CHAPTER - II
REVIEW
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Review of Literature

Foreign trade and payments have assumed a central role in development plans of many underdeveloped countries. For most of these countries, exports represent an important share of total output and hence trends in foreign sales are critical in fostering overall growth. For some underdeveloped countries, export trade is such an important factor that an estimate of foreign exchange earnings represents a first step in the formulation of development plans.

Many developing countries of the world had initiated the process of economic reforms in their economies during 1980s. India like other developing countries during 1990s has launched economic reforms in its economy such as in financial sector, fiscal sector, social sector, public sector, trade sector, etc. On the other hand, establishment of WTO in 1995 has provided a lot of opportunities and challenges for both developed as well as developing countries. Many countries of the world have changed their foreign policies from inward oriented import substitution to outward-oriented export promotion to reap the benefits from the opportunities provided by globalization by accepting WTO norms and commitments and also introducing capitalist economic reforms in every sphere of their economies. Establishment of WTO on the one hand and the introduction of economic reforms on the other, have influenced Indian trade sector as a whole and export sector in particular.

The objective of this chapter is to provide an overview of the research work on the various aspects of economic reforms, World Trade Organization (WTO), and their effects on India’s exports. For this purpose, the chapter is divided into following sections:

2.1 Exports and Economic Growth
2.2 India’s Exports (1951-1991)
2.3 India’s Exports (1991-2006)
2.3.1 Economic Reforms and India’s Exports
2.3.2 World Trade Organization and India’s Exports

2.4 Summing up

2.1. Exports and Economic Growth

Post-war development theory also provided several intellectual foundations for the establishment of post-war international economic institutions such as the World Bank and the International Monetary Fund. Much of this work presupposed the idea that there were distinct stages of economic development (Rostow 1960), and it focused on the relationship between economic growth and savings as the basis for capital formation. The role of trade in economic development also played a central role in these theories. W. Arthur Lewis’s theory (1955) of the dual economy was particularly prominent as a basis for attempting to understand the economies of the previously colonial world. Other economists such as Adelman (1978) and Chenery (1974) cast doubt on the stage theory and further broadened the perspective by bringing distribution and welfare into the discussions.

Exports and economic growth relationship constitutes a vast literature. The empirical studies on economic growth and export relationship have been carried out in two broad directions: firstly in terms of country and cross-country comparison to find out this relationship and secondly in terms of testing impact of export promotion based outward-oriented or import substitution trade strategies. Herberler, 1959; Emery's, 1967; Michaely, 1977; Krueger, 1978; Balassa, 1978; Chenery, 1979; Fasana, 1979; Tyler, 1981; Feder, 1982; Kavoussi, 1984; Ram, 1985; Chow, 1987; Alam, 1989; Fosu, 1990; Liang, 1992; Attri, 1996; are prominent country and cross country level studies in this direction. All these studies contend that there exists a strong positive association between economic growth and export growth and thus exports play a key role as an additional variable in the process of economic growth by one way or the other. Greenaway et al., (1999) found a strong positive relation between the two and also suggested that
composition of exports is important in determining the extent of growth. Hultman (1967) discussed various models such as foreign trade multiplier model, growth models, leading sector approach, export base approach and development stages (location theory) approach, which show the possible relationship between exports and economic growth of the national economy. The author concluded that exports by one way or the other are associated with the economic growth of an economy, especially of an underdeveloped one. Rodriguez et al., (1999) also observed open trade policies in the sense of lower tariff and non-tariff barriers to trade significantly associated with economic growth. According to Hanson II, good export performance has associated with countries having internal attributes conducive to economic development (Hanson II, 1977).

Several structural theorists have questioned the wisdom of relying heavily on external market particularly for contemporary third world economies (Myrdal, 1957). Because of their traditional exports frequently lie in sectors that offer unattractive demand prospects and limited inter-sectoral linkages such as primary products and very low wage assembly, significant expansion of existing industries may neither be possible nor desirable (Prebisch 1962; Cline 1982). Jung and Marshal (1985), while examining the relationship between exports and economic growth during the period 1950-81, strongly argued that the evidence in favour of export promotion was weaker than what the previous studies have indicated. Cline (1982) and Irma (1984) have also found export led strategy inferior to alternative strategies. Moon (1998) found that nations characterized by following outward-oriented development strategies do not trade notably different than those regarded as inward oriented and those nations do not expand their trade strikingly different from other countries. Furthermore, it is not apparent that export expansion is the principal source of the superior macro economic performance of so called “outward-oriented” nations. Galtung (1971); Frank (1966); Emmanuel
provide a strong evidence to the fact that trade dependence may lead to distortions which compromise future growth opportunities. Moreover, heavy reliance on trade may leave a nation dangerously vulnerable to market disruptions or political pressures, particularly if trade is concentrated in a small number of products and a small number of trade partners.

It is widely recognized that there are important factors at work, emanating from industrial countries, which are preventing a fast-enough growth of the export demand for the products of underdeveloped countries. Some of these factors as listed by Nurkse (1961) are: a shift in the composition of industrial output (in advanced countries) from industries with a high raw material content; low income elasticities of consumer demand for many agricultural commodities, once a high standard of life is reached; growing technological advances leading to economies in the industrial uses of primary raw material; and displacement of natural raw material by synthetic and other man-made substitutes, made from a few basic elements mostly of local origin. As a consequence, if the rate of economic development in underdeveloped countries were left to be determined by rate of the growth of foreign demand for their exports, the pace of development for most of these countries must be painfully slow. Furthermore, Prebisch (1964) added that there is a long run tendency for the prices of the primary products to deteriorate as compared to the prices of the manufactured products. As developing countries export mainly the primary products, they have to face secular deterioration of terms of trade that ought to be unfavourable to their exportables. Therefore, international trade cannot be an effective engine of growth. In their strategy of growth, underdeveloped countries have to emphasize on balanced growth, a coordinated development of local industries in accordance with the growth and structure of domestic demand.
In between these two positions is Kravis (1970), whose challenge to Nurkse’s interpretation depicts trade as “handmaiden of growth” and contends that trade was as much as a consequence as a cause of growth, that trade only is one cause among many for economic growth, that is worked only for some nations under specific conditions and most importantly, that mainsprings for growth were internal. In support of Kravis’s pessimism about the role of exports, Lewis (1978) adds another analogy that the engine of growth should be technological change with international trade serving as lubricating oil not as fuel.

Export earning instability and its impact on economic growth is another core area of research in number of studies. Nurkse, 1958; Myrdal, 1956; Hirschman, 1959; and Helleiner, 1972 examined impact of export instability in LDCs during different periods. The authors revealed that violent and sudden fluctuations in prices, quantum, and total proceeds, of exports have an adverse impact on the overall growth of LDCs. It is generally agreed that excessive fluctuations in export earnings originate from variations in supply or demand or other non-market factors and hurt economic growth by one way or the other. But Murray (1978); Massell (1964); Naya (1973); and Lawson (1974) in this line concluded that export earning fluctuations are largely positively correlated with degree of commodity concentration of exports, and with proportions of export obtained from sale of primary goods, and negatively correlated with per capita income GDP and with concentration of exports by geographical area of destination. Macbean (1966) and Coppock (1962) question and even refute some of these views strongly and cast some serious doubts about their general applicability both in short and long run. Coppock (1963), by analyzing export instability during the post Second World War period for world trade and for 83 countries, states that instability of primary goods exports (value) was less than in the manufactured goods (value) during the 1948-58. Base metals, minerals, other manufacturers, capital goods, fuels, food, consumer goods, and
raw material are the sub groups of exports that had classified in descending order of instability of exports. Aggrawal (1982) highlights that fluctuations in the export earning in LDCs do not appear too much detrimental to countries’ stability and growth particularly in short run, but other structural factors are not only responsive for causing alarming disturbances in domestic activity but also putting heavy constraints and limitations in economic development of these countries to a significant extent. Rangarajan (2004) made an attempt to understand the relationship between income growth and export fluctuations in eleven countries. Study states that an increase in the instability of exports leads to an increase in the instability of income but the impact is not same in all the countries.

There has been strong controversy in the literature about the exact causes and consequences of export instability. The exports of both developed and underdeveloped countries fluctuate. However, many studies such as Macbean, (1966); Massel (1970); Glezakos, (1973); Savvidos, (1984) and Lanceiri (1987) report that the developing countries have substantially higher degree of export earnings instability than the developed countries. Many causes of instability have been put forward such as low price elasticity, sudden variations in supply due to natural factors and business cycles in developed countries, etc. but commodity and geographic concentration of exports have been considered as the major causes of export instability in developing countries. Coppock (1962); Massell (1964) and Macbean (1966) established that there was a weak relation between concentration of exports and exports instability. Contrary to this, Massell (1970) found a significant relationship between commodity concentration and instability of exports.

2.2 India’s Exports (1951-1991)

The period (1951-1991) has been characterized by import substitution inward oriented development strategy. A lot of research has taken place on India’s exports during this period. Because of the general
perception that Indian exports are facing severe demand constraints and partly due to the fact that supply side aspects are difficult to model, most of the studies on India’s merchandise exports concentrated on demand side. Empirical studies on demand for India’s exports examine the demand pattern of export in terms of price and income elasticity. Dutta, 1964; Pandit, 1973; Sinha, 1986; Bahmani-Oskooee, (1986), Ram and Rath (1989); and analyzed the demand pattern of Indian exports on aggregative level. Several studies such as Dutta, 1965; Da Costa, 1965; Wadhwa, 1974; Biswas, 1983; Lucas, 1988; Rath and Sahoo, 1990; Virmani, 1991 and Kaur, 1993 analyzed the same by dividing total exports into several groups (i.e. on disaggregate level). The important factors according to all these studies that influence exports can be broadly classified into three types’ viz. demand factors, supply factors and non-market factors. The principal demand factors influencing exports are basically the level of economic activity in rest of the world and price (unit values) of exports. Exports are also found to be influenced by competitiveness of goods in world market. In some studies, the relative importance is given to export market, vis-à-vis domestic market by entrepreneur and government. Apart from the price and income factors, demand for exports also found to be depended on non-market factor i.e. other aspects of sales terms.

Since the initiation of planned economic development in 1951, the pattern of Indian exports has undergone several structural changes such as share in world exports, commodity composition, and destination composition. Patel (1959), by analyzing long-term trends in Indian exports until the end of the first five-year plan in terms of volume, composition and direction of exports, attributes that the falling world demand for Indian traditional exports is the main factor responsible for relative stagnation of Indian exports during the concerned period. Maizells (1961) and Nurkse (1961) argued that stagnation of export in LDCs is the consequence of slowly expanding world demand in LDCs.
traditional primary export. But, Cohen (1964) statistically observes that the stagnation in Indian exports during 1951-60, has been more due to the higher domestic production costs and rising domestic demand leading to higher relative price of Indian exports in world markets than due to the relative inelastic or falling world demand for India’s traditional exports. The author also points out that it is reduced competitiveness of Indian exports primarily due to price factor, which has lead to falling share of India’s traditional export items in the world market.

Singh (1964) examined India’s export performance and trends and highlighted the future prospectus for self-sustained growth during the period 1951-60. The study explained that intensity or relative importance of external and internal factors influencing India’s export performance varied from one commodity to other, but stagnation in India’s export earnings and even declining share in world exports during study period was partly a consequence of faulty economic policies of import substitution adopted by the government during 1951-60. Samuel and Mote (1970) analysed the competitiveness of Indian exports at micro level both theoretically and empirically and pointed out that the competitiveness of exports depends both on non price (i.e. quantity and service) and price factors, but the price factor is dominating in determining competitiveness.

Nayyar (1976) analyzed India’s export performance and policies during 1960s and stated that the process of the export growth was influenced by variety of domestic and external factors. Benerji (1975) has examined the emerging pattern of Indian manufactured exports. Bhagwati and Srinivasan (1975) examined India’s foreign trade regime, in its interaction with domestic policies and objectives, so as to assess its efficiency and growth during 1951-70. These studies claimed that import substitution policy played a bias against the export promotion and resulted in poor export performance. Thus, these studies emphasized the need of change in the attitude towards the export promotion from the
import substitution one. Besides, Panchmukhi (1978) has discussed India’s overall trade and other policies covering the period of 1960s. Sainy (1979) examines the role of foreign trade in India’s economic development and tried to locate weak spot in the policy formulation and institutional arrangement and also suggested measures designed to rationalize imports and argued for diversification of Indian exports.

Nayyar (1988) examined the underlying factors and assessed the relative importance of domestic and foreign constraints in affecting India’s exports during the period of 1977-1985. Lack of competitiveness of Indian exports due to price and non-price factors, pressure of domestic demand, infrastructural and supply bottlenecks are found to be the major constraints of Indian export growth. External factors such as steady increase in protectionism in industrialized countries and fierce price and non-price competition led by near stagnation in international trade during 1980’s are found to influence India’s export growth adversely.

Nambiar (1979) has traced the role of exports in employment generation in Indian economy during the period 1963-64 and 1973-74. The author concluded that exports have contributed much less to employment generation in India. Export-related employment increased only by half a million between 1963-64 and 1973-74 and only accounted for roughly two per cent of total domestic employment. There were no major structural changes in the overall exports. The significant observations are that the fastest growing exports are least labour-intensive and the outward-orientation of industry is inversely related with labour-intensity of the industry. Export promotion offers no substantial relief from unemployment problem in India.

Dhindsa (1981) has examined the trends in exports of major traditional commodities such as tea, cotton manufactures, and jute manufactures and major causes of slow growth in their exports in major importing countries over last three decades. Main factors which have
adversely affected the exports of these commodities are increasing profitability of domestic sales vis-à-vis foreign, heavy exports taxes, and increase in domestic demand, low production and productivity and relative higher production costs. All the selected commodities face stiff competition from their own substitutes. Wolf (1982) investigated India’s export during the 1970s. Singhal (1985) analyzed India’s export trends and trade policies mainly during 1970s. Wadhawa (1988) has attempted to examine a few specific aspects of the India’s export performance in quantitative terms and impact of real effective exchange rate on it. The econometric results confirm that exchange rate depreciation had an important effect of all five selected products. The results further confirm that for all five selected products, exports in real terms are highly elastic with respect to both the Real Effective Exchange Rate (REER) and the incentive adjusted Real Effective Exchange Rate (REER).

Kantawala (1996) examined differences in price and income elasticity of demand for exports and imports at disaggregative level on the basis of Indian data for the period 1969-70 to 1989-90. The study shows that majority of commodity groups, exports and imports are both price and income elastic and sum of price elasticity of demand for exports and imports is not less than one during the study period. The study concluded that manufactured exports from India will increase at a faster rate in light of the growth of the developed countries and income elasticity of demand for manufactured exports. Paul (1992) described new imperatives and vistas of India’s export given the emerging Asia-pacific Nexus. Kaur (1993) evaluated instability and performance of Indian exports covering the period from 1970-71 to 1989-90. Sathe (1995) examined the impact of diversification of composition of Indian exports on various aspects of Indian economy during the period 1951-52 to 1983-84.
Bhide et al., (1997) highlighted the pattern of Indian exports in terms of their composition and direction, the importance of supply factors in determining the composition of Indian exports and also mentioned the importance of political and other events, which can influence the destination of Indian exports during the period 1960-61 to 1993-94. The pattern and composition of exports and the share of Indian exports reflect either supply bottlenecks of Indian exports or the more aggressive exports by other countries. The composition of Indian exports also indicates the rising share of manufactured exports and decline of agricultural exports. The study carried out by EXIM of India (1999) examined the instrumental role of international trade in general and that of exports in particular in India’s growth process during post Second World War period and brought out positive impact of volume growth of exports on country’s overall economic growth.

2.3. India’s Exports (1991-2006)

This period is characterized two most significant events in India’s economic history. On the one side there is paramount shift in strategy for development from inward oriented import substitution to outward-oriented export promotion and on the other side creation of WTO, which provided a new world economic order. India’s export sector felt many sweet and bitter experiences during this period, i.e. faced many opportunities and challenges as highlighted in the following two sections.

2.3.1 Economic Reforms and India’s Exports (1991-2006)

India adopted an inward-oriented import substitution heavy industrialization strategy which fostered a large and diverse industrial sector. All this is done to serve some of the domestic interests such as to save domestic industries from foreign competition, to encourage import substitution etc. Over the time, this sector accumulated impressive technological capabilities, but this system created various types of inefficiencies and slowed down the rate of growth of the economy. This
model suffered a crisis in early 1980s due to falling production and eroding its position in world exports. India's share in world exports has rapidly decreased to 0.5 percent in 1980 from a respectable one of two per cent in 1950. Several studies have argued that the import substitution policies had created a bias against exports in India. In spite of the various export promotion schemes adopted in the 1970s and 1980s, profitability in the heavily protected domestic market remained significantly higher than that in the export market (Kathuria 1996).

Economic policy reforms in India, initiated hesitantly around mid-eighties, experimented with internal liberalization like selective price control and deregulation of industries, increased exchange rate adjustments, monetary policy reforms and some institutional creations. But, the process was reluctant intermittent and patchy. It is only after the severe macro-economic crisis that a serious attempt was made to free up trade, domestic competition, and technology inflow and attract foreign investment (Joshi and Little, 1996). Thus, major policy reforms like widespread decontrol of prices and delicensing of industries, external liberalization of imports and investment, market determined exchange rates and interest rates, and a major strategy shift from import substitution to export promotion started in early 1990s.

In India as in many developing countries, international trade has been dominated by regulations and controls. But throughout much of the developing world since 1980s, there has been an important policy reversal in favour of eliminating these controls. India’s latest phase of economic reforms was initiated in mid 1991 with a primary focus of trade policy reforms. Trade policy consists of imposition of taxes on trade and other restrictions and regulations which prevent or control trade. Reforming foreign trade policy was the first step in the process of India’s external sector reforms and an integral part of the programme of ‘macro-economic stabilization and structural adjustment’ initiated in the
economy in July 1991. This step was very significant in the sense that the size of the trade deficit during the fiscal year 1990-91 was abnormally large amounting to over US $ 9.4 billion, which constitute 3.20 per cent of GDP (GOI, 1999). Here our interest is to investigate the impact of economic reforms on India’s exports and we concentrate particularly on trade reforms.

Over the period of reforms, some new measures have been added to, and a few of them have been withdrawn from the policy package from time to time, depending upon the changing performance and position of this sector. The measures that have been taken in this regard can be grouped under four broad heads:
(1) rationalization of exchange rate policy;
(2) liberalization of imports;
(3) incentives and encouragement to exports; and
(4) simplification of procedural formalities and fostering of transparency.

The redesigning of foreign trade policy covers quite a broad area and a variety of measures. A major objective of the trade reforms has been to reduce and eventually eliminate the gap between domestic and export profitability. The focus of the export policy, by and large, shifted from product-specific incentives to more generalized incentives based primarily on the exchange rate. A major element of this policy shift was the downward adjustment in the exchange rate of the rupee against the major currencies in July 1991 (Veeramani, 2007). Further, rupee was devalued twice in July 1991 leading to 20 per cent depreciation in its value. It was held that a more realistic exchange rate would make exporting inherently more attractive. In 1993, the government adopted full convertibility of the rupee on the current account. The exchange rate was henceforth to be determined by demand for and supply of foreign exchange in the foreign exchange market (Veeramani, 2007). Exchange rate has been used as the general instrument for export promotion and import management. Several steps
have been introduced for export promotion. These included sufficiently large exports credit at internationally competitive rates, special import licenses to import items and relaxing restrictions related to agricultural exports. All these policy changes are the indication of export friendliness of government, which will enhance the competitive strength of Indian exports in international markets.

Exports were encouraged more actively, quantitative restrictions on imports were relaxed (though not removed, particularly on consumer goods) and tariffs (particularly on industrial inputs and capital goods) lowered. The government eased domestic licensing, and gave large private firms greater freedom to grow. It also launched a somewhat reluctant privatization process. The trade regime inward oriented import-substitution is now replaced with outward-oriented export promotion. New foreign equipment and technologies are more accessible and there is a significant rise in inward foreign direct investment. In 1992-93, EOU-EPZ system was expanded to agricultural and allied exports. An electronic Hardware Technology Park Scheme was introduced at par with the EPZ in 1994-95. Besides trade policy reforms, establishment of World Trade Organisation in 1995 has also led to steep reduction in tariffs and non-tariff barriers to trade in all the member countries. The concept of Free Trade Zone was accepted in 1999-2000 and Foreign Exchange Management Act (FEMA) was introduced in June 1, 2000 replacing the earlier Foreign Exchange Regulation Act (FERA). Special Economic Zone (SEZ) policy was announced in April 2000 to overcome the shortcomings of EPZs such as multiplicity of controls and clearances, absence of world class infrastructure and instable fiscal regime. SEZ policy act 2005 supported by SEZ rules came into effect on February 10, 2006 (Economic Survey, 2006-07). Apart from the SEZs, a number of export promotion schemes such as Special Import License Scheme (SILS), Export Promotion of
Capital Goods Scheme (EPCGS), Duty Free Import Exemption Scheme (DFIES), etc. were also introduced (Joshi and Little, 1996).

**Table 2.1: Main Measures Affecting India’s Exports Introduced since 1991.**

<table>
<thead>
<tr>
<th>Years</th>
<th>Measures</th>
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<tbody>
<tr>
<td>1991-92</td>
<td>Removal of product specific export incentive coupled with a two stage devaluation of Indian rupee (20 Per cent in value).</td>
</tr>
<tr>
<td>1992-93</td>
<td>Expansion of EOU-EPZ system to agricultural and allied exports with 50 per cent DTA sell allowed.</td>
</tr>
<tr>
<td>1993-94</td>
<td>Partial convertibility of rupee on trade account subsequently followed by full convertibility on current account.</td>
</tr>
<tr>
<td>1994-95</td>
<td>Introduction of an Electronic Hardware Park Scheme on par with the EPZs.</td>
</tr>
<tr>
<td>1999-00</td>
<td>Acceptance of Free Trade Zones.</td>
</tr>
<tr>
<td>2000-01</td>
<td>Introduction of Special Economic Zones, Export Promotion Zones to promote exports.</td>
</tr>
<tr>
<td>2000-01</td>
<td>Introduction of FEMA.</td>
</tr>
<tr>
<td>2005-06</td>
<td>Establishment of Inter-State Trade Councils. Besides, SEZ policy act 2005 supported by SEZ rules came into effect on February 10, 2006</td>
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Further, these reforms also include sufficiently large export credit at internationally competitive rates, creation of private bonded warehouses, green channel facility for speedy clearance for certain categories of exporters and importers, special import license to import items from the restrictive list as a reward to exporters for superior performance and quality maintenance, introducing a new category of Super Star Trading House (SSTH) to reward large exporter and relaxing or removing restrictions relating to agro-exports. The forgoing policy changes are an indication to create an environment that will enhance
the competitive strength of Indian exports in international market (Kaundal, 2006). Peak rate of customs duty for non-agricultural products was reduced from 20 per cent to 15 per cent. An additional 108 items, including 30 items in the category of textile products, including hosiery, were identified for de-reservation from the ambit of small-scale industries to help textiles and clothing exports in the post-quota regime. State governments were actively involved in providing an enabling environment for boosting international trade by setting up an Inter-State Trade Council. Some minor administrative measures such as removal of minimum price restrictions on some exports were also initiated. The procedural regime had been streamlined and designed to reduce transaction costs.

Besides the measures to promote exports, various efforts were made to liberalize imports primarily of the intermediate and capital goods. The main objective of import policy is to make necessary imported goods more easily available and promote foreign trade. The economic needs of the country, effective use of foreign exchange and industrial as well as consumer requirements are the basic factors, which influence India’s import policy. It takes an integrated view of the overall development of India’s foreign trade. Custom duties were cut drastically. Tariffs on capital goods and intermediate goods were significantly brought down to 25 per cent and 40 per cent respectively. Moreover, there was a reduction in the level of tariff on a large number of imports, including special provisions for preferential duty regime. Major measures affecting exports and imports are presented in the Table 2.1 and Table 2.2 respectively.

The objective of the Foreign Trade Policy 2002-03 was of two fold: to double India’s percentage share of global merchandise trade by 2009 and to act as an effective instrument of economic growth by giving a thrust to employment generation, especially in semi-urban and rural
areas. It was assumed that coherence and consistency among trade and other economic policies would help India to become a major player in the world trade. It took an integrated view of the overall development of India's foreign trade (Foreign Trade Policy, 2002-03).

Table 2.2: Main Measures Affecting India’s Imports introduced since 1991.

<table>
<thead>
<tr>
<th>Years</th>
<th>Measures</th>
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<tr>
<td>1991-92</td>
<td>More than a half reduction of tariff rate (150 per cent from the peak of 355 per cent), import licensing system has been dismantled.</td>
</tr>
<tr>
<td>1992-93</td>
<td>Another cut in peak rate to 110 per cent, free imports of almost all intermediate and capital goods.</td>
</tr>
<tr>
<td>1993-94</td>
<td>Reduction of Unweighted Nominal Tariff from 125 per cent (with peak of 350 per cent) to 65 per cent, removed 146 items from negative (restricted) list.</td>
</tr>
<tr>
<td>1995-96</td>
<td>Phased out all non-traditional barriers from all tradables except consumer goods. Further reduction in tariff rates to maximum of 50 per cent</td>
</tr>
<tr>
<td>1998-99</td>
<td>Removal of all quantitative restrictions on imports of around 2300 items from SAARC countries.</td>
</tr>
<tr>
<td>2000-01</td>
<td>Reduction of peak tariff rates to 35 per cent.</td>
</tr>
<tr>
<td>2002-03</td>
<td>Reduction of peak rate of customs duty to 30 per cent Removal of quantitative restriction on bulk of import items.</td>
</tr>
<tr>
<td>2005-06</td>
<td>Reduction of peak rate of customs duty for non-agricultural products from 20 per cent to 15 per cent.</td>
</tr>
<tr>
<td>2009-10</td>
<td>Peak rates fell sharply to 10 per cent.</td>
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There are a number of studies that examine foreign trade reforms and their impact on the foreign trade sector as a whole and on export sector in particular. Joshi and Little (1996) described various dimensions of India’s economic reforms as whole. Various reforms of trade controls and reforms of tariff and protection during 1991-2001 have been
analyzed in fuller detail. Withdrawal of various quantitative restrictions, reduction of tariff protection, and introduction of special export promotion scheme has been highlighted as major reforms on trade front. Sharan and Mukhreji (2001) presented a complete picture of India’s foreign trade reforms and also highlighted their impact on trade sector. They found that foreign trade reforms have not lived up to expectations. It is true that terms of trade have gone in India’s favour conferring gains from trade. It is also true that the structure of trade has diversified in favour of larger number of commodities and countries, which is a positive trend. But trade deficit has been on the increase despite lowering of the growth rate of imports in recent years making the development process more vulnerable. There are, of course, some supply constraints that the Indian government has not been able to remove completely. But more importantly there are external factors not within the control of the Indian government that have been responsible for slow growth of several exports.

Economic reforms have influenced every core sector of Indian economy and export sector is not an exception. There is a lot of discussion as to whether the economic reforms of nineties have helped India’s exports. There persists also the debate on how India can reach its target of two per cent share of world exports by 2015, which it had in 1950s. Export growth in India has been much faster than GDP growth over few decades. Several factors appear to have contributed for this better performance. Sharma (2000), using annual data for 1970-98, investigated the determinants of export performance in India in a simultaneous equation framework. The Results of the study suggest that demand for Indian exports increases when its export prices fell in relation to world prices. Furthermore, the real appreciation of the rupee adversely affected India’s exports. Export supply was positively related to the domestic relative price of exports and higher domestic demand reduces export supply. Foreign investment appeared to have statistically
no significant impact on export performance although the coefficient of FDI has a positive sign.

Kathuria (1996) examined the impact of recent policy changes on India’s exports with special reference to export incentives during pre and post reforms periods. Since July 1991, there have been dramatic changes in the trade policy regime in India. The objective of these reforms has been to enhance export performance by improving export incentives and eliminating discretionary controls. By means of a simple model, this paper sets out to examine whether export incentives actually improved as a result of the policy changes. The model is divided into two parts: one compares export profitability (EP) across regimes, and the other compares the gap between domestic and export profitability across regimes. The export basket is divided into eight sub-sectors, and the model applied to each of those sectors. Several sets of simulation exercises have been performed. The dominant results are that relative to export profitability in the pre-July 1991 period, EP declined in the dual exchange rate regime (March 1992-February 1993) for most export sectors. The gap between domestic and export profitability also increased in this period, meaning that domestic sales became even more attractive relative to export sales than they already were. This adverse movement in export incentives was reversed with the unification of the exchange rate in March 1993.

Kaushik et al. (2000) verifies the growth, variability, sources of variability, and its impact on economic growth during the process of ongoing policy reforms. To this end, export instability and variance of export earnings around an exponential trend are estimated to examine the relative importance of price and quantity fluctuations. The major findings of the study are as follow: Firstly, the exports of Indian agricultural and allied products and manufacturing products have increased significantly since initiation of liberalization. Secondly, export-earning instability is mainly due to volume instability rather than that of
price variability. Thirdly, study confirmed that export instability does make an adverse impact on domestic economic performance, more pronouncedly by inducing instability in capital goods imports, and less significantly through jeopardizing the pace of domestic capital formation.

Srinvasan (1998) analysed overall trends of India’s export performance since 1951 and competitiveness of Indian exports since mid 1980s. The author found Real Effective Exchange Rate to be significant in explaining export performance. The author also concluded that Indian export grew relatively rapidly since mid 1980s (barring crisis years), but in comparison with other countries, particularly China, India does not seem competitive in a number of commodities.

Bhatachariya et al., (2000) examined the India’s export performance in the post liberalization era. An attempt has also been made to find out whether the demand for knowledge or capital intensive products is increasing faster than that of labour intensive products. The analysis shows that India’s exports have shifted towards more value added product categories. The gain has primarily come at the cost of labour intensive products. Further the study reveals that demand for knowledge intensive or capital intensive products is increasing at the faster rate than that of labour intensive products which is in line with global trend.

Ghomawat and Patibandla (1999) examined export performance of Indian diamond, garments, and software industries and also quantified the impact of economic reform on competitiveness of these three exports. The authors argue that economic reform have enhanced India’s competitiveness in the labour and skill-intensive industries; helped to reduce the dependence of competitive industries on inefficient domestic suppliers and infrastructure. Devaluation of rupee, reduced tariffs from import of capital goods, freer imports of raw materials, formation of alliance for technology transfer and international marketing due to liberalization of FDI and reduction in dependence of sub-optimal
domestic inputs and technology are identified as such aspects of reforms process which benefited exports of these three industries a lot. Nonetheless, they find causes for concern about each industry’s ability of sustain growth, pointing out the need to continue extend and deepen the reform process.

Mehta (1997) has analyzed the impact of India’s trade reforms on external trade by using the Cordon’s measures of Effective Rate of Protection. The study concluded that the liberalization process has enhanced the importance of international trade in our domestic economy and the share of trade in GDP has increased to 24 per cent in 1995-96. Nidugala (1999) has analysed the impact of exports on economic growth in India for the period 1960-80 by using Esfahan’s (1991) modified growth model. The study concludes that the growth of manufactured exports had significant positive relationship with GDP growth, while growth of primary exports hardly had any influence on GDP growth. The study suggested that there is a need to deepen the reforms further to sustain the current growth and to attain high levels of growth.

Prasad (1997) highlighted the impact of economic reforms on India’s exports during the period from 1990 to 1994. The study concluded that reforms process has helped India’s exports, despite relatively lower world demand. This period has witnessed rise in India’s competitiveness vis-à-vis its competitors. This has also paved the path for India to reap the benefits of any increase in world demand.

Marjit and Chaudary (1997) analyzed India’s export performance and trade policies during 1970-90 and also highlight the prospectus of recent reforms in the light of past performance, especially in the context of external sector. The study shows that India’s export performance is far from satisfactory. Lack of price competitiveness is the most important lacuna in Indian exports. The study recommend an increasing role of market mechanism, reducing the scope of distortionary taxes and subsidies to improve India’s export performance as well as to make
Indian exports price competitive vis-à-vis its competitors. The authors also clarify that besides price competitiveness, non-price factors especially the aspects of quality, timely delivery, organic nature of products, etc. are most important aspects to improve export performance.

Hargopal (2001) has evaluated the performance of external sector of India in the light of trade policy reforms for the period 1980-81 to 1997-98 by dividing whole period into sub periods i.e. pre-liberalization (1980-81 to 1990-91) and post- liberalization period (1991-92 to 1997-98). The study concluded that on the whole, trade liberalization measures had a positive impact on external variables. Post liberalization period saw a tremendous growth of exports, imports, foreign exchange, and a decline of internal debt. The only concern found was the faster growth of imports as compared to exports.

Sekhar (2003) analyzed the likely implications of agricultural trade liberalization for the rice sector in India with a special focus on determining the role of major exporters in world rice market. The results indicate that the world markets for rice are mainly influenced by reduction in income levels in the major importing countries. Demand functions showed high elasticity with respect to Indian exports prices relative to that of Thailand and Pakistan.

Marjit et al, (2000) have tried to find out the impact of currency devaluation on India’s exports for the period 1951-94 by using US import statistics. The study concluded that in developing countries like India, where foreign exchange markets are subject to stringent rules and regulations, actual exports may not undergo much change following devaluation and the official statistics often tend to overestimate the actual impact of currency devaluation. Further, the study observes that the impact of exchange rate devaluation was strongly realized on reported sales than on the actual exports to US during the concerned period.
Aggarwal (2003) analyzed the inter-firm determinants of export performance in Indian manufacturing in late 1990s by taking a sample of firms from Indian manufacturing. The results show that high tech industries are not attracting efficiency seeking FDI as had been expected. In case of medium high-tech sectors, performance is somewhat better. In low-tech industries, firms with high foreign stake are found to be performing better. The results also suggest that in technology based sectors own technological capabilities of the firms are crucial determinants of export performance. It was also found that export performance was linked with firm size and import of raw material in component in almost all technology groups. Further, the liberalization of markets and technological changes taking place has changed the kind and determinants of trans-border activities engaged in by MNEs.

Chand (2004) has investigated India’s agro export performance and competitiveness in changed international scenario. Policy of reducing controls over exports and exchange rate adjustments boosted growth of farm exports. Study concluded that despite several odds such as TBT-SPS issues and domestic infrastructural bottlenecks, in the new international trade environment India performed much better in exporting horticultural, livestock, and processed products whose demand is more elastic. India has an advantage and potential for promoting exports of rice, groundnut, soybean, cotton, and sugar, but it is in a disadvantageous position to compete and benefit from wheat. Domestic factors such as improvement in efficiency which includes reduction in production cost as well as other costs and processes which reflect into price like cost of marketing, cost of transport and cost of processing, are key to improve export performance.

Kaushik and Karol (2001) backed by an econometric exercise, confirm that export instability does make an adverse impact on domestic economic performance, more pronouncedly by including instability in
capital goods imports, and less significantly through jeopardizing the pace of domestic capital formation.

Devi and Rao (2004) also examined the impact of economic reforms on India’s external sector as a whole and on exports in particular. They argue that reforms have enhanced India’s competitiveness in labour and skill intensive industries, reduced dependence of competitive industries on inefficient domestic suppliers and infrastructure and enhanced domestic competitive conditions. Exports have been growing at 20 percent in dollar terms. What is more significant is that the share of manufactured goods in the export basket has risen while that of primary goods has fallen.

Kaundal (2005) examines the patterns, causes and determinants of growth and instability of India’s principal exports. He also evaluates the impact of trade policy reforms and that of export growth and instability on economic growth. The structure of India’s exports has undergone radical changes during 1970-71 to 2001-2002. Share of important traditional items like tea, jute manufactured and cotton textile, raw jute and cotton raw has sharply gone down while that of new non-traditional items like machinery, transport and metal manufactures including iron and steel, chemical and allied products and developmental imports have gone up during the period under study. The direction of exports has remained mainly towards the industrialized countries of the west. Early post reforms experienced considerable buoyancy in exports. The analysis also explored the relative importance of supply and demand forces and the resultant price and quantity fluctuations in identifying export instability in India’s principal exports in general and agricultural exports in particular.

Sharma and Dietrich (2007) assesses empirically structural change in the Indian manufacturing based export sector during the period 1980-2000 by using trade indices such as Balassa’s Revealed Comparative Advantage (RCA) index, and other variants commonly employed in the
literature are used. Three technology categories (high technology, medium technology, and low technology) are analysed individually. The results of the study indicate towards substantial industrial restructuring in manufactured exports. It also indicates towards despecialisation within India’s manufactured exports for the time period studied, which is consistent with increasing specialisation in a subset of manufactured exports.

2.3.2 World Trade Organization and India’s Exports (1995-2006)

The charter of establishment of the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) was signed at the Bretton Woods conference in 1944, which underlines the importance of a comparable institution of trade at the global level. Later on, in an effort to give early boost to trade liberalization (which was adversely effected by the political factors soon after the ‘Great Depression’ in 1930) and the economic crisis after World War II, there was an attempt to set up an International Trade Organization (ITO) in 1946 under the aegis of the UN Conference on Trade and Employment along with other new multilateral institutions dedicated to international economic cooperation which are known as ‘Bretton Woods’ institutions. Two years later, U.S.A published a draft on the creation of International Trade Organization (ITO), a third pillar alongside the IMF and IBRD, but it failed to materialize due to opposition in the congress. Instead of ITO, the General Agreement on Tariffs and Trade (GATT) came into effect with 23 contracting parties including India as signatories in 1947. The New World Economic Order during 1950-84 led to seven important rounds of trade negotiations (Box 2.1), which effected massive disciplines in international trade. Finally, the trends of these negotiations hint at liberalization of economies and the reduction of tariff, which with a participation of 123 countries, prompted the nations to finalize the world trading rules at the eighth round of GATT, i.e. Uruguay Round of trade negotiations 1986-94 leading to the formation of the World Trade
Organization (WTO) in 1995 (Mittal and Raju, 2005). GATT is a multilateral treaty among the member countries for conducting international trade. The member countries contribute together to four-fifth of the total world trade. The basic aim of the GATT was to liberalize world trade negotiations among countries. It had been concerned with negotiations on the reduction of tariffs and non-tariff barriers among member countries and improving the international trade flows freely and swiftly. Eight rounds of GATT have basically been concerned with the reduction and elimination of tariffs by the developed countries so that the member countries could have market access. The WTO came into effect on January 1, 1995, as the result of the Uruguay Round trade negotiations (8th round of GATT) and is one of the world’s leading international economic institutions. The establishment of the WTO completed the third pillar system envisaged at Bretton Woods, alongside the World Bank (WB) and International Monetary Fund (IMF). The WTO has a cooperative relationship with the United Nations (UN), but it is not a UN specialized agency.

Establishment of World Trade Organisation has also led to steep reduction in tariffs and non-tariff barriers to trade in all the member countries. Seattle (1999) ministerial conference launched new round of multilateral negotiations focused on agriculture, services and intellectual property rights. Due to the failure of the third conference, fourth conference at Doha (2001) presented Doha Development Agenda (DDA), especially related to Agreement on Agriculture (AoA). But, majority of the commitments related to Doha round are still in deadlock even after the Cancun (2003) and Hong Kong (2005) ministerial conferences. Indian economy embraced the process of globalization since early 1990s, which has got intensified in the post-1995 (i.e. post WTO) period and influenced export sector by one way or the other. The openness index (trade to GDP ratio) of the economy has increased three fold since late 1980s and almost doubled over the last couple of years. The findings of Barua and
Chakabory (2004) show that in the post-WTO period, scale efficiency of the net exporting sectors has increased. However, it has been pointed out from time to time that Indian exports have been subject to various non-tariff barriers, which inhabit the level of market access they enjoys. Newly emerged NTBs such as safeguards measures, anti dumping duty, countervailing duty; Technical Barriers to Trade-SPS; environmental standards; labour standards and intellectual property rights, etc., have widespread implications for Indian agricultural and manufactured exports. Since its establishment, six ministerial conferences of WTO held at various places with specific objectives are shown in Box 2.2.

Rana and Singh (2003) backed by simple econometric exercise, discovered that foreign tariff played a decisive role in promoting out exports in the same way that domestic tariff structure significantly influences our imports. Implications of uneven play of tariff rate restructuring for exports from and imports into the developing economies come up robustly. Chakraborty et al., (2005) compared the recent Indian export performance with that of China and attempted to analyse the situation through various features of Indian export basket, namely competitiveness, diversification trends and instability and examined the recent stance adopted by India at WTO. Results of the study reveal that while diversification of the export basket has slightly been increased, the instability index is quit insignificant for a number of commodity groups at major export destinations. Besides the competitiveness, the number of product groups has declined in post WTO phase.

Agriculture sector is very important for India due to its contribution in GDP and employment and also due to continuous surplus in agricultural trade. Raju (2005) identified the problematic areas in the Agreement on Agriculture (AoA) and other negotiations in this sector in the context of WTO. He argues that the adoption of Doha Development Round (DDA) was in the right direction, but 2004 July package undermined the spirit of DDA which is in favour of developed
nations and also pointed out that Special and Differential Treatment provisions are not properly implemented in the agriculture sector.

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<th>Box 2.1</th>
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<td><strong>GATT Rounds and their Outcomes</strong></td>
<td><strong>WTO Ministerial Conferences and their Outcomes</strong></td>
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<td>1947 (Geneva), Tariff Reductions.</td>
<td><strong>Singapore (1996)</strong>, further liberalization related to investment, competition policy, trade facilitation and transparency in government procurement</td>
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<tr>
<td>1949 (Annecy, France), Tariff Reductions.</td>
<td><strong>Geneva (1998)</strong>, review of fifty years of system</td>
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<tr>
<td>1956 (Geneva), Tariff Reductions.</td>
<td><strong>Doha, Qatar (2001)</strong>, Doha Development Agenda (DDA) especially related to AoA.</td>
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<td>1964-67 (Geneva: “The Kennedy Round”), World industrial tariffs reduced by around 1/3, anti-dumping measures introduced..</td>
<td><strong>Hong Kong (2005)</strong>, concluding round of the final commitments</td>
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<tr>
<td>1973-1979 (Geneva: “The Tokyo Round”), Tariffs, non-tariff measures, and framework agreements.</td>
<td><strong>November (2009)</strong>, review the functioning of the entire WTO waterfront of issues — from monitoring and surveillance to disputes, accessions, Aid for Trade, technical assistance and international governance including the Doha Round.</td>
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<tr>
<td>1986-1994 (Geneva: “The Uruguay Round”), Largest ever package of market access concessions; trade in services and intellectual property included, agreement to replace GATT with WTO system.</td>
<td><strong>1996</strong></td>
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Bakhshi (2005) explains how Sanitary and Phyto-Sanitary (SPS) Agreement acts as non-tariff barriers to developing countries’ agricultural exports with special reference to India. The author argues that developed nations like EU and US are using this agreement for discriminating against developing countries’ exports. For India, as being one of the largest producers of food products in international market, SPS issues are great cause of concern. The author also analysed the cost of implementing higher standards like product related standards, production related standards, testing procedure standards and process standards at domestic level.

Chakraborty and Singh (2006) focus upon the present scenario of agricultural subsidization with special reference to India and try to formulate a suitable negotiation strategy to be followed by the developing countries. They contend that agricultural subsidization is the actual
hurdle in freeing agricultural trade. Several WTO member countries enjoy a synthetic price advantage, buoyed by agricultural subsidies, while main losers are the poor developing countries due to their dependence on primary produce as a major source of export earnings.

Ramphul (2006) analyses the impact of WTO on world agricultural trade and agricultural trade performance of developed, developing, and least developed countries. In WTO regime, the annual average growth rate of the world agricultural exports has worsened implying deterioration of in share of agricultural commodities in world total merchandise trade. The developing and the least developed countries are found to be net importers of agricultural commodities. The share of LDC’s in world agricultural exports has declined while in case of imports it increased. Export subsidy is also a core area of concern. Nack and Singh (2006) presented a detailed price analysis for major commodities and reported that heavy losses of Indian exports are mainly due to distortions in world market adding worse, sometimes in their domestic market by developed countries.

Market access and domestic support are the another problematic issues like export subsidies. Benerjee (2006) laid out the issues related to TBTs, in particular the SPS Agreement, from an Indian point of view, keeping in mind Indian interests, with special reference to India’s agricultural trade. India’s concerns with SPS-TBT agreement (widely shared by other developing countries) are with flawed working of the mechanisms of SPS-TBT agreements within WTO and lack of implementation and violation of some of the basic tenet of these agreements by developed countries. Such concerns are related to harmonization issues, institutional politics of standard formation in international bodies, protectionist trade policies, and use of standards. Most of the SPS-TBT concerns are related to India’s agricultural exports and imports.
Deodhar (2002) examines the implications of agreement on SPS measures and the agreement on Technical Barriers to Trade for India and found that food safety and quality norms in importing countries affect trade in agricultural products. In order to minimize the adverse effects on India’s exports of these norms, he suggests the steps for encouraging the adoption of the food quality management system called Hazard Analysis and Critical Control Points and for training manpower to handle post harvest quality management practices and food processing activities. He also emphasizes the need to participate actively in the development of standards undertaken by international standardizing bodies and for certain amendments in SPS agreements. Singh (2001) found TBT and SPS measures as new barriers for India’s agro-food industry and agro-exports. Further, India’s agro-food industry and agro-exports have been found to be adversely influenced by imposition of such non-tariff barriers.

Among the major reforms in the post WTO phase, the most discussed area is probably textile and garments sector, where India stands to gain massively from quota-removal. Kathuria et al., (2003) provide an introduction to the economics of MFA and use available empirical evidence to examine the impact of the MFA on exports of textile and clothing, focusing particularly on India. A review of the basic economics of the MFA shows the discriminatory character of the arrangement. Although exporting countries can gain from quota rents, much of the gain is likely to be offset by exports to unrestricted markets and by efficiency losses resulting from inability to put the resources to their best uses or to be shared with industrial country importers. Looking through the performance of agro and textile-readymade garment exports during the 1990s, Mukhpadhyay (2001) concludes that India does not seem to have gained much out of the Uruguay Round negotiations.
Nanda and Raikhy (2003) examines the implications of Environmental and Labour Standards in WTO context for India’s textile exports on the basis of a painstaking analysis of the changing composition and direction of India’s trade in textile and ready-made garments. They discover that reduced off-take by Germany, Netherlands and other European countries very largely owes itself to strict environmental and labour standards imposed by them. Study found that the developed countries still remain the major destination for India’s textile exports and imposition of strict environmental and labour standards is a cause of worry for India’s textile exports. A number of suggestions, most notably the needed precaution for the use of industrial chemicals, are made to ward off restrictions that are likely to follow from the U.S.A and many other European countries. Furthermore, Bandhyopadhyay and Sengupta (2006) examined implications of MFA phase out for Indian textile exports. The study shows multiple positive effects of MFA phase out, i.e. elimination of ATC quotas for Indian clothing and textile exports. They have also made an attempt to identify factors responsible for relative poor performance of textile sector. They also identify sectors in the textile industry where India has a comparative advantage or disadvantage and also examined India’s position vis-à-vis its competitors in the backdrop of MFA phase out.

Nordas (2004) pointed out that welfare gains to India from ATC quota would be three times as high if combined with domestic reforms. Taking full advantage from complete phase out of market restrictions requires not only increasing competitiveness through the removal of distortions arising out of incorrect government policy, but also for better marketing network that India presently lack. Besides, removing reservation for small scale industries in garment segment, it is needed to remove restrictions on raw material imports and rationalize existing excise rates of different types of fiber and fabrics.
Verma (2001) gives a brief pre and post-Uruguay Round history of textile and clothing sector exports in particular. Product group wise differences between applied and bound tariff rates in developed against the developing economies are brought out in brief. The study found the positive impact of WTO agreement on Indian textile and clothing industry. Again, the formation of custom unions and free trade areas (i.e. NAFTA, CBI, Sub Saharan African Region, etc.) has adverse effect on textile exports’ rather than the newly emerging non tariff measures.

Porter (1994) and Prasad (1997) asses India’s competitiveness in export of garments in the MFA phase out and post MFA phase out periods and observe that India’s garment sector is one of the sectors where India have a competitive advantage and has a wider scope of export expansion in post MFA phase out period. EXIM (1995) also confirm that India has fully utilized its quota in most cases except Finland and unit values of India’s exports are lower than most of its competitors. Thus, there is not much basis for the argument that lower floor prices should be fixed for exports under quota. Indian pharmaceutical and cotton textile industries have a huge export potential. Ghose (2006) argues that Indian pharmaceutical industry has come to age and it can not only co-exist with TRIPS but also make the use of it to its advantage

Use of newly emerged non-tariff barriers is also the controversial issues in WTO agreements. Saqib (2003) presents a picture of technical barriers to trade and also discusses the role of Indian standard setting institutions in address these issues. Despite growing concerns that SPS-TBT measures may be inconsistent with WTO provisions and may impede India’s exports, the Indian government is not well positioned to address these issues. Saquib (2005) describes the food safety measures under WTO agreement as barrier to trade during first decade of WTO agreement. He also explains the concerns of developed countries in food safety among other issues like environmental protection. Members are
using this agreement as a protectionist tool for refusing consignments of exports. He concludes with an observation that conformity with EU and US standards is difficult.

Ray (2006) enumerated the sources of Non-Tariff Barriers in case of India’s exports and also discussed incidence of such NTBs. The study found many NTBs faced by India’s exports such as TBT-SPS, social clause, tariff rate quota, procedural issues, import policy and TBT, MFN violation, circumventing under export subsidies, environmental issues, antidumping duties, social and environmental clauses, strict registration procedures, quantitative restrictions, safeguard duty, countervailing duties, local content requirements, government procurement, rules of origin labour issues and procedural delays and provisional safeguard measures. Dutta et al., (2006) has examined environmental standards as problem of market access in the WTO context with special reference to India’s exports. They found both the issues respectively worked as NTBs to India’s exports and influenced India’s export performance of concerned products in respective markets adversely. Narayan and Thomas (2005) analyzed WTO agreement on safeguards measures, custom valuations and pre-shipment inspection and observe that safeguard measures would lead to grave disruptions for trade.

2.4 Summing Up

The review of available economic literature on India’s exports, WTO and economic reforms highlighted the following facts:

1. Export and Economic Growth relationship is a controversial phenomenon in economic literature. There are many studies, which discover strong positive relationship between exports and economic growth and thus, an increase in the export leads to multiple changes in national income as in Keynesian Foreign Trade Multiplier theory and growth models especially of Harrod-Domar. On the other hand, Following Singer–Prebisch model of Secular deterioration of terms trade and Dependency theory (given by Andre Frank, Paul A Bran and Samir Amin,
etc.), many other studies refute the existence of such a relation between the two and found export promotion outward-oriented strategy inferior to that of import substitution one with respect to impact of such strategy on economic growth in the long run.

2. Economic literature on India’s exports during the period 1950-91 shows that exports during this period were subject to many tariff and non-tariff trade controls and protections. Export promotion up to 1980s is a totally neglected area in Indian policy making. India’s Export performance during this period found to be very weak due to restrictive trade policy. In some studies, domestic demand for exports and supply bottlenecks are termed as the reasons for poor export performance during per-reforms period. Some studies observed that domestic factor were more responsible for stagnation and even degradation of India’s export sector. Some prominent studies found external factors responsible for export stagnation in the economy in the pre-reforms period. Meanwhile, all the studies examining export performance during this period found restrictive trade policy primarily responsible for poor performance of export sector and emphasis an export promotion outward-oriented strategy to improve this.

3. In most development planning, the importance of exports to domestic growth has been approached in terms of importation of goods and services. But, it is misleading to assess the contribution of the export sector solely in terms of foreign exchange earnings, as many underdeveloped countries, while stressing exports, also hope to reduce their relative dependence on foreign markets as economic development proceeds at a more rapid pace. In fact, the export sector assumes a much broader and useful role than that reflected in terms of foreign exchange earnings. Therefore it should be given paramount importance in policy making. Almost all the reviewed studies show that India’s exports have been found positively affected by the implementation of economic reforms. India’s export sector took the full advantage of reforms in
foreign trade sector such as reduction in tariffs, withdrawal of non tariff restrictions, favourable exchange rate policy, freer import of raw material and the introduction of several export promotion schemes as well as creation of EPZs and SEZs. The only dissatisfaction related to economic reforms is that import bill has increased sharply even during the era of economic reforms.

4. Impact of WTO on India’s export sector is a mixture juncture. A few studies show that domestic economic reforms combined with WTO commitments has lowered down the tariff barriers to export in the markets of member countries and exports have benefited from the reduction in tariff barriers by the WTO member countries. Thus, progressive reductions in tariffs due to WTO agreement, Indian export see its massive price effect on exports volume. But, on the other hand, most of the studies related to WTO and India’s export confirmed that newly emerged NTBs such as safeguards measures, anti dumping duty, countervailing duty; TBT-SPS measures, environmental standards, labour standards and IPRs, etc. have restricted growth of several Indian exports during post WTO by one way or the other. Issues of WTO agreement related to SPS-TBTs, export subsidies, market access, domestic support, and TRIPS all had influenced India’s agricultural exports adversely by preventing freer flow of exports in some specific destinations. On the other side, WTO had proved beneficial for India’s manufactured exports especially for textile and Garment exports, and pharmaceutical exports. Textile and garment exports have gained a lot from MFA phase out. But, labour standards set by the developed countries worked as constrains to textile exports in their respective markets. Most of the studies show that domestic economic reforms combined with WTO commitments has lowered down the tariff barriers to export in the markets of member countries and exports have benefited from the progressive reduction of trade barriers. Careful analysis of the literature on Indian exports shows that most of studies have analysed
mainly agricultural exports, textile exports and pharmaceutical exports and even some specific exports within these during the post-reforms period. Exports of POL, iron and ore exports and other manufactured exports except textile and pharmaceutical exports are neglected and covered only fewer studies and there is a need to peruse further research in this area.