, agro-chemicals, electronic goods and sports goods\(^{15}\).

EU’s share in India’s exports reached the peak level in 1987-88 (i.e. 33.22 per cent). India’s chronic trade deficit with the European Community is another dimension of Indo-EU economic relations. Due to the nature of trade between the two, the balance of trade has always favoured the EU. India’s trade deficit with the Community was Rs.1191 crore in 1980-81 which rose to highest ever deficit of Rs.4860 crore in 1989-90 and then declined to Rs.3700 crore in 1993-94\(^{16}\). The rationale behind such decline in trade deficit is the spectacular performance of our export over 92-93 which is shown in Table 6.1.

During the past few years, while imports for the EU, have been increasing slowly, India’s exports have grown satisfactorily in the same period leading to the narrowing down of our trade deficit. Comparatively better performance in recent years provides the main impulse for the narrowing down of trade deficit with the EU. This satisfactory performance of Indo-EU trade due to the successful implementation of India’s New Economic Policy enunciated in July 1991. This was the first ever experience since independence that our total exports increased by 20 per cent in dollar terms and imports increased by only 6.1 per cent during 1993-94\(^{17}\). The entire gamut of India’s trade with the EU in rupee terms is shown in Table 6.1 and in terms of ECUs, in the Table-6.2.

As a part of the overall package of economic reforms, Government has liberalised the export-import procedures and have adopted several other measures to promote exports\(^{18}\). It has also streamlined all dubious and state procedures of EXIM Policy and replaced them by the New Exim Policy, 1992-97. Government continues to modify it every year incorporating suggestions from trade and commerce. Though EU’s share in India’s total trade deficit has increased from 20.41 per cent in 1980-81 to 3.62 per cent in 1994-95, but in absolute terms it has to Rs.3700 crore in 1993-94, as again Rs. 4830 crore in 1989-90. This is evident from the trend of India’s balance of trade with the EU. In spite of several trade barriers, EU market still remains India’s ideal trade destination. Indeed, EU is becoming more and more attracted to Indian goods than

15. Foreign Trade Statistics of India, (Several Issues), DGCICS, (Calcutta).
TABLE 6.1

INDO EC TRADE (values in Rs. million)

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<td>India's Export to the EC</td>
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<td>14701.00</td>
<td>15756.00</td>
<td>20021.00</td>
<td>19286.00</td>
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<td>69600.00</td>
<td>83007.00</td>
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<td>151960.00</td>
<td>181260.00</td>
<td>220750.00</td>
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<td>India's Imports from the EC</td>
<td>26389.00</td>
<td>34218.00</td>
<td>39615.00</td>
<td>42214.00</td>
<td>52337.00</td>
<td>74408.00</td>
<td>90220.00</td>
<td>117360.00</td>
<td>127201.00</td>
<td>139740.00</td>
<td>191239.00</td>
<td>219620.00</td>
<td>223390.00</td>
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<td>219620.00</td>
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<td>127201.00</td>
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<td>191239.00</td>
<td>219620.00</td>
<td>223390.00</td>
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<tr>
<td>India's Total Export</td>
<td>51453.00</td>
<td>71219.00</td>
<td>86471.00</td>
<td>112537.00</td>
<td>165197.00</td>
<td>171367.00</td>
<td>191980.00</td>
<td>208757.00</td>
<td>278820.00</td>
<td>282287.00</td>
<td>315449.00</td>
<td>341189.00</td>
<td>358249.00</td>
<td>444109.00</td>
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<td>India's Total Imports</td>
<td>52787.00</td>
<td>73450.00</td>
<td>87930.00</td>
<td>113359.00</td>
<td>167654.00</td>
<td>173863.00</td>
<td>193388.00</td>
<td>209079.00</td>
<td>280529.00</td>
<td>283790.00</td>
<td>317238.00</td>
<td>342998.00</td>
<td>360758.00</td>
<td>446618.00</td>
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<td>India's Total Balance</td>
<td>1742.00</td>
<td>2861.00</td>
<td>2489.00</td>
<td>1422.00</td>
<td>1349.00</td>
<td>4697.00</td>
<td>9124.00</td>
<td>11372.00</td>
<td>1170.00</td>
<td>-18.00</td>
<td>1104.00</td>
<td>598.00</td>
<td>-1280.00</td>
<td>-2642.00</td>
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</tr>
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TABLE 6.2

INDO EC TRADE (values in million ECUs)

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<tr>
<td>EC's Total Exports to the World</td>
<td>497137.00</td>
<td>571054.00</td>
<td>626652.00</td>
<td>671884.00</td>
<td>776322.00</td>
<td>849368.00</td>
<td>806958.00</td>
<td>829910.00</td>
<td>901955.00</td>
<td>1043288.00</td>
<td>1116510.00</td>
<td>1136437.00</td>
<td>1293635.00</td>
<td>1236980.00</td>
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<td></td>
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<tr>
<td>India's Share in EC's Total Exports</td>
<td>0.48</td>
<td>0.61</td>
<td>0.69</td>
<td>0.66</td>
<td>0.62</td>
<td>0.61</td>
<td>0.61</td>
<td>0.61</td>
<td>0.61</td>
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<td>0.61</td>
<td>0.61</td>
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<td>0.61</td>
<td></td>
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<tr>
<td>India's Share in EC's Total Exports</td>
<td>0.52</td>
<td>0.48</td>
<td>0.37</td>
<td>0.36</td>
<td>0.38</td>
<td>0.39</td>
<td>0.40</td>
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<td>0.43</td>
<td>0.44</td>
<td>0.45</td>
<td>0.46</td>
<td>0.47</td>
<td>0.48</td>
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</tr>
</tbody>
</table>

Source: Commission of the European Community, Eurostat (Various Issues), Brussels.
earlier because of significant improvement in quality and competitive costs, compared to those of other exporters. Textiles is a concrete example in this respect. Furthermore India’s traditional import of capital goods has now been replaced by imports of technology through joint ventures and foreign collaboration agreements in most fields of manufacturing activity. There is also increasing flow of Foreign Direct Investment (FDI) from EU to India particularly for setting up of joint ventures using state-of-the-art technology. In many cases, FDI in form of financial collaboration is linked with the export obligations. In other words Indian industries are becoming more and more export oriented than ever before. Imports are now linked with value-addition norms. Input-output norms for the different products have been introduced by the government to encourage more exports\(^{19}\).

**SECTION-II**

India’s Option Towards the Erstwhile Soviet Bloc is at Low Key After Disintregation of the USSR

A countrywise performance analysis of Indian exports reveals that the Soviet Union had been the largest trading partner of India next only to the USA during pre-disintegration period. But the entire scenario had changed on 21 December 1991 when the USSR disintegrated finally into 15 Independent Republics, out of which 11 came together subsequently to form a voluntary community known as Commonwealth of Independent States (CIS) under the Alma Ata Declaration of 21st December, 1991. Georgia and three Baltic States of Lithuania, Latvia and Estonia opted to remain independent countries outside of CIS.

The disintegration of erstwhile Soviet Union and formation of CIS have entirely changed the morphology of India-USSR trade. Prior to the formation of CIS, India had been one of the note-worthy exporters to the formerly Soviet Union. Its share in India’s total exports was as high as 16 per cent in 1990-91 while it accounted for 6 per cent of India’s global imports during the same year\(^{20}\).

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In the post-Soviet phase, India's trade with the CIS such as be left at the same scale. In 1992-93, India's trade with the USSR declined by almost 68 per cent, as compared to 1990-91. However, the year 1993-94 was marked by a turnaround the in Indo-CIS trade. During that year India's bilateral trade Rs 3664.2 crore which increased to Rs 4998.5 crore in 1994-95 registering an increase of 36 per cent. It is noteworthy that India's imports from CIS have grown at a faster pace compared to exports during 1994-95. This is revealed from the fact that our imports increased by over 88 per cent, while our exports grew only by 11 per cent between 1993-94 and 1994-95. Table 6.3 shows the trend of Indo-CIS trade(21).

India has been maintaining a consistent trade surplus with the former Soviet bloc countries over the years. Trade surplus reached its peak in 1990-91 when it rose to Rs 2714.5 crore; afterwards, there had been a steep decline. This was simply because of the fact that the former USSR had disintegrated into smaller States and eleven States set up a loose association known as Commonwealth of Independent States (CIS). During the post disintegration era, trade surplus has declined drastically due to increase in imports on one hand, and slow pace of growth of exports on the other. The situation has become so worse that during the period April 1995 to February 1996 India's trade with CIS registered a negative balance of Rs 305 crore, which is the worst of all the preceding years(22).

USSR share in India's total exports was 16.19 per cent in 1990-91; it declined to 2.9 per cent in 1993-94. While USSR share in India's total imports was 5.91 per cent in 1990-91, the CIS share declined to 1.11 per cent in 1993-94. In 1990-91, the USSR share in India's total trade was 10.33 per cent which the share of CIS declined to 1.98 per cent in 1993-94(23). A brief picture of Indo-USSR/CIS trade is shown here below:

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22. This is simply because of the fact that since the mode of payment is in the hard-currencies, Russia starts buying goods and services from hard-currency countries. After the collapse of USSR, Rupee-Rouble payment system has also collapsed. Therefore, Russia no more depends on India for its surplus resource on the other hand, India imports bulk item like petroleum products from Russia at a relatively better term and conditions. Therefore imports have gone up over the years. Cf. *Foreign Trade Statistics of India*, March 1996, (DGCI & S, Calcutta).

Table 6.3

<table>
<thead>
<tr>
<th>Year</th>
<th>Indo-USSR Exports</th>
<th>Indo-USSR Imports</th>
<th>Indo-USSR Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>4462.9</td>
<td>2038.2</td>
<td>2424.7</td>
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<tr>
<td>1990-91</td>
<td>5266.2</td>
<td>2551.7</td>
<td>2714.5</td>
</tr>
<tr>
<td>1991-92</td>
<td>4042.7</td>
<td>1795.4</td>
<td>2246.8</td>
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<tr>
<td>Indo-CIS</td>
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<tr>
<td>1992-93</td>
<td>1693.2</td>
<td>744.7</td>
<td>948.5</td>
</tr>
<tr>
<td>1993-94</td>
<td>2475.9</td>
<td>1188.3</td>
<td>1287.6</td>
</tr>
<tr>
<td>1994-95</td>
<td>2759.2</td>
<td>2239.3</td>
<td>519.9</td>
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<tr>
<td>1995-96</td>
<td></td>
<td></td>
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<tr>
<td>(April'95-Feb'96)</td>
<td>3454.0</td>
<td>3759.0</td>
<td>-305.0</td>
</tr>
</tbody>
</table>

Source: Monthly Statistics of Foreign Trade of India, (Several Issues), DGCI & S, (Calcutta).

From among all the CIS countries, Russian Federation is the largest trading partner, followed by Ukraine, Turkmenistan, Uzbekistan, Kazakhstan etc. Following the collapse of the USSR, each independent state has concluded separate agreement with India in its individual capacity, consistent with its national priorities. India's trade with the CIS has been declining during the post disintegration period. From 10 per cent share in India's total trade, it came down to around 2 per cent in 1993-94. Several reasons may be cited for such lackluster performance of Indo-CIS trade. Political and economic turmoil in the CIS countries shall be one of the most important reasons. Another hurdle to the healthy growth of Indo-CIS trade has been due to the exchange rate problem. The rouble is highly overvalued against the Indian rupee, this is because its value is artificially determined rather than through free floating exchange rate which is done in case of hard currencies. Rouble is not internationally convertible currency. In the erstwhile USSR, rupee payment system was the major plank of Indo-USSR trade, but after disintegration this system has been substituted by the payment of hard currencies.

24. Ibid no. 21 p. 17.
    (g) The Dilema of Rouble Conversion, Times of India, September, 1990.
Problem of Indo-CIS Trade: The Era of Higher Inflation

Indo-USSR trade had entered into a new phase after 21 December 1991, when USSR disintegrated into 15 independent states whereafter 11 of them together voluntarily formed Commonwealth of Independent States (CIS) and three Baltic States declared their independence. In the beginning, Indo-CIS trade received a big-jolt when prices of all goods in the newly formed states started rising without limit and thus losing credibility of international communities\(^{26}\).

On 2 January, 1992, more than 80 per cent of all “prices” were freed. Prices shot up by 250 per cent the very next day. Price controls remained on consumer goods, freight transport and energy. The upward trend in inflation accelerated since the onset of liberalisation process in prices initiated in January 1992\(^{27}\). During 1992, inflation rate increased to 2000 per cent. A presidential decree abolished all special rates for the Rouble from the beginning of July 1992 and introduced a uniform floating exchange rate\(^{28}\). The rate which was still around 125 roubles per US Dollar in May 1992 had fallen to below 400 roubles per US Dollar by mid-November 1992, and reached 1230 rouble per US dollar by December 1993 and 5000 roubles at the end of 1995\(^{29}\).

1993 began with a hyperinflationary level of 50 per cent though it was brought down in July 1993 to 15 per cent by limiting credit expansion. However, in August inflation index went up nearly 30 per cent. Though the industry continued to face credit contraction, production did not fall drastically. In the first 8 months of 1993, investment was cut by 45 per cent as a part of the budget, squeeze out of which nearly half was in fuel and energy sector\(^{30}\).

In 1994, government planned to reduce inflation to 5.7 per cent in a month by the end of the year and restriction on price rise to 4.7 times against 10 times in 1993. Ex-post inflation in 1993 was 1500-1800 per cent. This had supposedly come down by 10 per cent monthly in the first month of 1994. While in 1993, the economy was restricted by low-money supply, the first quarter of 1994 had seen an oversupply. The purchasing power of the people had been seriously eroded with nearly 17 per cent of the total population living below the subsistence level. Inflation

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26. Baltic State were Socially and culturally different from the rest of the states of the erstwhile USSR. Therefore, they decided to remain independent while 11 of them decided to form a confederation with common defence and foreign policies.
28. Federation of Indian Chamber of Commerce as Industry, "Reports on Indo-CIS Joint Business Council" (New Delhi), 1993
slowed down in first half of the year to approximately 10 per cent per month compared to over 20 per cent monthly rate and annual average rate of 1000 per cent in 1993. In 1994, annual inflation rate was 500 per cent compared to more than 1000 per cent in the previous year[31].

**Indo-CIS Trade : Move Towards Future Direction**

The era of rupee-rouble exchange rate system is collapsed completely when the erstwhile USSR disintegrated and was formed CIS. Now the entire trade is conducted through hard-currencies rather than on the basis of erstwhile system of rupee payment. In the changing scenario, India has been facing the problem of dual payment system because the huge amount of Russian debt is yet to be paid in rupees whereas trade is conducted in hard currencies[32]. Since Russia has now switched over its trade to hard currencies and is now importing goods from other countries for which it has to depend on India. Now Russian market is flooded with foreign consumer goods where Indian presence is almost insignificant[33]. Prior to disintegration, Russia used to import from India in order to utilise the accumulated rupees. The capacity to import from India depended on availability of rupee resources[34].

Now the morphology of erstwhile USSR has changed completely which paves the way for free market economy. Under the changing scenario, exchange rate problem is no more a significant barriers. Trade from both sides is conducted through hard currency. Rupee rouble exchange rate system has therefore no relevance now[35].

As stated earlier, from among all members of CIS, Russian Federation is the largest trading partner of India. In the post disintegration era, India's major export items to the CIS are: tea, coffee, tobacco, spices, oil meals, caster oils, processed fruits and juice, leather and manufactures, drugs and pharmaceuticals, cosmetics, machinery and instruments, textiles and garments etc. On the other hand, India’s major import items are: fertilisers, newsprint, paper machinery and mechanical appliances, defence products, orthopaedic appliances, crude and petroleum products, industrial and laboratory furnaces, and ovens[36]. Most of our exports to the CIS are low value added primary commodities based on natural resources, eg., tea, leather, textiles, jute and jute.

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31. Ibid n. 29.
32. Ibid n. 25(a).
34. Ibid n. 25(a).
35. Ibid n. 30.
36. Ibid n. 28.
products, the demand for which is relatively inelastic. Therefore prices are much less than those of finished manufactured goods. On other hand India imports high value added items, and most of them are either processed and finished manufactured goods, therefore prices are comparatively higher. Defence items are India's single largest import group from the CIS, as well as erstwhile USSR.

Indo-Russian bilateral trade is presently being carried out at three different levels:

a. Hard-currency trade in accordance with the Agreement on Trade and Economic Cooperation signed on 4 May 1992. However, problems that cropped up included purchase of hard currency by Russians which is costly and time consuming as value of rouble is always volatile.

b. Debt repayment in accordance with the EXIM Policy, against India's debt repayment to Russia. The amount presently available is Rs.3000 crore annually.

c. Counter trade and its variants: This mechanism permits trade in all items except items included in the negative list of our EXIM Policy. This aims at overcoming the difficulties of payments and exchange rates^{37}.

To take into account such development, it was essential to sign a new treaty enabling smooth operation of Indo-Russian economic relations. Amidst such needs, an Indo-Russian Agreement on Trade and Economic Cooperation was signed in New Delhi in May 1992. This friendship and cooperation agreement was further strengthened through the visit of President Boris Yeltsin to India in June 1993, when many bilateral agreements were concluded including the one on rupee-rouble exchange rate. There have also been exchange of letters between Ministers on issues relating to trade matters. These Agreements gave necessary impetus towards liberalisation of trade from the inter-governmental protocol to the trade conducted in free foreign currency. These agreements also addressed issues relating to debt rescheduling, technical credits, repayments and special accounts. Subsequently, many other agreements/protocols were signed on matters relating to banking arrangements for trade against the repayment of state credit, revolving credit, health and medical research, etc^{38}.

37. Ibid n. 29(a).
38. Ibid n. 23.
The bilateral trading relations between these two countries were strengthened further after the recent visit of India’s Prime Minister to Moscow. Some of the outcomes are:

- It was decided that Russian importers could avail of 180 days of credit to buy goods from India.

- Russian Government announced various special concessions on goods imported from India under debt repayment system. Rupees available under the scheme were offered to Russian companies at 20 to 25 per cent discount for goods imported from India.

- India has agreed to participate in the modernisation of Novorossisk port on Black Sea.

- A joint venture banking arrangement has also been finalised with the Russian Rosexion Bank and the State Bank of India.

- A shipping agreement, agreement on investment protection, and another agreement on civil aviation were also arrived at.

- It was agreed in the meeting to further explore the possibility of opening up a land route to CIS through Central Asia.

Recently some measures have been taken to boost Indo-Russian trade. These are:

i) diversification of commodity basket;

ii) opening warehouses;

iii) ECGC cover;

iv) port facilities;

v) banking facilities;

vi) opening up trade offices;

vii) rationalisation of import duties;

viii) double taxation agreement;

ix) issuance of multiple visas;

x) certification of goods;

xi) insurance coverage;

xii) debt repayment route;

xiii) barter trading system.

39. Ibid n. 30.

40. Ibid n. 28.
SECTION III

Augmenting Exports: India's Demarche Towards Liberalisation of Economy since 1982

India's trade policies experienced spurts and dips over the last 40 years beginning 1951. The importance of augmenting exports for economic development was neglected until the beginning of the fourth plan. Trade Policy makers had all along given pivotal importance to import substitution for saving scarce foreign exchange resources. As a result of such a misleading priority, 40 per cent of the total investment was allocated to the development of heavy and core industry during the second Plan. Heavy industry was supposed to play as an engine of economic development, which proved wrong when import substitution industries got excessively pampered at the cost of export promotion. Export promotion efforts were neglected which resulted in balance of payment problem. Due to large domestic demand and higher profitability in the domestic market export culture got bogged down in the quagmire of import substitution. Though it is equally true that the concept of export-led-growth was not very sensible proposition for a big country like India, but the importance of exports in economic development remained unknown until 1966 when Indian rupee was for the first time devalued against major currencies for promoting exports. All the export promotion policies during seventies were transitory in nature. The policy paradigm was basically short-term-in nature and all EXIM Policies were announced annually which left no scope for continuation of any stable policy regime for a relatively longer period. Short-term policies are basically ad hoc in nature that serve no long term goal which is the basic requirement of stable and sustainable economic development.

Trade Policy reforms in India actually started since 1976-77 when 55 items of leather machinery were brought under open general licensing. The Advance Licensing Scheme provided duty free-imports for export production was also introduced for the first time. The year 1977-78 was characterised by the inclusion of more items of leather, jute garment manufacturing machinery into their system. In total, 238 bulk drugs, 54 life saving drugs, 40 items of chemicals,

(b) Planning Commission, "Technical Note to the Second Plan", New Delhi, 1956.
44. "Industrial Credit and Investment Corporation of India (ICICI)", Export Performance of the ICICI Financed Companies, ICICI, (Several Annual Nos.), Bombay.
46. Ministry of Commercial, Govt. of India, "Exim Policy", (New Delhi), 1977-78.
plastic raw materials and 34 items of the raw materials/components were brought under OGL. Licensing of capital goods imports was made less stringent by the "global tender" policy which was introduced in 1978 for 13 major industries. The process which was initiated in late seventies had gathered momentum in the eighties through several new liberalising measures.

Trade Policy regime during the 1980s was characterised by two opposite forces: gradual relaxation of restrictions imposed on imports, on the one hand, and substantial increase in tariff rates on the other. As an example, with a view to liberalise capital goods imports, the duty rate on general project was lowered from 65 to 45 per cent in the budget for 1985-86 but this duty rate was raised to 85 per cent during 1987-88 budget\(^47\). The import weighted average rate of nominal tariffs (basic plus auxiliary rates of customs duty, taking into account quantifiable exemptions) increased from 38 per cent in 1980-81 to 87 per cent in 1989-90\(^48\). Another important characteristic was the increase in the rate of tariffs on items for which the import licensing status was made less restrictive.

All EXIM policies announced during the seventies and eighties were basically characterised by direct control mechanism through higher import tariffs. The rationale of higher import tariffs was to restrain imports of capital goods as well as consumer goods\(^49\). Apart from higher import tariffs, most of the consumer goods imports were put under the negative list of imports. This way government has pampered i) inefficient domestic industry in the name of import substitution and (ii) discouraged the growth of export sector through restraining import of capital goods. This then also resulted in technology obsolescence in the heavy industry sector. Until 1984-85, the government announced its EXIM Policy every year. But according to the recommendations of Tondon Committee (1982)\(^50\), Alexander Committee (1980)\(^51\) and Abid Hussain Committee (1984)\(^52\) Government decided to follow a long-term stable trade policy covering a period of 3 years.

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47. Ministry of Commercial, Govt. of India, "Export-Import Policy", (New Delhi), 1977-78.
The first ever long-term trade policy was announced in 1985 for a period of 3 years i.e. 1985-88. This was followed by another three year trade policy for the period of 1988-91. However, in January 1990, the Government decided to announce a trade policy on 1 April 1990 thus limiting the scope of the existing trade policy to just 2 years. Sudden shortening of the period of an official policy apart, even the earlier trade Policy announcements were changed in small measures almost every week thus weakening the concept of an annual or three year trade policy. Similarly, even the customs tariffs as announced in the Union Budget underwent considerable changes over the years.

The Abid Hussain Committee Report (1984) recommended that import substitution and export promotion should get equal importance and, in fact, liberalisation of import is an essential prerequisite for augmenting exports. With a view to assigning utmost importance for augmenting exports, major steps were taken in 1978-79 to liberalise imports of capital goods. The global tender policy system for import of capital goods was introduced in respect of 13 industries including fertilisers, power, petrochemicals, sugar and cement. The import policy was also liberalised in respect of intermediate and raw materials which were not manufactured in India. Import of goods that were manufactured in India were restricted but made available to exporters on the basis of a replenishment system linked to past export performance of the exporter. In anticipation that free import of capital goods would lead to upgradation of technology and modernisation of industries, government put import of capital goods under Open General Licence (OGL).

However, in spite of all these concerted efforts to boost exports, until recently customs tariff levels in the country continued to be very high compared to other developing countries. The average duty rates in the developed countries are the lowest ones barring some few products. Presently average duty rates in the USA and EU on all imports range between 4-6 per cent. Rates are minimal in case of manufactured imports.

It is naive to say that eighties was the beginning of liberalisation process which got final shape in July 1991. But it is also worth mentioning that though it started in eighties it was much sporadic and the policy framework was basically characterised by control mechanism of

53. This was done at the recommendations of the Abid Hussain Committee. It was he who recommended that consistent long-run policy are more helpful to exports rather than annual ones.
54. Ibid n. 49.
55. (a) In USA, duties are paid on 60 per cent of imports only, and 40 per cent are duty free. Duties are almost negligible in high-tech goods.
   (b) US Dept. of Commerce, "Highlight of US exports and imports trade", (Washington, D.C.), (several issues).
import. Import was relatively liberalised during this period and was permitted on a complementary basis. During entire 1980s, three long term EXIM Policies were announced by the Government, first in 1985, second in 1988 and the third one in 1990. The basic features of these policies were the liberalisation of licensing system, ensuring better access to domestic producers of cheaper capital good, intermediate and raw materials and to help them in upgradation of technology.

In a move to liberalise the trading regime, a number of items were placed under the OGL while 94 new items of industrial machinery were placed under OGL in the import policy of 1984. The 1985 liberalisation package permitted 685 items to be imported without restrictions and finally 1986 import policy brought additional 29 items of machine tools under OGL. As on March 1988, 944 items of raw materials, components and consumable were allowed to be imported under OGL and 26 items were decanalised. An Export-Import Pass Book Scheme was also introduced in the 1985-88 Policy and the scheme of Trading Houses and Export Houses was modified to provide more facilities and incentives for exports.

In addition to the benefits mentioned above, exporters continued to get various benefits such as Cash Compensatory support (CCS) as compensation for unrelated indirect taxes on inputs of exported products, drawback of excise duties and domestic taxes on exported goods, modified value added tax to avoid cascading effects on inputs, interest concessions on loans to Export Oriented Units (EOUs) and pre-shipment and post shipment credits, supported by Exim Bank of India in the form of suppliers and buyers’ credit. Blanket Exchange Permit, International Price Reimbursement Scheme (IPRS) under which iron and steel and certain other items were supplied at international prices to the engineering industries. Exemption of export profits from income tax and various infrastructural facilities and fiscal concessions have been extended for establishment of 100% EOUs, EPZs and Technology Parks.

After the expiry of first three year policy in March 1988, the second announcement of new three year policy was made at the end of March 1988. The 1988 policy emphasised the need for export promotion rather than continuous emphasis on import substitution. This policy allowed greater flexibility in regard to replenishment (REP) licenses. Another novel feature of

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58. Ibid n. 56.
this Exim Policy was the permission to registered exporters for availing the duty exemption facility under which they could import some specific goods for export promotion at international price without paying any duty, 99 items were added to the list of OGL and export houses and trading houses were given more facilities and incentives. These 99 items which were kept under OGL included and related, amongst other things, to electronics, silk and tea industries. Five (5) items of machinery were removed from the restricted list. Import of computers of some configurations was permitted under OGL. The total number of items of raw materials, component and consumable allowed for import under OGL was 944 as of March 1988. At the same time 26 items were decanalised.

Under this Policy, the scope of export products qualifying for import replenishment was widened. The policy mentioned that all export products except a few listed ones needed to be provided with facility of import liberalisation. Whatever may be the perception, this policy tuned to be more liberalised than the earlier one in areas of capital goods and intermediaries. Import of consumer goods was strictly controlled even during this policy regime. Besides, canalized imports were accounted for about 60 per cent of total imports.

The EXIM Policy 1989-91 was terminated one year earlier and was replaced by New Exim Policy 1991-93 effective from 1 April 1990. The main features of this Exim Policy were continuously greater emphasis on export promotion of more value added items, easy accessibility of raw materials and intermediates for export promotion coupled with the continued emphasis on import substitutes. This is for the first time that export of services was also given paramount importance considering the vast potentiality of the international market. This policy also extended support to recognised R&D institutions for building up their scientific and technological capacities to enable Indian products to face international competition. Another main feature of this policy was the simplified import replenishment licenses (REP) scheme with greater flexibility of imports for some specific purposes. Considering export promotion as the focal point, the new trade policy granted Export Trading House status to the exporters on the basis of Net Foreign Exchange Earnings (NFE). This policy introduced the scheme of Star Trading Houses (STH) for exporters and gave them benefits of importing necessary inputs at concessional rates.


Section IV

India's Strident March Towards Liberalisation in the 1990s

The liberalisation process which was initiated the events 1980s received a major boost in July 1991, when Government of India declared New Economic Policy for rejuvenating economic health. Reforms were introduced in industrial policy, policies relating to foreign collaborations and investment, reforms in financial sectors, and also reforms in the field of trade policy. Though liberalisation process is generally perceived to have started in 1980, it has been lackluster and casual in promoting exports in a desired way. Prior to 1991, no serious attempt was made to reforming the economy in order to globalise our exports through enhancing competitive strength of our industry.

So far, India had insulated itself from foreign competition on the ground of infant industry argument. But due to surge in foreign exchange reserves since early 1990s as well as narrowing down of the trade deficit over the years, the argument of "equal treatment of unequals is unfair" is no more a valid proposition. The urge to liberalise its economy, was strongly felt in 1991, when the new government assumed office.

The main steps for liberalising trade during the 1990s are as follows: (i) removal of quantitative restrictions on imports and replacement by higher tariffs; also then gradually phasing it out. (2) reduction of average level of nominal tariffs as well as peak tariffs (3) move towards more uniform tariff structure through harmonisation of broad areas. All the above measures are expected to reduce the variation of effective rate of protection which leads to more efficient and optimal resource allocation in more socially desirable ways.

India's external sector was first brought under substantial liberalisation in July 1991. The main features of the new policies are (i) downward adjustment of the exchange rate, (ii) automatic clearance of import of capital goods in cases where foreign exchange is earned through export earnings (iii) removal of all restrictions on import of capital goods upto Rs.200 mn. (iv) liberalisation in imports of technology, (v) strengthening of Advance License Scheme to provide

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63. This was the first ever attempt of the Govt. of India to introduce reforms in all spheres of economic activities initiated by the reforms in industrial policies.
66. Ibid n. 41.
67. Ibid n. 41 P. 123
exporters access to duty free imports, (vi) reduction of export subsidy, and (vii) instructions of Exim scrip scheme replacing the earlier system of REP Licenses.

Prior to 1991, India's trade regime was characterised by an extremely complex import licensing system based on 26 lists of commodities that classified all importables; different approval procedures for each list; and 10 different types of licenses applied to over 4,000 of the approximately 5000 codes of the harmonized System of classification used in the Indian Tariff Schedule. There had been export controls over 440 items (agricultural commodities accounting for about half of the restricted items, minerals and metals for another fourth and chemicals for about 10 per cent); and the exchange rate was a crawling peg fixed periodically by the RBI.

But the entire scenario has changed abruptly in recent years. The proportion of imports subject to licensing had declined from 52.6 per cent in 1989-90 to 33.8 per cent in 1992-93 and 30.2 per cent in 1993-94. At the same time, there had been substantial decline in the number of import licenses issued. The number of import licenses came down markedly from 1,16,094 during 1989-90 to 41,000 during 1993-94\(^{(68)}\). As much as 90 per cent of these import licenses were specifically linked with export obligations. Liberalisation in licensing raj was coupled with the liberalisation in tariff structure. In order to rationalise the nominal tariffs, the successive budgets have reduced maximum tariffs from 400 per cent in 1990-91 to 150 per cent in July 1991, 110 per cent in February 1992, 85 per cent in February 1993, 65 per cent in February 1994 to 50 per cent in 1995\(^{(69)}\). Bulk of the import will be subject to 25 per cent rate as per the 1995-96 budget. Duties on capital goods have been reduced to levels ranging between 25 to 35 per cent and it is even much lower in case of certain export obligation. As a result, collection rate reduced from 49 per cent in 1990 to 27 per cent in 1994\(^{(70)}\).

Reforms in external sector mainly work in following areas\(^{(71)}\):

i. Trade Reforms

ii. Tariff Reforms

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(b) Ministry of Finance, Govt. of India, "Economic Survey, 1995-96", (New Delhi).
(b) Ministry of Commerce, Govt. of India, "Export-Import Policies", (Several Issues), New Delhi.
Reforms in licensing policies
(i.e. liberalisation in non-tariff barriers)

Trade policy reforms are of two types:

1. Export Policy Reforms
2. Import Policy Reforms

Both these reforms are applicable to i) capital goods (ii) intermediate goods and iii) consumer goods.

Trade Policy Reforms initiated by Government of India in July 1991 encompass all the areas mentioned above. Major structural reforms were announced 4th July, 1991 and 13th August, 1991. The main features of this reform are as follows:

1. Exim Scrip System: The replenishment licenses were replaced by a new instrument called Exim Scrips which were freely tradable. The basic rate at which Exim Scrip was issued against exports was generally 30 per cent of FOB value. Certain products like gems and jewellery, handicraft, newspaper, journals and periodicals and cinematographic films, feature films etc. were eligible for higher Exim Scrip entitlement.

2. Decanalisation: In the case of exports, 16 items had been decanalised. In the case of imports, 6 items were decanalised and placed on OGL while 14 items were decanalised and listed in Appendix 3 where they were available for imports under Exim Scrips. The Government subsequently reduced further the extent of canalisation.

3. Reduction of Import Licensing: Supplementary licenses for import of items in Appendix 3, 4 and 9 of the Exim Policy 1991-93 and additional incentives were abolished.

4. Abolition of CCS: With the adjustment in the exchange rate of the rupee and major reforms of trade policy, the scheme of CCS was rendered reluctant. The Government, therefore, abolished the scheme and reduced the pressure of fiscal deficit of the Central Government in the budget for 1991-92.

One of the most significant aspects of the 1990-93 Policy was the provision for flexibility in regard to replenishment (REP) licenses which were freely transferable to exporters. The exporters could also avail of duty exemption for necessary imports under these categories of licenses viz. (i) Advance licenses (ii) intermediate licenses and (iii) Special Import Licenses and (iv) Blanket Advance Licenses. Also there has been a reduction of customs duty on project imports. The
import of capital goods was further permitted under the EPCG Scheme upto a maximum of Rs.100 mn. at a concessional duty rate of 25 per cent against export commitments of 3 times the CIF value of equipments imported in the first four years of operations. Further 82 capital goods were added to the existing list of capital goods under OGL. The foreign exchange limit for import of raw materials and components was also raised for the purpose of exemption from licensing. Despite this shift, the share of imports which were completely free from any kind of quantity restrictions remained relatively low.

EXPORT POLICY

The main thrust of the 1992-97 Exim Policy has been the priority given for export promotion\(^{(72)}\). All items are declared to be exportables except 3 banned items, 68 restricted items and 8 canalised items. Special import facilities have been granted for hotels, tourism industry and for sports bodies. Export Promotion Capital Goods (EPCG) scheme has been liberalised and is extended to components of capital goods with concessional customs duty of 15 per cent and export obligations of 4 times the CIF value to be fulfilled in 5 years, or with customs duty of 25 per cent and export obligation of 3 times the CIF value to be fulfilled in 4 years time\(^{(73)}\).

With a view to encouraging export activities, Government of India has provided special incentives for units set up primarily for manufacturing goods for exports. These units can be set up in Export Processing Zones (EPZs) or can be 100 per cent EOU's. That can be set up anywhere in the country. These EPZs are designated to provide an internationally competitive duty free environment at low cost for export production. Each of the zones provides basic infrastructure like land, standard design factory buildings, roads, power, water-supply, drainage and custom clearance facilities. The scheme for EOU's is complementary to the EPZ schemes. It adopts the same production regime but offers wider locational options with reference to sourcing of raw materials, ports of export, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project\(^{(74)}\).

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Some Incentives Given to EPZs and EOU

- 100 per cent foreign equity is welcome in EOU and EPZ.
- 25 per cent of the production in value terms may be sold in the Domestic Tariff Area (DTA) at concessional duty rates subject to fulfillment of minimum value addition norms.
- A higher DTA access of 35 per cent and 50 per cent is allowed for electronics and agro-industries respectively, again no DTA sales is permissible for rice, jewellery, diamonds, precious and semi-precious stones and gems, motor cars, liquor, silver, bullion and some other items.
- The specified value addition norms that need to be achieved by EOU and EPZ units are expressed in terms of the difference between the FOB value realised and the cost of all inputs, including the value of payments made in foreign exchange for royalty, fees, etc..
- Single window clearance
- No import licence is required
- Import of oil, industrial inputs exempted from customs duty.
- Supplies from the DTA to EOU and EPZ units are regarded as deemed exports and are hence exempt from payment of excise duty, which means high quality inputs are available at lower costs.
- On fulfillment of certain conditions, EPZs and EOU are exempted from payment of corporate income tax for a block of 5 years in the first 8 years of operation. Export earnings continue to be exempt from tax even after the tax holiday is over.
- Industrial plots and standard design factories are available to EOU and EPZ units at concessional rate.
- Private bonded warehouses in 7 EPZs can be set up
  i. import and sale of goods included in the DTA subject to payment of applicable duties at the time of sale.
  ii. Trading including re-export after repacking/labelling.
  iii. Re-export after repair, reconditioning or re-engineering.
- EOU and EPZ are permitted to sub-contract part of this production on a case by case basis.
- Supplies to the DTA under international competitive bidding against payment in foreign exchange to other EOU and EPZ units and against import licenses are considered towards fulfillment of the export obligation.
- The FOB value of exports of EOU and EPZ units can be clubbed with that of parent companies located in the DTA for the purpose of obtaining a Trading or Export House status.
EOUs and EPZ units may export goods through trading and Export Houses or other EOU and EPZ units.

In order to avail of some special benefits, manufactured goods exporters including those with foreign equities can apply for the status of i) Export House, ii) Trading House iii) Star Trading House and (iv) Super Star Trading House/Trading House. Special weightages are given to certain categories of exports in calculating the NFE earned and in assessing the export performance of a company in deciding its classification. The criteria for recognition of Export and Trading Houses are as follows:

**Criteria for Recognition of Export and Trading Houses**

<table>
<thead>
<tr>
<th>Category</th>
<th>Avg. FOB value of eligible exports during the preceding 3 licensing years</th>
<th>FOB Value of eligible exports during the preceding 3 licensing years</th>
<th>Avg. NFE earned from eligible exports during the preceding 3 licensing years</th>
<th>NFE earned from eligible exports during the preceding 3 licensing years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Houses</td>
<td>100 mn.</td>
<td>150 mn.</td>
<td>60 mn.</td>
<td>120 mn.</td>
</tr>
<tr>
<td>Trading Houses</td>
<td>500 mn.</td>
<td>750 mn.</td>
<td>300 mn.</td>
<td>600 mn.</td>
</tr>
<tr>
<td>Star Trading Houses</td>
<td>2.5 bn.</td>
<td>3 bn.</td>
<td>1.25 bn.</td>
<td>1.5 bn.</td>
</tr>
<tr>
<td>Super Star- Trading Houses</td>
<td>7.5 bn.</td>
<td>10 bn.</td>
<td>4 bn.</td>
<td>6.0 bn.</td>
</tr>
</tbody>
</table>

Apart from incentives already mentioned, exporters are given other incentives also. Export profits are exempted from income tax in the proportion of export turnover in total turnover. The Export Promotion Capital Goods (EPCG) scheme allows import of capital goods at concessional rates of duty subject to an export obligation. The EPCG scheme also extended to service sector by allowing import of capital equipment at a concessional duty rate by professionals such as architects, consultants and doctors. The scheme also applicable to hotels and restaurants, travel agents and diagnostic centres. Special import licenses for items in the Negative List are available to: i) deemed exports, ii) super star, star trading and export houses, iii) manufacturers with ISO 9000 or BIS 14000 certificate. Higher royalty payments of 8 per cent (net of taxes) are permitted to export sales as compared to 5 per cent on domestic sales. Export commission upto 10 per cent is also permissible.

Special imprest licenses are given for duty free imports of raw material etc. required for the manufacture and supply of product to UN, multilateral or bilateral agencies, EOU units, specified Indian public sector organisations, concessional export credit at the concessional rate. Moreover, EOU units, EPZs and other exporters capable of generating net foreign exchange (NFE) can also raise foreign currency loan for capital goods, raw materials, components, technology payments or even for financing the local rupee cost of the project. In order to make the quality of Indian products acceptable to international communities, Government of India has launched several programme to increase awareness of ISO 9000 or BIS 14000. The units which are accredited with any of these internationally recognised certificates are eligible for grant of special import licenses for import of items specified in the negative list of imports. Under the simplifying procedures, minimum value addition under the advance customs clearance permit has been reduced from 15 per cent to 10 per cent.

<table>
<thead>
<tr>
<th>Value Addition Achieved</th>
<th>Permissible Sale in the DTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 15 %</td>
<td>Nil</td>
</tr>
<tr>
<td>15 - 25%</td>
<td>upto 25 p.c. of production in value terms.</td>
</tr>
<tr>
<td>More than 25 %</td>
<td>Upto 35 p.c. of production in value terms.</td>
</tr>
</tbody>
</table>

As stated earlier EPCG Scheme has been extended to service sectors also, handicapped persons have also been allowed to import freely certain specified items. Besides, procedures have been simplified to facilitate exports including those from EPZs and 100 per cent EOU units. More benefits have also been given to deemed exporters. The requirement of supporting manufacturers
to be indicated in the DEEC (Duty Exemption Entitlement Certificate) book has been dispensed with. The duty exemption scheme has been further simplified and input-output norms have now been finalised for 4200 items (as amended in April 1995) from 2200 items on 31 March 1993\(^6\). The duty free licence holders have also been allowed to source their goods from local manufacturers instead of importing the same with an added advantage of deemed export benefits.

Facility of advance release order has also been extended to special imprest licenses, advance intermediate licenses, transferred advance licenses and sensitive list items in terms of value. The additional 20 per cent flexibility permissible on such items or value-based licensing are now permitted to advance release orders also. Under the simplified policy, second hand capital goods can now be imported by actual users at normal duty without obtaining a licence, provided they have a minimum residual life of 5 years. The condition of maximum 7 years age as well as submission of chartered engineer certificate has been dispensed with. However, in case of machinery exceeding value of Rs. 1 crore, certificate has been dispensed with. But in case of machinery of value exceeding Rs.1 crore, certification of value by reputed international agency has been prescribed. Some components required for the manufacture of finished products in the electronic industry have been taken out of the negative list of imports. Moreover, relaxation has been provided for the import and export of items which are not covered by the negative list of exports or imports, the restriction of value addition etc., which was acting as an irritant has been removed. Foreign exhibition participating in international fairs, and exhibition being held in India have also permitted to sell items of restricted list upto a CIF value of Rs.5 lakh or payment of normal customs duty.

**IMPORT POLICY**

Trade reforms is an important ingredient of the overall economic reforms. So far our trade policies have been characterised by static export policy on the one hand, and sufficient control in the import regime on the other. The new EXIM Policy of 1992-97 as amended on 1st April, 1995 gave sufficient flexibility to imports in order to augment exports\(^7\). The New Exim Policy has given adequate incentives for the agricultural and allied sectors as well as the service sector. The new Policy has expanded the scope of Special Import License (SIL) which paves the way for consumer goods imports.

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76. Ministry of Commerce, Govt. of India, *Export-Import Policies (1st April, 1995).*
India's import regime has been characterised by stringent quantitative restrictions apart from putting under highest customs tariff brackets. The annual amendments of EXIM policy has progressively pruned the items covered under negative list of imports. Almost entire set of imports of consumer goods is put under negative list which is segmented into three categories. The new policy has substantially liberalised the quantitative restrictions regime as enforced on imports of consumer goods, capital goods, raw materials, intermediates, components, consumable etc. can be imported into India without any restrictions except for certain items in the negative list of imports\(^{78}\).

The Negative list of imports contained in Chapter XV is splitted into three categories viz.

i. Prohibited items which include 3 items, import of which are not allowed.

ii. Restricted items which include 65 items (according to 1992-97 Exim Policy as amended in April 1995) import of which is allowed against an import licence or under general scheme notified separately.

iii. Canalised items which include 7 items as contained in the canalised list, import of which is permissible only through designated agencies viz. MMTC, STC, etc.

Out of these three categories, items under restricted list are still now fairly large though these have been reduced significantly over the years. Nonetheless, even among the restricted items, presently a large number of items are permitted through SIL under the new Exim Policy. The import of these items is possible under certain conditions or against a licence or in accordance with a Public Notice issued in this behalf. Most of the items which are importable without a licence but subject to certain conditions. The remaining restrictions are on grounds of security, health or environment or because some of the goods are reserved for the small scale sector.

Quantitative restrictions enforced on capital goods and intermediates were almost wholly removed. Barring few items, import of capital goods is no longer in the Negative List of Imports. Besides, the import of second hand capital goods by actual users is permitted freely without a licence provided the goods have a residual life of 5 years. Also import of certain capital goods on a re-export basis is allowed without a licence. The actual user stipulation on imports of industrial inputs has been removed. Special import facilities are available for hotels and the tourism industry and for sport organisations. In order to augment exports, import of inputs at Concessional terms is also allowed under the new policy.

\(^{78}\) Bhagwati, J.N. and Srinivasan, T.N., "India's Economic Reforms", Ministry of Commerce, Govt. of India (New Delhi), 1993.
The basic ingredient of import policy is the tariff reforms that have been a part of our Exim Policy followed so far. Most of the imports of the consumer goods were under quantitative restrictions (QR) regime which was characterised by ban on import as well as higher import tariffs. The most distinguished feature of our Exim Policy is that the items which are in the negative list, especially the consumer goods, attract the highest level of customs tariffs apart from countervailing duties, premium, margin and sales tax etc. These customs tariff rates in India were among the highest in the world prior to reforms. The peak rate of customs duty was 400 per cent in the early 1990 which was reduced to 50 per cent during 1995-96 budget\(^{(79)}\). The duties on capital goods have been lowered to a range of 20-40% while the basic import duty on general capital goods is 25 per cent. A duty rate of 20 per cent is levied on equipment for power projects and there is no duty on equipment for fertiliser projects. Under zero duty import of capital goods, there will be two windows to fulfill export obligations viz. (i) FOB basis (ii) NFE basis.

The new Exim Policy has accepted the recommendations of Tax Reforms Committee headed by Dr. Raja Chelliah. As per the recommendations of this Committee, there will be a phased reduction of customs tariffs over the year. Peak tariff is recommended to be established at 50 per cent whereas import-weighted average tariff is to be pegged at 25 per cent by the year 1997-98 as against 30 per cent at present. The \textit{ad Valorem} import duty rates on industrial inputs would range from 5 per cent to 30 per cent. During 1994-95, the average collection rate was 27 per cent.

The number of standard input/output norms has been vastly expanded from the current level of 3100 items (1994-95) to over 4200 items (as on April 1995). The Handbook of Procedures (vol. 2) containing norms for them: 4200 items have also been published with the amendment. Import of capital goods, either new or second hand is also permitted under the Export Promotion Capital Goods (EPCGs) Scheme at a concessional customs duty rate of 15 per cent subject to the fulfillment of specified export obligations. EPCG licence holders may fulfill their export obligation by supply of intermediate products but without benefits provided for "deemed exports"\(^{(80)}\).

80. Ibid n. 27.
Another important feature of the New Exim Policy is the introduction of a single market-determined exchange rate for the rupee since 1st March, 1993 with effect from 20th August, 1994. The rupee is now convertible in the current account which includes both trade and invisible accounts. This market determined exchange rate is applicable to inflow of foreign equity for investment and outflow of the event of disinvestment, payments in respect of repatriation of dividends, fees and royalties for technical knowhow agreements and also foreign travels.

Other salient features of the recently (March 1995) amended Exim Policy are as follows:

- Zero duty import of capital goods in cases where the CIF value exceeds Rs.20 crore.
- Allowing the import of mandatory spares upto 5 per cent of the CIF value of the advance licence.
- The system of Advance Customs Clearance Permit (ACCP) has been abolished. Hereafter goods, including second hand capital goods can be imported for the purpose of jobbing, repairing, servicing, restoring, reconditioning and renovation on execution of a bond/guarantee which will be redeemed on exports.
- Similarly, patterns of drawings, jigs, tools, fixtures, moulds, textiles, computer hardware, software and instruments may also be imported if they are directly related to the export orders. All goods so imported will be re-exported with a value addition if not less than 10 per cent.
- Import of gifts will no longer require a customs clearance permit.
- "Consumer goods" has been redefined to include consumer durables and accessories thereof but excluding components, spares and parts. Hence components, spares and parts of consumer durables are now freely importable. This will not include consumer goods in CKD/SKD condition.
- Special Import Licence (SIL) is a non-discretionary instrument which serves as an incentive to exports. SILs will be available to the following categories of exports:
  ii. Exporters of telecommunications equipments and electronic goods and services.
  iii. Deemed exporters.
  iv. Manufacturers/processors who have acquired quality certification under ISO 9000 (series) or BIS 14000 (SERIES) or under any other similar internationally recognised certification of quality.
- The list of freely importable goods popularly known as OGL has been expanded. Raw materials, intermediates and capital goods are already freely importable. Besides, 75 items listed in Chapter XV, Part-II are now freely importable. The list has been expanded from 43 to 75 items.
- The list of items importable under the SIL route has also been expanded. The erstwhile list consisted of 42 items. The new list consists of a total of 75 items. Some more items have been identified but these will be added to the list after closely monitoring the level of
import, the trade balance and the premium on the SIL.

TARIFF REFORMS

Tariff reform is the most crucial part of trade policy reforms. India has been one of the protectionist countries in the world because a host of consumer items are put under Negative List of the Exim Policy over the years, though the list has been liberalised substantially in recent years. India's trade policy regime has hitherto been characterised by high tariff barrier as well as higher non-tariff barriers. Under New Economic Policy which was initiated in July 1991, Government has been actively contemplating to get rid of this syndrome through liberalisation of tariff and non-tariff barriers. With a view to impressing upon the world trading communities about its recent trade reforms, it has pruned the negative list of imports by putting only 3 items under prohibited list, 65 items as prohibited and 7 items in the canalised list. Even among the restricted items many are importable without a licence but subject to certain conditions or against a licence or in accordance with a Public Notice issued in this behalf. Almost all restrictions are on grounds of security, health or environment or because some of the goods are reserved for small scale sector.

Three issues are important in Tariff Reforms Policy of the Government of India:

i. The first issue is regarding the question of Advance Licensing Scheme. This is the more important area of trade reform because while about 30 per cent of imports are subject to licensing. As much as 60 per cent of total licensing is accounted for by export-related licensing of which Advance licensing constitutes the biggest segment. The facility of Advance Licensing is important because of the high tariff structure. Another important area of the scheme is the VABAL (Value Based Advance Licence) which has introduced much higher degree of flexibility. This Policy does not become successful due to malpractices by unscrupulous elements in the form of over-invoicing of export and under-invoicing of imports.

ii. The second most important issue of the New Exim Policy (March 1995) is that how EPCG scheme can be made much more effective. Under EPCG scheme imports of capital goods are allowed at a concessional rate of 15 per cent. One of the basic objective of the tariff policy should be to keep the project cost at the lowest level order to enhance international competitiveness of the Indian products. When EPCG

81. Ibid n. 79.
scheme was introduced the average tariff level for machinery was above 150 per cent as against the current peak rate of 50 per cent. The current average rate for import of capital goods is around 35 per cent. Therefore, the differential has come down drastically. But more importantly, with an exchange rate which has been artificially kept low and is therefore discriminatory to imports, it is logical to modify the EPCG scheme to allow import at zero duty. The loss in revenue which is estimated to be around Rs.4000 crore will be more than offset in terms of second order benefits.

iii. The third issue of tariff reduction is related to FDI flow in India. There has been a growing demand from foreign project investors to reduce tariff on their capital good imports on the ground that high tariffs will make their project unviable. This argument is true in case of items which have higher export potential. Since it would be in the interest of India to attract as much FDI as possible, tariff reduction on capital goods appears to be a requirement which will be mutually beneficial to Indian and for foreign investors.

Tariff reforms in India do basically include three areas viz\(^{83}\). (i) elimination of end-user exemption, with the main exception of imports used in export production, (ii) rationalisation of customs tariffs, and (iii) import policy for consumer goods. The basic objective of the New Exim Policy is to put all consumer goods on a “tariff-cum-OGL import regime” by 1996-97. Measures have already been adopted in the last two EXIM Policy amendments (i.e. April 1993 & 1995) when Government granted large exporters freely marketable licenses for imports of consumer goods. Under current Exim Policy, imports of consumer goods is feasible through SIL route. However, in spite of such liberalisation, import regime for consumer goods is still under control because as many as 1350 items are still under import licenses out of 5000 HS positions. In 1994-95 Exim Policy, components, spares and parts of consumer durables are now freely importable. But this will not include consumer goods in CKD/SKD condition.

Tariff reform is the most important ingredient of the trade policy reform. Government is committed to rationalise tariff structure over next 2-3 years. Government aims at stablising peak tariff at 50 per cent level and to reduce the import weighted average tariffs at the level of 25 per cent by 1996-97. Regarding rationalisation of tariffs, Government of India broadly accepts the recommendations of the Tax Reform Committee headed by Dr. Raja Chelliah. Tax Reform Committee suggests a maximum tariff rate of 40-50 per cent for consumer goods, except for a

\(^{83}\) Bishawnath Goldar, Ibid n. 41.
few luxury items, 30 per cent of intermediates, 20 per cent for capital goods and 5-10 per cent minimum tariffs.

As a result of tariffs reforms, started in 1993-94 budget, our level is now at levels comparable to those of major Latin American and East Asian countries before they began to liberalise their trading regime in the mid and late 1980s which is shown in Table-6.4. Once the measures envisaged for 1996-97 are implemented, India's tariff would decline to levels closer to those now prevailing in other developing countries in a relatively short period of 4-5 years.

Regarding tariff structure for the last 4-5 years, India has improved its tariff rationalisation programme quite significantly which has been shown in Table-6.5 & 6.6. Table-6.5 shows the mean tariffs and import-weighted tariffs of the entire economic as well as different major groups while Table-6.6 depicts the collection rates of food products, capital goods, chemicals and man-made fibers.

SECTION-V

EC's Institutional Support to Help India to Improve Quality of its Manufactured Goods Exports

EU is India's largest trading partner, accounting for 30 per cent of imports and exports. But, on the other hand, India's share in EU's trade is barely 1 per cent. Though India has been under chronic balance of payments deficit with the EC, in 1993 trade between the two sides improved dramatically when its exports increased by 20 per cent amounting to 5.9 bn. ECU and imports by 19 per cent amounting to 6.2 bn. ECU. This was particularly important in a situation when extra-EU imports had declined by more than 1 per cent and export growth by 10 per cent. The EU's development aid since its inception in 1976 had crossed 1.6 bn. ECU (Rs.6324.8 crore) From 1976 to 1991, total EU's ODA to India was $ 8386.1 mn. ($7168.8 mn by EU member states and $1217.3 mn. by the Commission). Japan's ODA to India was $2396.1 and USA's ODA was $1084 mn. during the same period[84].

First Treaty strengthening Indo-EC economic cooperation was signed in 1973. The Commercial Cooperation Agreement (CCA), 1973, was the consequence of first organised efforts between two countries to work together in promoting economic development of a developing country like

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84. EC Delegation to India, "Partnership for Cooperation and Development", (Several Annual Nos.), (New Delhi).
Table - 6.4

Tariffs & Collection Rates: An International Comparison

<table>
<thead>
<tr>
<th>Country</th>
<th>Maximum Tariffs</th>
<th>Average Tariffs</th>
<th>Collection Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>110 (1992)</td>
<td>64 (1992)</td>
<td>44 (1990-91)</td>
</tr>
<tr>
<td></td>
<td>400 (1990)</td>
<td>87 (1990)</td>
<td>47 (1990-91)</td>
</tr>
</tbody>
</table>

Note: The average tariff refers to the import-weighted tariff, except which indicated by "*" when it is the arithmatic average.


### TABLE - 6.5

**Tariff Structure 1990-94 (in present)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean</th>
<th>Import Weighted Average</th>
<th>No. 7 item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole Economy</td>
<td>128 (41)</td>
<td>94 (34)</td>
<td>71 (30)</td>
</tr>
<tr>
<td>Agricultural</td>
<td>106 (49)</td>
<td>59 (49)</td>
<td>39 (39)</td>
</tr>
<tr>
<td>Mining</td>
<td>na</td>
<td>na</td>
<td>71 (24)</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>142 (33)</td>
<td>92 (42)</td>
<td>76 (36)</td>
</tr>
<tr>
<td>Baggage</td>
<td>255 (00)</td>
<td>255 (00)</td>
<td>100 (00)</td>
</tr>
<tr>
<td>Agro-based</td>
<td>136 (35)</td>
<td>65 (55)</td>
<td>60 (62)</td>
</tr>
<tr>
<td>Others</td>
<td>144 (32)</td>
<td>105 (21)</td>
<td>82 (13)</td>
</tr>
<tr>
<td>Intermediates</td>
<td>133 (42)</td>
<td>104 (25)</td>
<td>77 (22)</td>
</tr>
<tr>
<td>Capital Goods</td>
<td>109 (32)</td>
<td>86 (26)</td>
<td>58 (24)</td>
</tr>
</tbody>
</table>

Note: Standard deviation are in parenthesis in 1990-91 and 92-93, mining is included as intermediates.

Source:


# TABLE 5.6

<table>
<thead>
<tr>
<th>Year</th>
<th>Max Tariff%</th>
<th>Import Duty Collection Rates</th>
<th>Implicit Nominal Protection Rates</th>
<th>Real EER Index</th>
</tr>
</thead>
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<tr>
<td></td>
<td></td>
<td>Import Duty Collection Rates</td>
<td>Implicit Nominal Protection Rates</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Manufacturing</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total Agriculture</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Food</td>
<td>Fuel</td>
<td>Capital</td>
</tr>
<tr>
<td>1987/88</td>
<td>340*</td>
<td>51</td>
<td>55</td>
<td>61</td>
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<tr>
<td>1988/89</td>
<td>340*</td>
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<td>57</td>
<td>61</td>
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<tr>
<td>1989/90</td>
<td>340*</td>
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<td>57</td>
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<td>1990/91</td>
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</tr>
<tr>
<td>1995/96</td>
<td>50</td>
<td>3</td>
<td>16</td>
<td>-12</td>
</tr>
</tbody>
</table>

**Sources and Notes:** Import duty collection rates calculated from Government of India, "Budget Documents" and "Economic Surveys", various volumes, Ministry of Finance, New Delhi. Implicit nominal protection rates from Gulati and Pursell (1995). The Real Effective Exchange Rate index is calculated from data supplied by the IMF. The index is expressed in Rs per unit for the foreign currencies. A few tariffs were higher than the general maxima announced in the budget speeches for 1991-92 and after. In 1995-96 these included ball bearings, wines and spirits, unaccompanied passengers' baggage, grapes and almonds. The nominal protection rates for agriculture are weighted averages for rice, wheat, coarse grains, pulses, oilseeds, sugar, rubber and cotton. These represent about 70 percent of agricultural production. Fruit and vegetables, dairy and other livestock products, tea, coffee, spices, forestry and fishing are not included. The three alternative nominal protection rates reported all treat rice and cotton as exportables, and exports of rice are assumed to affect the world price. The nominal protection rate for rice is defined as the percentage difference between the actual price received by rice mills and the estimated domestic price on the assumption that rice would be exported subject to an optimal export tax. The nominal protection rate for wheat is defined as the percentage difference between the procurement price and reference prices defined in the three series respectively as (1) the import reference price (2) the export reference price (3) the estimated domestic price without controls. The estimates differ because of the wide gap between import and export reference prices due to the gap between cif and fob prices and domestic transport and other costs, which is especially marked in the case of wheat.
India. The CCA was replaced by the Commercial and Economic Cooperation Agreement (CECA) in 1982, when the area and scope of cooperation were broadened. Finally on 20 December 1993, India's former Commerce Minister, Mr. Pranab Mukherjee (on behalf of India) and Mr. Willy Clas, the Belgian Foreign Minister (on behalf of European Union), concluded a new five-year Cooperation Agreement on Partnership and Development (CAP&D) in Brussels\(^{85}\). The AP&D agreement extends the cooperation not only in the traditional areas like trade, industries, energy, telecommunications, customs and banking, but also it turns into new areas of development, i.e. scientific research, intellectual property rights (IPRs), environments, primary health and education, tourism and other social issues.

The major areas of cooperation as enshrined in the new agreement (CAP&D) are institutional structures. The basic objective of cooperation in this area is to provide active support enabling India to improve quality of its manufacturing exports through making suitable changes in the institutional set up. Institutional changes required for the improvement of economic environment for trade and investment are described here. On the other hand, these institutional changes are \textit{sine qua non} for improving quality of India's manufactured exports of the Community. The new areas focus on a number of areas as detailed below:

**Standard and Quality**

Improvement of standards and quality is the most crucial area of joint cooperation. The main focus of the new agreement is on modernization of Indian testing laboratories, the setting up of a National Accreditation Scheme to International norms, and the introduction of education in quality in engineering colleges. Changes in standards and quality include the following aspects\(^{86}\):

**Modernisation of Technology**

Rather than conventional forum of aid the EC has now focussed its attention to imparting better education and training.

In the new agreement, emphasis has been placed on the modernisation of laboratories in three key areas viz. automotive sector, domestic electrical appliances and processed food. The assistance is provided in the form of transfer of technical knowhow, to provide training with a view to giving them a knowledge of testing procedures and enabling them to operate and maintain installations according to internationally accepted norms.

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\(^{86}\) Ibid n. 85.
Harmonisation of Standards

Harmonisation of standards is an essential part of the institutional changes. Under this scheme so far 142 Indian standards have been harmonised with EU Standard and EU directions/regulations.

Quality Testing

In recent years, EU has directed its trading partners to accept ISO 9000 as the basic standard for exporting into EC markets. The Final Act of the Uruguay Round, also maintained ISO 9000 as the universal standard. So far 60 Indian offices belonging to various governments and private agencies have been given intensive training to become qualified assessors by Batalas, UK. A further batch of 5 Indian officers was trained as lead assessors\(^{87}\).

Confederation of Indian Industry (CII) has been accredited by the Government of India as the nodal agency for quality training under the Indo-EU programme. Apart from CII, other apex chambers of commerce like FICCI and ASSOCHAM have also introduced quality management programme to teach industry functioning on how to improve quality of Indian products are being their at par with the international standards. There are two separate sets of training, one for certified quality engineers and the other for instructors, which conducted by German organisation.

National Accreditation Scheme

Government of India has made a request to EU to assist her in preparing a National Accreditation Scheme (NAS). Under this scheme, a 5-member European Expert Group recommended a comprehensive NAS. The elements of this scheme are:

- The National Quality Council (NQC) would be the apex body for operating the scheme in India. It should be an autonomous body which will control five (5) separate boards.
- A National Accreditation Board (NAB) for the certification of product and quality management system.
- A National Accreditation Board for the certification of laboratories.
- A board for the registration of quality related personnel.
- A national enquiry service of standards and assessment.

\(^{87}\) Ibid n. 84.
Education in Quality

Education in quality is the top most item on the agenda for cooperation in the new Indo-EC treaty on Partnership and Development. Indian products in the international markets are sold at heavy discounts simply because of their low quality. Quality concept is perceived to be unknown to Indian industry. We also do not have infrastructure to provide that. Sensing wide gap in this area, EU has taken initiative to provide education in quality in engineering and management colleges in India. EU has advised India to introduce TQM (Total Quality Management) in undergraduate and post graduate course on a pilot basis. For this purpose, IIT, Delhi will be the nodal agency for implementation of the programme.

Intellectual Property Rights (IPRs)

Intellectual Property rights is the main area of technological development. All developed countries give effective protection to IPR, which, on the other hand, play a very dominant role in technology development. Unfortunately this is reportedly absent in India. We do not have much awareness about the protection of IPRs that may be cited as major hurdle in the integration of research output with the production system. Among seven areas of IPRs, India is having excellent legislation except Patents. In beyond to Patents, we follow Indian Patent Act 1972, which provides product patents in all areas of production except, agro-chemicals, drugs and pharmaceuticals, chemicals, where we have process patent system. These are the areas where most rigorous efforts and R&D activities are needed. Due to lack of effective protection of intellectual property rights in these lines of production, no new technology is expected to come in. Old Indian Patent Act is deterrent for any kind of technology development in these areas. Foreign companies having new technology are reluctant to transfer it to India in the apprehension of getting it pirated. On 15 December 1993, India signed Final Act of the Uruguay Round which was ratified by all contracting parties on 15 April 1994 at Marrakesh. As a signatory of the Final Act, India has also signed the agreement on TRIPs.

88. Ibid n. 85.
Considering that much has to be done in this area, the EU and Government of India have agreed to launch an IPR technical cooperation programme. The programme should help in improving trade, investment and the R&D environment in India and promote economic exchanges between two entities. The EU has identified following areas for modernising and strengthening IPRs:

- Enhancement of user awareness and enforcement of IPRs through training and information.
- Improvement of the structure and operations of the IPR administration and upgradation of the professional skills of its staff.
- Imparting technical assistance, if required, in the preparations of a modern IPR legislation in India including the necessary implementing regulations.

EC's programme of economic cooperation with India will take into account opportunities and challenges of the Single European Market as the EU moves towards greater economic and political integration. India also moves towards shaping up an open and more liberalised outward oriented economy. In the light of the liberalised regimes in both the entities, it is expected that cooperative attitude between them will sustain due to spirit of partnership and mutual interest beyond the traditional relationship of donor and recipient countries. Indo-EU economic relationship is based on complementarities and will work in three broad areas:

a. Helping improve the economic business environment in India by providing institutional support and facilitating access to Community knowhow and technology, taking into account mutual protection of industrial property rights according to the GATT Agreement including the TRIPs.

b. Both the parties will endeavour to facilitate contacts between economic operators and other measures designed to promote commercial and technology exchanges and investments.

c. In order to get better market access both in India as well as in Europe, both sides will help to improve awareness of their market situation.

In the "Strategy for Economic Cooperation and Development", both India and EC have identified some projects and programme for implementation. The priority areas are:

a. Identifying sectors of industry where the availability of EC know-how and technology

91. Ibid n. 85.
may promote industrial cooperation.

b. Encouraging reforms, modernisation and diversification of India's production base in developing linkages with the EC business community.

c. Establishing a favourable climate for private investment, including appropriate conditions for the transfer of capital and exchange of information on mutually beneficial opportunities.

d. Encouraging cooperation between EC and Indian financial institutions.

e. Strengthening the role of industrial organisations, like ASSOCHAM, FICCI and CII to promote investment on a reciprocal and complementary basis.

Apart from strategies in general to be followed in improving Indo-EC economic cooperation, some specific issues are equally important as how to enhance competitiveness of Indian products to the EC market. Indo-EC cooperation document suggests following issues:

i. Providing technical assistance to workshops in India, disseminating information that will benefit Indian industry to identify the challenges and opportunities of the Single European Market (SEM) for trade and economic cooperation.

ii. Providing expertise for access to information on readily available EC technology for the development of key Indian industry sectors.

iii. Providing expertise in norms, standards, quality and certification on a sectoral basis that will enable Indian industry to interact more effectively with the EC business community.

iv. Providing technical assistance to support liberalisation and modernisation of selected area of service (e.g. maritime transport & IPRs).

v. Supporting the activities of EC-India institutions interacting with India and EC associations of industry and commerce.

vi. Facilitating provision of trade, industry and investment information, such as customs duties, product regulations, norms and standards, company and tax legislation, financial regulations.

vii. Exchanging information on monetary matters and the macro-economic environment as mutually agreed.

Standards is the most important issue in the bilateral trade. As stated earlier, EC will provide in future market access to those products which qualify under the system of ISO 9000. This is the only acceptable standard to trade with EC. Until recently, India did not have much awareness about standardisation of the products. It does not follow any specific international standards. But in future since every developed country is going to enforce rigorous standards.
harmonisation of standards is also agreed upon in the Final Act of the Uruguay Round. Regarding standards, specific issues for the Joint Commission are:

i. Providing expertise for institutional development to upgrade standards and quality certification organisation in India, promoting linkages between institutions and the setting up of a national accreditation scheme for conformity assessment.

ii. Developing training and technical assistance in connection with meteorology standards and certificate and also in connection with quality awareness/promotion programme in selected sectors.

iii. Promoting measures aimed at achieving mutual recognition of systems of quality certification.

SECTION VI

European Industries Hesitant Response to India's New Opening up to the West

India had been following a close-door economic policy until recently. Almost all crucial sectors of the economy were reserved for the public sector and only a small area was opened to the private sector with substantial controls. The area of production was basically meant for wage-goods and production of consumer durables.

Though the presence of foreign companies in India was felt since early 1980s, their contribution in the consumer sector was marginal to the total industrial activities. Western companies never thought India as an ideal location for investment because of its labyrinthine rules and regulations discouraging foreign investment. Though liberalisation started since mid-eighties, by and large in the eighties, India was characterised basically as a restrictive regime. As a result no significant investments flowed in from European industries to India during the preceding decade.

The whole scenario had changed in July 1991 when Government of India promulgated New Industrial Policy that revolutionised the investment pattern in Indian industry. New Industrial Policy, a part of the Government's New Economic Policy has brought a sea change in holding pattern and foreign equity participation in India. Under the NEP, Government has divested its control over many loss-making Public Sector Undertakings (PSUs) industry and paves the way for foreign participation in almost all crucial branches of production and exports barring some areas of strategic importance.
If we assess the pattern of FDI (approved) in India since 1981, we can easily visualise the impact of opening up our economy to the foreign companies. Table 6.7 shows the flow of FDI into India from European Community, Japan and USA as well as the total flow. The compound rate of growth of FDI flow to India by EC was 23.98 per cent during the 1980s which shot up to 144.88 per cent p.a. during the reform period (i.e. 1991-94). In case of USA, compound growth rate was 35.46 per cent during eighties which registered a phenomenal growth of 165.15 per cent per annum during reform period. The trend is the same for Japan. Flow of FDI from Japan to India grew at 25.55 per cent rate (compound) per annum during the 1980s, but it increased to 96.65 per cent during the nineties. The table shows that FDI only gathered momentum in the nineties, after a long spell of stagnation. The lackluster performance of FDI flow in India during the eighties has been substituted by the impressive growth during nineties.

The picture as depicted in Table 6.7 is a relative one. But in absolute term, flow of FDI into India from European countries is much less compared to other countries. There is no gainsaying the fact that Europeans are the main agents behind our technology development. With the help of several cooperation agreements between India and the European Community, India's industry is now getting better access to EC's improved technology which makes her more competitive in the global market.

Despite the fact that the growth of FDI from EC has been quite impressive during the nineties, it is considered as minuscule compared to EC's total FDI flow to the rest of the world. Flow of FDI from EC to India constitutes less than 1 per cent to its total flow. Growth of FDI flow from EC to India has been much higher since early nineties because of the low base during the eighties. European industry does not respond favourably to India's opening up of the economy. The reasons behind such low share of the EU's FDI to Asia is general and India in particular are:

- After the collapse of erstwhile USSR and the formation of CIS, the responsibility of European industries to modernise their industrial structures has become more urgent than their activities in the Asian region.
- Unification of Germany was completed in 1990. Among the Community members, Germany was the largest contributor of FDI to India. But after its unification, it has taken the responsibility to reconstruct its ailing economy of its eastern part. Due to its own obligation, Germany has undertaken massive investment work in the eastern part obviously less resource is available for India.
<table>
<thead>
<tr>
<th>Year</th>
<th>Belgium</th>
<th>Denmark</th>
<th>France</th>
<th>Germany</th>
<th>Greece</th>
<th>Ireland</th>
<th>Italy</th>
<th>Luxembourg</th>
<th>Netherlands</th>
<th>Portugal</th>
<th>Spain</th>
<th>UK</th>
<th>USA</th>
<th>Japan</th>
<th>Total(EU)</th>
<th>Total(EU + USA &amp; Japan)</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>0</td>
<td>0</td>
<td>5.0</td>
<td>54.17</td>
<td>0</td>
<td>0</td>
<td>4.65</td>
<td>0</td>
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<td>0</td>
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<td>0</td>
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<td>6.45</td>
<td>73.35</td>
<td>102.2</td>
<td>108.71</td>
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<td>1952</td>
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Source: India Investment Centre, Investment News, (Several Issues), (New Delhi)
Not only to erstwhile East Germany, but EC has undertaken a massive investment activities in Central Eastern Europe. After the collapse of the socialist system and disintegration of USSR, EC has emerged as a main source of investment in these countries.

India is still not considered as an ideal place for investment. In a recent study it is revealed that India is most dangerous place for investment next to Bolivia in the world. Another study reveals that India is the second riskiest country for investment in Asia next to Vietnam. Still there exists lot of non-transparencies in India's policy regime for attracting foreign investment. Though bureaucratic wrangles have reduced these days, but it has not removed completely and massive corruption in the administration is one of the major deterrent factors for inviting FDI.

Presently there does not exist any licensing system and norms on foreign equity have liberalised significantly since early nineties, yet political instability, frequent changes in policies, lack of proper infrastructure i.e. power, communication, etc. are some of the factors prohibiting European industries to respond favourably to India opening up to the West.

Till today India is considered to be as a restricted economy on its external front. Its import regime is subject to plethora of restrictions.

Though peak tariffs in India have been reduced from 400 per cent in 1990 to 50 per cent in 1995, and the import-weighted average tariffs have been at the range of 30-35 per cent, but as yet India is one of the most protective countries in the world in respect of tariffs. India's average tariffs are still highest in the world. It is not easy for MNCs to import anything from the parent countries.

Despite the fact that import regime in India has been substantially liberalised in recent times but still single window clearance system is a dream to the foreign investors in India. Even nearest neighbours like Singapore, Hong Kong take few days to clear a licence, but in India a couple of months and or even a year may be required to come to any conclusion.

The largest bottleneck to transfer of new technologies from Europe to India is the lack of effective protection of intellectual property rights in India. Indian markets and production systems are characterised with large-scale piracy of foreign products and technologies by changing processes of production and Indian market is flooded with spurious and counterfeit goods. This often discourages Western companies to their technologies to India. India is still not a member of the Paris Convention on Patents. In the ensuing years, the extent of flow of FDI from Western countries will solely depend on the level of protection given to their intellectual property rights.

In spite of all odds, India's recent drive to opening its economy is appreciated in the West, but it is considered inadequate as compared to some other World regions such as East Asia and South-East Asia. Therefore, it is expected that India's policies should be work more transparent and sustainable which do not succumb to changes in the Government.
CHAPTER VII

CONCLUSIONS

EC's single market has opened new vistas of Indo-EC economic relations. It is now a unified market of 15 member states, aiming at abolition of national boundaries restraining free movement of goods, services, capital and human resources. Harmonisation of national rules and regulations should be unique achievement of the single market, with far-reaching impact on the exports of developing countries in general, and India in particular. The foundation of Indo-EC economic cooperation lies in different cooperation agreements signed at different points of time. The first such cooperation agreement was Commercial Cooperation Agreement (CCA), was signed in 1974, followed by Commercial and Economic Cooperation Agreement (CECA) in 1984 and the last one the Cooperation Agreement on Partnership and Development (CAPD) in 1994.

There is enough reason for optimism that Single European Market (SEM) will pave the way for abrogating Article 115 of the Treaty of Rome. Under the provision of this Treaty exporters can send consignment through single port of entry and prohibited automatic transfer of the surplus consignments to other member countries. Moreover, under the shield of Article 115 each member country enforces its own national laws for restraining imports in order to protect its own industry. Article 115 has legitimised this rights of all member countries.

EC is one of the strongest champions of GATT and has been its active member since its inception in 1947. EC is now a bloc of 15 countries. Austria, Finland and Sweden joined it on 1 January 1995. According to "non-discrimination" principle of GATT, if any contracting party extends benefit to any of the member countries, then it automatically applies across the countries without any discrimination. This is the fundamental principle of GATT.

1. Article 115 was framed particularly to counter the growth of exports from the erstwhile socialist countries. Since prices of these countries were administered, therefore, some system of adjustment was needed to match with the freemarket price. But that logic does not seem to exist any more.
3. This system is called Most Favoured Nation (MFN) principle of GATT, Developing Countries are beneficiaries of this clause.
But this principle does not hold good in case of trade blocs like the EC\(^4\). Members have removed all internal barriers but they are equally protective to non-bloc countries. Therefore, it seems that EC may be more protective to non-member countries, than it was earlier\(^5\).

Though Indo-EC economic relations are strengthened and diversified by many co-operation agreements which offer India better market access to the Community, yet the EC is considered to be one of the most protectionist entities having labyrinthine trade barriers especially non-tariff types which have jeopardised the growth of India’s export of some super-sensitive items with high labour contents. In the earlier sections, we have shown that both NTB-coverage and frequency ratios of India’s exports to EC have been increasing over the years. Not only this is corroborated by a priori reasoning, but also it is proved from the UNCTAD data on tariffs and non-tariff measures that EC is very protectionist in such areas where India has relatively better competitiveness in the Community market\(^6\).

From UNCTAD Inventory on Tariffs and Non-Tariff Barriers, it is also revealed that the items which are covered under NTBs are also subject to higher average (weighted) tariffs than the items which are not covered by NTBs\(^7\). We have shown this relationship in the earlier sections. Nevertheless, in order to prove our hypothesis that EC is more protective in areas where India has strong comparative advantage, and also to prove the degree of competitiveness, we have taken recourse to Bela Balassa’s Index of Revealed Comparative Advantage (RCA)\(^8\). The methodology and results have been discussed earlier in detail. The result shows that NTBs are higher in areas where RCA is substantially high. The study has been done using data up to 1994, (the latest data available for this purpose). This indicates that EC has hardly

\(^4\) Setting up a trade block is permitted by GATT under Article XXIV. Under this clause some countries together can form a trading bloc without affecting basic principles of GATT.

\(^5\) It was widely discussed in World Bank seminar held on 26-27th January, 1995 in Washington that once the implementation of the provisions of the Final Act will be over by 31st December, 2004, developed countries will emerge with newer forms of NTBs like anti-dumping measures etc. Therefore intensity of protectionism may not be pruned rather it may be accelerated.

\(^6\) The above statement is proved through Revealed Comparative Advantage (RCA) Index. Where the index is more than utility, it means competitiveness is high and vice-versa.

\(^7\) UNCTAD, "Inventory on Tariffs and Non-Tariff Barriers", Contains in several data tapes for different countries. (UNCTAD, GENEVA).

\(^8\) (a) Ingo Walter, "Non-Tariff Barriers and the Export Performances of the Developing Countries", American Economic Association Papers and Proceedings no. 61 (May) pp. 195-205.

any inclination to slacken the grip of protectionism even after the completion of internal market. Rather, evidence shows that it has erected newer forms of NTBs which did not exist earlier.

The above observation seems to be correct if we see EC's "tariff modulations" programme. In this programme, EC has aligned all preferential arrangements given to developing countries under GSP Scheme. EC will stop extending GSP facility from 1st January, 1999. India is one of the major beneficiaries of EC's GSP scheme which is also a part of Indo-EC economic cooperation agreements. According to the new GSP scheme, India will be graduated from the developing countries earmarked for this facility from 1 January 1997. All products under GSP scheme will be thrown into open competitive tariff modulation scheme. The new system puts 85 per cent of MFN tariff to all very sensitive products. In the tariff modulation scheme, EC has divided all products under GSP into four (4) categories viz. (i) very sensitive, (ii) sensitive, (iii) semi-sensitive and (iv) non-sensitive.

Very sensitive category includes all items of textiles and garments (falling 50-63 HS codes at 2 digit level) and footwear. India has strong comparative advantages in these areas. The entire gamut of India's textile exports has been under stringent Community quota under MFA since 1974. Hereafter, all items of textiles and garments will be subject to the highest average tariff i.e. 85 per cent of the MFN rate getting waiver of 15 per cent only. In the other three categories tariff rates are 70 per cent, 35 per cent and zero. Therefore, SEM does not bring any respite for Indian exporters.

Community anti-dumping laws is another major area of concern for Indian exporters.

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9. Recently EC has introduced some new NTBs as India's exports : viz., AZO Dice, eco labelling, RAGMARK, Child Labour Issues etc. and also contemplating to link social cause with the trade preferences.


12. Ibid no. 3.


A host of India’s exports of textile items have been under Community anti-dumping duty. In the GATT regimes, anti-dumping duties were enforced unilaterally giving little scope to listen to the arguments of developing countries. Though after the completion of the Uruguay Round negotiations, all rules and regulations pertaining to anti-dumping duty are likely to be harmonised across the contracting parties, but even today, EC practices are much more stringent to non-member countries. EC Practices are completely different from GATT codes on antidumping duties (1979). There might have been sufficient reasons for worries of Indian exporters that in the ensuing years, anti-dumping duty will be enforced more rigorously to stop imports from developing countries in general and India in particular. Anti-dumping duty will be used as the most protective barrier. World Bank has expressed its apprehension for its rampant use in future. It has also predicted that when all present NTBs will be removed after 2004, antidumping duty will be the most restrictive trade measures.

EC’s single market does not say anything about the liberalisation of non-tariff barriers to the third countries. Many of NTBs are often treated as the “grey area”, by the enforcing countries, therefore, no retaliatory measure have been taken so far in the GATT regime. NTBs are the complete violation of GATT principle of free-trade and non-discrimination. But since GATT did not have any effective enforcement mechanism as well as dispute settlement body, no complaint alleging the violation of GATT’s free-trade principles had been reported to GATT.

But this scenario has changed with the signing of the Final Act of the Uruguay Round on 15th April, 1994 at Marrakesh, Morrocco. In the Uruguay Round negotiations, non-tariff barriers were given status of a separate group under the chairmanship of Australia. There have been a long pending demand of the developing countries for dismantling non-tariff barriers and replacing them by preferential tariffs. But so far developed countries have turned their Nelson’s eye to this demand.

17. Ashok V. Desai, "India and the Uruguay Round", Economic and Political Weekly, (Bombay), Special Number, November 1988, p. 2374.
In the discussion, all developed contracting parties have reached a consensus for eliminating all non-tariff barriers to trade and to replace them by tariffs. Most of the NTBs are highly non-transparent in their application and can not be covered under objective measurement. The developed countries have given commitment to convert all non-tariffs into tariffs under the 'tarification' programme. After tariffication of all NTBs, then developed countries will have to reduce 36 per cent over a period of 6 years and developing countries have to reduce tariffs by 24 per cent over a period of 8 years beginning 1st January, 1995. A significant amount of India's agricultural exports to EC is under NTBs. Due to political compulsions, almost all imports of agricultural goods into EC are subject to variable levies under Common Agricultural Programme (CAP). Especially, France is the most protectionist in agricultural imports. Developed countries provide enough subsidies to agricultural sector. For full agricultural liberalisation measures, the elimination of all intervention from tariff to subsidies could add $430 bn to global annual income, of which $250 billion would accrue to OECD countries and $180 billion to the rest of the World. In terms of welfare gains, partial agricultural trade liberalisation leads to an annual global gain of $190 billion (1992 dollars); of this amount $120 billion accounted for OECD countries and $70 billion for the developing countries. On an average OECD countries have given per head $440 subsidy per annum to the agricultural sector which is very difficult to dismantle immediately. It is estimated by a World Bank - OECD study that consumers had to pay a staggering $350 billion in 1992 for government support in agriculture. Europe headed the list with highest consumer cost of $160 billion and in terms of $450 per capita. The US ranked second with US $91 billion or $360 per capita. Japan was third in the queue with US $74 billion or $600 per capita. Total cost of 24 OECD countries was $354 billion, amounting to $440 per capita.

(c) Thomas Herrel, Will Martin, Koji Yanagishima and Beftina Dimaranan, "Liberalising Manufacturers Trade in a changing World Economy, no. 21(b), Ibid pp. 73-97.
21. Ibid no. 20, p. 78
22. Ibid no. 20, p. 79
While calculating the Producers' Subsidy Equivalents (PSEs) it is seen that Japan provides 72.5 per cent subsidy to their agriculture, EC provides 37 per cent and USA gives 26 per cent subsidies to their agricultural producers\(^{(23)}\). Total per capita subsidy in the OECD countries is $440 per annum. The Final Agreement on subsidies and countervailing measures has stipulated conversion of all subsidies into one Price Subsidy Equivalents (PSEs) or Average Measured Subsidies (AMS) and has asked developed countries to reduce this by 36 per cent over a period of 6 years and developing countries by 24 per cent over a period of 10 year. Apart from reductions in subsidy in value term the developed countries have also agreed to reduce subsidy on quantity of exports by 20 per cent.

These proposed measures are understood to have a favourable effect\(^{24}\) for Indian exporters. Indian exporters of agricultural products have long been deprived of better market access in the EC market. This is due to the fact that EC's agriculture is heavily subsidised under the CAP. Agricultural items were put under abnormally high tariffs and often they put variable levies if there has been reduction in international prices. If EC's agriculture is brought under liberalisation network, its prices will shoot up after reduction of subsidies. Since India has comparative advantage in exporting agricultural goods she will find a niche to EC market and will fetch better prices. Thus, reduction of subsidy on EC's agriculture is beneficial to Indian exporters. Though the magnitude of reduction is much less compared to the absolute level of subsidy but it is quite encouraging to Indian agro-exporters to the Community\(^{(24)}\).

Major NTB-removal package came from the Agreement on textiles and clothing\(^{(25)}\). Quota on textiles has been the single largest NTB in the EU market. Though trade in textiles and garments has been conducted by a separate agreement (i.e. multifibre arrangement or MFA) outside the GATT framework for more than three decades, GATT stipulates minimum 6 per cent growth at each level. Despite this fact, EC allows 0.5 per cent to 2 per cent growth in very sensitive categories\(^{(26)}\). EC is the most protectionist in this area even more

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24. India is giving negative subsidy to agriculture to the extent of 2.3 percent. This means Indian products are cheaper as compared to those of other countries. Therefore, India certainly can take advantage of the increase in EC price due to reduction in subsidies cf-ibid no. 21(a).


rigorous than USA and other five countries with which India concluded bilateral agreements on exports of textiles and clothing(27).

According to the Final Act of GATT, all NTBs (i.e. quotas) imposed on imports of textiles and clothing from 19 developing countries (including India) will be removed by 2005 AD. The 10 years transition period beginning 1st January, 1995 and phases are divided as 3:4:3. This is the major achievement of developing countries in general and India in particular(28). India’s export performance in textiles is consistently better especially in the cotton segment. Quota utilisation in most sensitive categories has exceeded 100 per cent since the mid-eighties, but it could not export more due to stringent quota and ceiling arrangements in the EU market. When the quota-regime will be completely dismantled from textile exports, India will be the single largest beneficiary of such programme on many grounds(29).

China is India’s major competitor in the EC market on textile products followed by other NICs like Singapore, Hong kong, Taiwan and South Korea. But considering the unique feature of India, she can capture a sizeable portion of the EC market on textiles. India may outspace China in the long run simply because of latter’s duel pricing policy, on the one hand, and continuous dumping on the other(30). After MFA phaseout, South Korea, Taiwan, Hong kong, Singapore and other NICs are expected to specialise in area of high value added products vacating lower-end to India. Due to excessive protection given to domestic industry, EC’s textiles sector will not be able to compete with India after the abolition of quota system. All these developments provide unique opportunity to India to capture lion’s share in the Community market(31).

India should not be too much optimistic about the phasing out programme. Quota is


(b) Ram Khanna, "Impact of QRs on India Apparel Export Industry" mimeo (ICRIER, New Delhi, 1987).


(c) "Implication of the Uruguay Round of Negotiations on Small and Medium Enterprises (SMEs) : The Case of the Indian Textiles Industry" Paper presented at a seminar in Delhi organised by Entrepreneurship Development Institute (EDT), Ahmadabad, 1994.

29. Ibid no. 7.

30. Ibid no. 7.

31 Ibid no. 7
the most transparent NTB enforced on India's textiles exports to EC. But apart from MFA quota, so many other complicated trade barriers have been enforced on EC's imports of textiles from India. First, important barrier is the higher tariff level. Average (wtd) tariff on EC's imports from India ranges between 4-5 per cent but the rate varies between 15-20 per cent in case of its imports of textiles and clothing[32]. This is because all imports of textiles from India are from very sensitive categories. Removal of quotas, does not mean reduction of tariffs in equal spirit[33]. Rather nominal tariff will be added by "equivalent-tariffs" which varies between 20-100 per cent ad valorem[34]. Therefore, after the removal of quota tariffs will be the main barrier which EC is unlikely to remove. Second, in the Uruguay Round, developed countries have agreed to reduce the average tariff by 38 per cent on all manufactured goods. Textiles will be covered in this area. But at the same time, they have also said that tariff reductions on textiles would not be more than 12 per cent on average[35]. Even this 12 per cent reduction may not be effective for India because this reduction is an average not across the products. Therefore, there is every possibility that EC may reduce tariffs more than 12 per cent on the items where the base level tariff is already low, without touching the items where the rate is very high due to its importance in the EC market.

Thirdly, MFA quota is not the only NTB on our textile exports to EC. Our export potentialities to EC have been getting eroded due to other labyrinthine NTBs which have same distortionary power. These are Safeguard Clause (Article XIX), basket extractor mechanism, anti-surge mechanism, anti-dumping duties, environmental clause, eco-friendly products, eco-labelling, standardisation, social clauses etc. These NTBs will remain in the system even after the removal of quotas. These NTBs will erode the benefit of free trade that will emerge after completely dismantling of the MFA quota[36].

Another challenge to India's exports in the EC is the emergence of new issues in the multilateral trade discussions. So far GATT had been the only multilateral body to frame rules and regulations on world trade with a view to making world trade as free as possible.

33. Swapan K. Bhattacharya, “India’s Textiles Agreements with USA and EU: Beginning of a New Era of Competitiveness” Foreign Trade Bulletin (New Delhi IIFT), May-June 1995, p. 10-13,22
through the removal of tariff barriers on merchandise trade only. But the Uruguay Round has widened the horizon of issues for negotiations from tariff to non-tariff and from goods to services. World Trade Organisation (WTO) replaces GATT, that looks after all issues that directly or indirectly affect trade. It has extended its horizon from economic to non-economic issues like environment, labour standard, child labour. Recently EC passed stringent laws on environment and eco-labelling. EC has already banned some chemicals used in the textiles industry. This ban will adversely affect India’s export prospect in the EC. India has been given some time to adjust its textile industry, and to become more environment conscious and not to use chemicals in its products which are not environment-friendly.

Emergence of social clause is another area which is a matter of great concern for Indian exporters to the EC. Under the GSP scheme, EC has already linked GSP facility with sound record on environment protection, human rights, good labour standards and several other conditions related to labour and employment. On the issue of child labour, Indian carpet industry is already under great pressure, and if EC continues to insist on fair labour standards according to their own definition, all our export efforts will come to a halt because most of our products are labour-intensive and are from unorganised sector.

Main findings of the entire study are as follows:

1. The EC has extended GSP facility to India long back covering a wide spectrum of manufactured goods but utilisation ratio is much less. It is even much less in case of textile items which are considered to be very sensitive in the EU market.

2. Indian is not going to enjoying any substantial benefit under Community's New GSP Scheme. In most sensitive items India will be graduated from developing

(c) Hartmut Kuchie, "Social Norms and World Trade" in B. Bhattacharya and Vijaya Katti (eds.) Emerging Trade Agenda : South Asian and German Perspectives, (New Delhi, Indian Institute of Foreign Trade, 1995), pp.199-207.

38. Ibid. no. 7.
countries since 1st January, 1997 and will be completely withdrawn from GSP Scheme from 1st January, 1999.

3. India is unlikely to obtain any substantial benefit from the EU's single market scheme. India's gain due to trade creation and trade diversion is much less. But harmonisation of standards and rules of the EU will help India follow a unified policy towards the community.

4. India has reasonable concern for "Fortress Europe". This scheme will make EU move protective towards non-members, outside the WTO framework.

5. Composition of Indian exports to the EC is of basically agricultural goods, textiles and garments and low value added manufactured goods. The terms of trade always against her. The demand for these commodities is highly inelastic due to artificial barriers (NTBs) against her exports.

6. More than 50 per cent of India's exports to the EU are covered by Community's NTBs over the years. From 1988 to 1994, there has been no change in the intensity of EU protectionism as measured by the NTB-Coverage ratio.

7. Frequency ratio is more than one third in the year of study, which means that more than one third of our export items of all product lines are subject to Community's NTBs.

8. Average rate of tariff (WTD) on NTB-covered items more than double compared to average tariff on all items. This proves the hypothesis that the items in which India has comparative advantages in the EU market are not only restrained by complicated structure of non-tariff barriers but also these are constrained by higher level of average tariffs than the items which are not covered by NTBs.

9. As regards measuring competitiveness of Indian products in the EU market, we have taken help of Bela Balassa's revealed comparative advantage (RCA) index. Higher RCA index means better comparative advantage as well as higher competitiveness. In our study we have proved our second hypothesis that in most cases RCA index is higher for those items which are covered by NTBs as well as higher tariffs.
10. Third and last hypothesis of our study is that the items which are covered by NTBs as well as higher tariffs and have better comparative advantage (i.e., higher RCA) are cheaper in India compared to EC. While drawing this inference, we have calculated the tariff equivalent of some agricultural goods subject to Community NTBs. It is seen that in most of the cases tariff equivalents are more than 100 per cent even after 36 per cent reduction of subsidies.

11. Our last finding is that over the years especially during the late nineties since the onset of India’s liberalising programme, India has reduced its peak tariffs from 400 per cent in 1990 to 50 per cent in 1995. Simultaneously it has also removed quantitative restrictions in most of the items which have been under negative list. India has started liberalising its economy through reforming almost all spheres of its economic activities. From being one of the most protectionist countries in 1990, India has now emerged as one of the most lucrative destinations of the foreign investors at present. Recently India has been successful in attracting more FDI due to its openness, both in internal and external sectors. But from EU’s side no indication is available to liberalise/remove its NTB’s or to relent on its protectionist approach. Rather every year newer forms of NTBs being raised, without adequate reason, particularly against imports from developing countries.