CHAPTER - 1

INTRODUCTION

India followed the strategy of industrialisation with emphasis on Import Substitution in the earlier period of planned economic development. This was also supplemented by export promotion and gradual import liberalisation for essential items like raw materials and intermediates. Such inward oriented trade policies were questioned by international trade theorists (Krugman, 1986 and Bhagwathi and Srinivasan, 1983) who pointed out the need for a paradigm shift in the development strategy by following an outward-oriented strategy. Empirical evidences were cited for the inefficiencies of a domestic production system based on Import Substitution strategies as it entailed more domestic resource cost than is required under market determined economic systems. World Bank (1987) and IMF (1992) studies abound in literature, which highlighted the success stories of economies that followed outward oriented strategies. India and many developing economies started economic liberalisation measures unilaterally, and external sector reforms were an important agenda within the overall economic reforms.

1.1. India’s Trade Reforms

India’s economic reforms process started with the liberalization measures in the external sector. The measures covered the following:

1) Removal of quantitative restrictions on bulk of imports,

2) Reduction on the level of tariffs on a large number of imports, including special provisions for preferential duty regime on imports for export production,
3) Removal of product-specific export incentives coupled with a two-stage devaluation of the Indian rupee,

4) Use of exchange rate as the general instrument for export promotion and import management,

5) Removal of some minor administrative measures such as minimum price restrictions on some exports, and

6) Streamlining of the procedural regime designed to reduce transaction costs.

'The overall impact of these measures is supposed to remove the anti-export bias in the policy regime, create an environment which will promote export of those products in which the country enjoys competitive advantage and promote only efficient import substitution' (Bhattacharyya, et. al. 1996). 'Trade policy reforms over the last decade have aimed at creating an environment for achieving rapid increase in exports, raising India's share in world exports, and making exports an engine for achieving higher economic growth. The focus of these reforms have been on liberalization, openness, transparency and globalisation with a basic thrust on outward orientation focusing on export promotion activity, moving away from quantitative restrictions and improving competitiveness of Indian industry to meet global market requirements' (Government of India, Economic Survey, 2001-02).

1.2. Multilateral Approach to Trade Liberalisation

Along with this unilateral liberalisation measures initiated in the external sector of the economy, a multilateral approach to trade liberalisation evolved in a tenuous path under the auspices of the GATT. Along with the establishment of the IMF and the World Bank after the Second World War to manage monetary system and to encourage international lending, plans were made to reduce trade barriers, and a multilateral approach was envisaged. A charter was formulated for establishment of an International Trade
Organization to be affiliated with the UN. But the ITO never came into being. It was charged that the new organization would interfere in domestic economic matters. In 1947 the major trading countries agreed on rules for reducing tariffs. The agreement survived as the General Agreement on Tariffs and Trade (GATT). The core principle is the most-favoured-nation (MFN) clause, under which each tariff bargain made at a GATT meeting is extended to all members.

The successive rounds of trade talks aimed at reduction of tariff and non-tariff barriers to cross-border trade. The Tokyo round (1973-79) aimed at broadening the liberalization agenda. But during and after the Tokyo round, there was a worldwide retreat from liberal trade policies. Governments imposed import quotas, persuaded other countries to accept voluntary export restraints, and subsidized domestic industries. By 1981, Japanese exports of automobiles were restrained by countries that accounted for two-thirds of those exports, including the US. In 1982, the US put quotas on imports of steel from Europe, and the EEC tightened its restrictions on steel imports from Japan, Brazil, Korea, and many other countries. In addition, most of the developed countries maintained import quotas on textiles and apparel from developing countries. These instances of new protectionism testify to the poor performance of the world economy in the 1970s and the early 1980s. The old industries were exposed to intense competition from new producers and products, and trade restrictions were implemented for protection from imports. Textiles, steel, and automobiles provide illustrations to this phenomenon.

There was growing use of non-tariff barriers to protect domestic industries. Such non-tariff barriers are more rigid than tariffs, and they tend to be discriminatory, because they are usually imposed on a country-by-country basis. Non-tariff barriers are often applied outside the GATT framework, and they limit or nullify the effects of tariff cuts. Growing
protectionist pressures also led to the more frequent use of antidumping and countervailing duties.

The US imposed trade sanctions unilaterally, adopting Section 301 under 1974 Trade Act, to retaliate against foreign countries that limit US exports by non-tariff barriers and restrictive business practices. In effect, it encouraged the use of unilateral action rather than the GATT rules and procedures for settling trade disputes. The 1988 Trade Act tightened Section 301 and adopted a new provision, commonly known as Super 301. This was invoked to take retaliatory measures in the absence of an adequate response by the foreign government. Trade disputes with Japan have played a prominent role in shaping US trade policy. This is partly because Japan had large trade surpluses and Japan was considered a highly protected market.

Krugman (1986) propounded free trade. He argued that protectionist trade policy might result in beggar-thy-neighbour policies that boost national income at the expense of other countries. This will probably provoke retaliation and entail trade wars among the countries. According to Krugman, instead of retaliatory actions, governments should help establish rules of the game through the negotiatory process of the GATT.

The protracted Uruguay round of talks made historical attempts to enlarge the trade agenda of the GATT by including new topics like Agriculture, Services, Intellectual Property Rights, etc. within the multilateral discipline. Inclusion of new topics within the trade talks met with strong opposition from various countries, which led to deadlocks in the progress of discussions. Even after the institution of the WTO in 1995, such controversies continued and various interest groups have raised their objections to the basic agenda of the WTO for its adverse impact on the various sectors of the economy especially in the developing countries. The disagreements surfaced in the ministerial conferences held in
Seattle and Cancun due to opposition from the affected countries. Despite a consensus regarding Doha Development Agenda, differences persisted on Agriculture, Services, TRIPs and the "Singapore Issues" – Investment, Competition, Government Procurement and Trade Facilitation. Though an accord was reached in Geneva in July 2004 on continuation of trade talks, the negotiatory process is yet to succeed for putting the multilateral process on the track. Also, scepticism looms large over the successful conclusion of Doha Development Agenda by the Honkong Ministerial Meet in 2006.

1.2.1. An Overview of Trade Theory

The economists have propounded theories to explain the rationale of international trade. The mercantilists viewed trade as a zero-sum game and hence any gain by a country is a loss to another. Adam Smith and David Ricardo demonstrated that trade is positive-sum game, and nations should trade based on absolute or comparative advantages. According to Eli Heckscher and Bertil Ohlin, the pattern of trade is determined by factor endowments and factor intensity. In modern times, an important aspect of international trade is the intra-industry trade or the trade in the differentiated products. Kindleberger and Lindert, have shown that heterogeneity in factors of production is causative of intra-industry trade. According to Posner and Vernon, leadership in technology and product developments leads to international trade. In Michael Porter's view, competitive advantages of a nation, consisting of factor endowments, demand, supporting industries and competitive environment generate the momentum of international trade (Trebilock and Howse, 1996).

1.3. Review of Literature

This section is intended to provide an overview of the available literature on the subject. This will help in formulating objectives of the present study and its relevance.
1.3.1. WTO as Multilateral System

Hoekman and Kostecki (2001) have expounded a detailed account of the evolution of the world trading system from GATT to the WTO and of the institutional mechanics, economics and politics of the world trading system. The governments develop trade policies in response to domestic political forces and a variety of interest groups, taking into account the likely reactions by trading partners. In the whole process, negotiation is the driving force of the multilateral trading system. The authors present a political economy-based approach that can explain these fundamental aspects of the ‘real world’.

‘The WTO is a bargaining forum and to this extent, the WTO embodies several asymmetric elements, consistently moving towards trade liberalization, but also unable to eliminate quasi-protectionist policies in some sectors by many of its members. Further, the WTO is not designed to deal with non-trade and investment issues such as environmental regulations, labour standards and human rights. These only come to its agenda as indirect, technical matters in trade disputes’ (Rugman and Boyd, 2001).

According to Debroy (2001), a stronger WTO is also in the interests of relatively weaker developing countries. Corden (1997) observes that FTAs should act as supplement to the multilateral system. But often the pursuit of regionalism does not show up strengthening of the multilateral system. Panl Na’ender (1999) has argued that the blind opposition of the developing countries including India to any link between trade and labour standards could in the long run hurt their own interests.

According to Moore (2003), trade negotiations are like an insurance policy against pleas for protection. The use of anti-dumping and countervailing duties are threatening the gains from past liberalisation. Moreover, a continued absence of multilateral liberalisation will encourage the big players to act unilaterally and carve up markets through preferential
trade agreements. He has noted that the developing countries are making increasing use of
the WTO’s impartial dispute settlement system to protect the rights of their exporters from
violations of trade laws. It is unique in the international trade architecture.

Panagariya (2002) observes that it is the power of the WTO rules that protects
smaller nations from unilateral trade sanctions by the rich and powerful nations. Gaur (2003)
has cautioned against the fallout of Cancun Ministerial Meet. According to Dhar (2000b),
the US actions in invoking provisions of its Trade Act of 1974, viz., Section 301 to 310,
would work against the spirit of multilateralism, especially when a strong dispute settlement
mechanism is in operation. Siddarthan (1995), Mukherjee (1995), Das (1999), Jain and
issues related to the WTO agreements affecting the developing countries. According to Nair
(2000a,d), the existence of regional trade pacts could seriously affect global trade prospects
of countries, which are not members of any major trade bloc. 'The rules of the trading
system should keep pace with the changing world economy, including the rapid proliferation
of regional trade agreements. To pursue trade policy through litigation and dispute
settlement as an alternative to conscious elaboration of the rules of the game is not a
sustainable option', (Saal Matthew, 1999).

1.3.2. Trade policy and strategies

Metwally (1993) has studied the relevance of export-led growth models in ten
Asian developing countries within the framework of interdependence and has elaborated the
main mathematical features of the export-led growth model. There is a strong correlation
between exports and economic performance. According to Hossain (1993), the world
demand for commodities like tea, leather and fish are oligopolistic rather than competitive.
The econometric results showed that the exports are demand determined and the demand is generally price inelastic but income elastic.

According to Bhatia (1999), trade liberalisation leads to trade diversification by altering the product composition of existing production towards higher value-added products. There is a strong connection between trade liberalisation and trade diversification. Bhagwati and Srinivasan (1983) and Krueger (1990) conclude that the export promotion strategy promotes intra-industry specialisation and as a result, intra-industry trade in manufactures among developing countries, and between them and the industrial countries develop significantly. Sen (2000) has made a critical appraisal of the import substitution and export promotion strategies adopted by the governments.

Charles and Murinde (1991) observed that export promotion per se has not caused growth of NIEs (Newly Industrialised Economies). The prior success of import substitution played a crucial role in the success of the outward orientation strategy of these countries. Therefore the question of development policy is not simply one of choosing between outward orientation and import substitution. The essential aspect of development is structural change.

Gupta (1999) and Palit (2000) has made critical analysis of the export promotion policy of India. The export promotion was import-led and there was no room for substitution of raw materials import by indigenous goods.

Morrissey and Filatotchev (2001) have analysed implications of globalisation and trade for exports from marginalized economies. If producers in developing economies are brought into the commodity chain merely as contract suppliers, they may continue to be marginalized by globalisation. According to Mansoob (1997), protectionism in the
developed economies directed towards the goods of the developing economies is not going to promote the interests of unskilled workers of the former.

Kalegama (2003), and Kalegama and Mukherji (2003) observe that the WTO agenda is overloaded with new issues such as social clauses, environment, governance, labour standards, etc. Since these are not trade-related, such items should be kept out of the multilateral trading system.

Panagariya (1999) has realised the need for the developing countries to build their own research base on the short-term and long-term WTO issues. No multilateral agency has funded research on the benefits of promoting labour mobility from developing to developed countries, whereas research on capital mobility has been plentiful. According to UNCTAD (2001, 2002), the composition of global trade is likely to change with the advances in information and communication technology. There has been a rising trend of regionalism and sub-regionalism and the share of intra-trade in total exports is already high among the developed countries.

According to McDonald (1998), the WTO allows for temporary protection of troubled industries to allow for adjustment. It thus encourages negotiated reciprocal reduction in existing protection. Yarbrough and Yarbrough (1997) have investigated various globalisation indicators and have found that magnitude of trade, percentage absorption of trade by various countries, and increased diversity in direction of trade are indicative of expanded globalisation. The share of intra-industry trade in total global trade has gone up and also trends in intra-firm trade and trade in services (Greenaway and Milner, 1986; Grubel and Lloyd, 1975; Balassa, 1986; Havrylyshyn and Civan, 1983; Hine et. al., 1999; and Mainardi, 1986). Kirmani (1997) has analysed the changing role of trade policy in the new environment. Today many more motivations are emerging, i.e. competition policy,
investment, labour standards, environment and human rights. Such multiple purposes for the trade policy instrument will increase the risk of its abuse by protectionists.

Yang (2002) has noted that the apprehension that fallacy of composition can be a source of export pessimism is unwarranted. The theoretical possibility of *immiserizing* growth arising from the fallacy of composition has little relevance in reality. In a world of differentiated products, developing countries both complement each other and compete with each other.

Moore (2003) has advocated for free trade among nations. The vast majority who pay the overall cost of protectionist policies are seldom motivated to protest. Preeg (1995) has analysed transformation in world trade like global market integration, the triumph of economic liberalism and a changed US leadership role. The Uruguay Round reaffirmed the lack of alternatives to a dominant US leadership.

According to Gomory and Baumol (2000), the strongly liberal US trade policy is qualified by the protectionist pressures from sectors losing international competitiveness; anti-dumping measures result, and these *indirectly* advantage the US firms sourcing products from abroad. Reichman (1999) has analysed trade and investment issues that affect the developing economies. The agreements reached in the Uruguay Round can be seen as ones in which many low income economies have *taken on* mandatory commitments in exchange for non-binding promises of assistance from industrialized countries, many of which have yet to materialize. Also, in the absence of multilateral agreements, regional and bilateral preferential agreements can be expected to *proliferate* (Rubens, 2001).

According to Srinivasan (1998), sub-regional and regional trade agreements will push the world toward trading blocs than toward a multilateral system. Market access is not to be denied on grounds such as “eco-dumping” and “social-dumping”. Tussie (1999) states
that international undertakings form a frame of reference in which trade policies must operate. Efforts should be made to ensure that the subsidies granted do not give rise to a demand for countervailing measures. It will be necessary to replace the traditional physical transfers with support for activities which are marked by heavy externalities or generic activities which enjoy greater freedom from countervailing or anti-dumping measures.

Wickramasinghe (2002) propounds that the multilateral trading system should allow the necessary flexibility to accommodate the concerns and aspirations of countries at different stages of development. Any agreements that limit technology transfers to developing countries, whether through higher prices or through restricted IPR regimes, would become a major hindrance to economic growth in developing countries.

1.3.3. Agreement on Agriculture

Shiva (1997, 2003) has cautioned that the future of food and farming is being shaped by inequitable farm trade agreements (AoA). It is time to rewrite the trade rules in agriculture on the basis of principles of food sovereignty, sustainability, farmers' welfare, protection of the environment and public health. Since the developed countries continue to subsidise exports and artificially lower prices, other members have a right to restrict imports to protect themselves from dumping. Jhunjhunwala (2003a,b) has found that the expected gains to the developing countries from opening of the agricultural markets are not likely to materialise because of the intense competition in this sector. The expected rise in prices of farm products on account of reduction commitments by the developed countries would be mitigated, or even neutralized, by the surge in output. Gulati (2000) has dwelt on the issues of food security being advanced by the developing countries. He has put forward the foreign exchange argument and accordingly, self-sufficiency should be linked to availability of foreign exchange.
Dhar (2000c), while analysing non-trade concerns related to agriculture, has argued that food security must clearly be set as a goal. The developed countries have mooted the 'multifunctional character of agriculture' to provide protection of the environment in general and conservation of biodiversity in particular. Also, it has been argued that the rural landscapes have an intrinsic value for the society at large. Multifunctionality and food security have been the two most important issues in negotiations on agriculture. For developing countries, providing food security to their population is a critical problem. Reddy (1999a,b; 2002) on a similar note has advocated for special provisions like 'food security box' or 'development box' based on developmental indicators like the percentage of population depending on agriculture, the share of agriculture in the national product, rate of under-nourishment of the population etc. Any support measures included in the proposed 'food security box' should be exempt from reduction commitments.

1.3.4. SPS, TBT, Anti-dumping

Wohlmeyer (2002a,b) argues for a back-to-the-future strategy for developing countries whereby they should pursue unilateral trade reform strategies as was done in the 1980's and early 1990s. According to him, the Uruguay Round left anti-dumping open to abuse. It is ironical that countries that did not have anti-dumping, countervailing duty or safeguards laws have introduced them in the 1990s following the Uruguay Round and have begun to use them as protectionist devices (Gupta, 2002). Ahuja (2002a,b) has found that the process of multilateralism is being increasingly threatened by trade-distorting practices such as imposition of anti-dumping duties. The ultimate impact of imposing anti-dumping duties is to undermine the welfare effects of free trade, encourage inefficiencies in production and
in the process hurt consumers in cuty imposing countries. Gupta (2003) has analysed Anti-
dumping agreement from a developing country perspective. According to the author, the
process of globalisation has received some setback as trade disputes over anti-dumping have
increased. AD measures are being applied frequently to meet the pressures for protection
and represent a systemic threat to the WTO system.

Anderson (2002) has observed that the levels of protection by way of SPS measures
in some cases are equivalent to tariffs of more than 100 percent. The cost to consumers may
outweigh any possible benefit to domestic producers resulting in a net national loss when
broad externalities appear to be absent. According to Jaswal (2003), the benefit of
liberalization in the processed food sector could be undermined by the protectionist use of
Sanitary and Phyto-sanitary Measures (SPM) by some countries. Forgo (2002) has rendered
a critical analysis on the adequacy of TBT and SPS agreements of the WTO. According to
the author, there should be a system that allows deviation from the dominant product-
oriented WTO rules and also, that allows for diverging framework conditions in different
states. There should be mutual recognition of non-product-related processes and production
methods, which might prove to be superior to harmonising strategies in certain situations.

Chaturvedi and Nagpal (2003) have examined the issues of the linkage between
exports from developing countries and the regulatory standards set by developed-country
importers for food safety, quality and environmental norms. Environmental and health-
related standards and regulations have the potential to create barriers to trade. The
compliance with external eco-standards often necessitated the import of inputs and
technology, which are likely to raise the cost of production and price of output. The
governments should provide WTO-compatible support to the agriculture, particularly in
research and development and quality assurance for reducing costs of certification of
organic producers in developing countries by setting up local certification systems (Vyas, 1999; Kaushik and Paras, 2000; Rajeswari, 2000; Srinivasan, 2000a,b; Raghuramaiah, 2001; Chaturvedi, 2002; Chand et al., 2003).

Srinivas (2003) has made an elaborate analysis of the WTO panel reports and appellate reports in Tuna-Dolphin and Shrimp-Turtle cases and found that there is an increasing tendency to bring in environmental regulations through 'backdoor' legislation. There is a move away from the understanding that the WTO rules shall not regulate process and production methods, i.e. as opposed to product characteristics. The original balance of rights and obligations negotiated and embodied in the agreements have been redefined through an interpretative route. He has examined the case of turtles, trade and the issue of unilateral measures. According to him, both developed and developing nations should accept the shared but differentiated responsibility to protect ecosystems and endangered species. Laird (2002) has found increasing incidence of protection by way of TBT, SPS and Anti-dumping measures with reduction or elimination of tariffs. Even the developing countries are also resorting to such measures. Bhagwati (2000) has objected to the proposal that differences among countries on their environmental standards should be regarded as dumping and be subjected to countervailing duties. However, there should be a minimal interface between trade and environment within the WTO. The US approach to the question of the Social Clause at the WTO, instead of at the ILO et al as the developing countries desire, is shallow and smacks protectionist games.

Pani Narender (2000a,b. 2001) has cautioned against invoking non-tariff barriers making use of specific elements of the WTO agreements such as safety standards. Such protectionist responses to the removal of quantitative restrictions will be a regressive step. The raising of non-tariff barriers will shut out global price signals to the domestic economy,
and this will end up protecting industries that are becoming obsolete in a rapidly changing
global economy. Such protection will be available to foreign investment, and India could
become the dumping ground for technologies that are becoming obsolete in the advanced
world.

Bhagwati (1996) has put forward the reasons for harmonization of the domestic
policies, institutions and practices across trading nations that seek free trade among them.
According to him, there are philosophical, economic and political reasons for demands for
harmonization. The philosophical rationale arises from the humanity’s sense of trans-border
obligations and the questions of distributive justice. The economic arguments against
diversity arise from the concern that the effects of trade policies and trade liberalization can
be nullified or impaired by domestic actions. Thus instead of gains from free trade, there
could be predation against a trading nation if such diversity persists under free trade. In the
political domain, there will be demands for protection, when unfair competition based on
diversity abroad, is alleged. Also, environmentalists and labour groups are agitated that free
trade will pull down domestic standards when lower foreign standards are claimed to be
putting one’s industry at disadvantage, producing a “race to the bottom”. It is feared that free
trade may lead to harmonization downward from below. To prevent this outcome, harmonization upward from the top is demanded by the environmentalists and the labour
groups. According to him, the rise of the “diminished giant syndrome” in the US has led to
demands in favour of reciprocal openness in international trade so as to create “level playing
fields”.

Bhattacharya and Mukhopadhaya (2002) have analysed the incidence and the impact
of Non Tariff Measures (NTMs) on India’s exports imposed by the US, the EU and Japan.
While tariffs are imposed on MFN basis, NTMs can be imposed on a case-by-case basis.
This possibility of discrimination in NTM application raises simultaneously the possibility of trade diversion. According to Gunaji (1999), the disciplines implicit in the operations of the WTO system has given rise to escalating incidence in instances of anti-dumping, non-tariff barriers and other various forms of protectionist measures.

Finger (2002) opposes application of safeguard measures like anti-dumping both by developed and developing countries. The extension of SDT (Special and Differential Treatment) to developing countries has put a substantial brake on the modernisation and competitiveness of developing country industry. For the advanced countries whose systems are compatible with international conventions, the WTO brings no more than an obligation to apply their domestic regulation fairly at the border. But the developing countries who apply their own indigenous standards have the additional obligation to apply internationally sanctioned standards in their domestic economies. Exemptions from domestic rules and exemption from the need for reciprocal trade liberalisation merely exacerbate the difficulties of pursuing satisfactory policies at home. Instead, technical assistance by way of training and capacity building should be provided.

Mattoo and Singh (1997) and Mattoo and Arvind (2000) have extensively dealt with eco-labelling and made analytic studies on the effects of eco-labelling both on environment and on international trade. Tharak and Kerstens (1998) have studied on the role of measures of contingent protection such as anti-dumping measures, countervailing measures and various escape clause provisions on the international trade. Econometric evidences indicate that the injury determination is prone to the influence of political economy variables such as lobbying efforts. Chandra (2002) observes that the SPS Agreement allows too much latitude in adopting SPS measures, allowing importing countries to impose measures that impede imports. In addition, SPS standards sometimes diverge considerably across
importing countries, meeting standards costly and cumbersome for exporters. The time between the notification of new SPS measures and their application is normally too short for countries to be able to respond in an effective and appropriate manner. According to Sharma (1995, 1999, 2000, 2001), it will be difficult for developing countries to comply with many of the SPS measures imposed by importing countries.

Hoda and Gulati (2000) have analysed the implications of various subsidies as classified in the WTO agreements. India should, instead of providing high price support, spend more on general services including capital works for infrastructure services.

1.3.5. TRIPs

According to Kumar (2003a, b), the ongoing attempt to harmonise and strengthen the intellectual property protection (IFP) regimes worldwide, as part of the TRIPs Agreement, appears to be adversely affecting technological activity in the developing countries by choking the knowledge spillovers from industrialised countries to developing countries. The implementation of the provisions of the TRIPs Agreement threatens poor people’s access to and affordability of life-saving drugs by pushing up their prices. The author has recommended for incorporating the provisions of compulsory licensing in the IPR legislation, incorporating the Research Exception, early working exception or ‘Bolar’ provision, resisting attempts to ever-greening of patents, allowing parallel imports or grey-market imports, institution of appropriate competition policies, incorporating breeders exceptions and farmers exceptions in sui generis plant variety protection, price controls for essential drugs, and introducing utility models and industrial design patents. At the international level, the policy actions should include moratorium on further strengthening of IPR regimes, granting flexibility to developing countries in implementing the provisions of TRIPs, incorporating specific provisions for transfer of technology, international funding of
R & D activity in low income countries and institution of differential pricing for improving access of poorer countries to patented medicines (Dinesh, 1995; Feroz, 2004a,b; Keayla, 1995; Panchmukhi, 1995; Subramaniam and Watal, 1999; Ramdas, 2000; Sarma, 2001).

Singh and Agarwal (2003) examined the impact of obligations under the TRIPs Agreement on access to drugs. The author has found the Patents Amendment Act 2002 generally TRIPs-compliant with regard to provisions like compulsory licensing, 'Bolar provision', and importation, though in the matter of importation, the Act provides for higher level of protection than that is prescribed under the TRIPS Agreement.

Raizada and Javed (2003) have highlighted the positive implications of TRIPs agreement. The TRIPs sets out minimum standards for the protection of intellectual property and it does not create a single universal patent system. Kohli (2003) has opined that as regards biodiversity conservation and protection of traditional knowledge systems, the Convention on Biological Diversity needs to have primacy over the WTO. India has put in place TRIPs-compliant national policies and legislations. The pro-IPR approach is reflected in the National Seeds Policy, 2002, The Protection of Plant Varieties and Farmers' Rights Act, 2001, National Agriculture Policy, 2000 and the Biological Diversity Act, 2002 (Ravindran, 1999; Dhavan, 2000; Mehra, 2001; George and Mehta, 2003; Chauhan, 2003; Srivasthava, 2003).

Gadgil (2000, 2003) has studied on the implications of bio-diversity legislations introduced in the country in the wake of emergence of the WTO-regime. According to him, the legislation should shed its 'regulatory, negative approach, and instead emphasise a positive approach that will promote enterprise and help convert bio-diversity conservation and prudent use into a broad-based people's movement. There should be adequate recognition of the principles of the Convention on Biological Diversity (CBD) that has
declared the sovereign property of germplasm. Cullet (2001a,b,c) has analysed the impact of the legislation in India on protection of plant varieties. The government chose not to impose patents over plant varieties but rather to devise its own system of intellectual property rights. Accordingly, the focus was on establishment of plant breeders’ and farmers’ rights.

Somasekhar (1999) has remarked that IPRs (Intellectual Property Rights) are central to the evolution of world trade, and have a place in the WTO, which labour and environment do not have. The new emerging division of labour is between brain-intensive and material-intensive goods. IPRs are essential to promote this new international division of labour. Constantine (2001) shows that the developing country priorities in TRIPs should be protected. Since a very few developing countries have put in place sui generis legislation, additional time to implement Article 27.3(b) should be given. As regards Movement of Natural Persons, there should be liberalization of Mode-4 supplies in more professional categories and through limiting the use of ENT (Economic Needs Test) in specific sectors, and making the ENT criteria transparent and consistent.

Dhar (2000a,b) remarks that, based on the DSB ruling on the EU-Canada patents dispute, it can be inferred that the inclusion of ‘Bolar provision’ in the Indian Patents Amendment Act (1999) is WTO-compatible. Nair (2000a,b,c; 2001a,b,c; 2002a,b) has observed that India should seriously consider new and additional systems to ensure protection of New uses (Swiss Type Claims), Petty inventions (Utility Models) and ‘Sui-generis’ system of protection of indigenous knowledge, practices and products. Venu (2001a,b; 2003a,b) has analysed benefits and costs of patents, in the light of controversy regarding rigid application of rules on IPRs to bio-diversity and patents granted to derivatives of neem, turmeric and bitter gourd and the issue of Basmati rice versus Texmati
rice. He has argued that there are instances in technology development where strong and wide intellectual property rights will hinder technical advance.

Swaminathan (2000) has argued for modernising the entire patent infrastructure, starting patent facilitating centres in various scientific departments, and scheme to encourage innovators at the grassroots level. Secchi (1997) has found that excessive TRIMs requirements like local content requirements and restrictive rules concerning employment and profit repatriation have often discouraged FDI in the country concerned. At best, these regulations have encouraged ‘tariff jumping’ investments of low technological quality mainly aimed at serving local or regional markets, rather than fostering technology transfer and delocation on a global market.

Fabrizio (1997) has analysed the implications of the Uruguay Round of trade negotiations for the purpose of international technology transfer and of international diffusion of innovation. The author finds that the phasing out of MFA and GATS will have a powerful impact on diffusion of technology and innovation. This is due to rapid delocation of textile and clothing productive capacity from industrialized countries.

Bhandari (2000) argues that the TRIPs council should undertake, on priority basis, an analytical assessment of the implementation difficulties faced by several WTO member countries. There is an urgent need to strengthen the technology transfer provisions in general (Articles 7 & 8) and tightening of obligations for developed countries to provide incentives to their MNCs to transfer technology to the least developed countries.

Chakravarthi (2001, 2002) has summed up the reasons behind the campaign by the NGOs against the institution of the WTO. According to them, areas such as health, education, energy and other human services must not be subject to international free trade rules. There is no basis for inclusion of intellectual property claims in a trade agreement.
1.3.6. Trade Performance

Khanna (1997) has traced the evolution of trade policy in India in the pre and post reform period. In the pre-reform period, considerations of quality, design, cost efficiency and productivity were at a discount within the production and distribution system. Later, export promotion was emphasised through micro-level strategies. The new policies emphasised long-term stability and transparency.

According to Prabhu (2002a,b); the biggest problem with India’s agricultural exports is that the MSP delinks domestic prices from world prices. The buffer stock policy is aimed to ensure a steady price trend, unaffected by world supply-demand factors. Consequently, exports are completely a matter of chance in major primary commodities like wheat, rice and sugar. Hence export projections cannot be made for these commodities. India should graduate to value-added agro-exports, with high levels of quality, branding and reliability.

Gulati (2000), Gulati and Jeffery (2000), Gulati and Sudha (2000) have recommended that India should demand of the developed countries for abolition of TRQs (Tariff Rate Quotas) and capping of out-of-quota tariffs to a maximum of 50 or 60 per cent at ten-digit level of HS classification. This is because TRQs and spikes in out-of-quota tariffs, especially beyond 6-digit level of HS classification, are the two main types of barriers to protect their markets. India should demand capping of domestic support to agriculture by the developed countries at product-specific level, eliminating all spikes, and then negotiate for major reduction in support. India should also negotiate for the right to impose countervailing duties in agriculture equivalent to the export subsidy and/or domestic support by the exporting country on specific commodities.

Narsalay (1999, 2000) states that ‘multifunctionality’ of agriculture was coined to render support to agriculture. The EU, South Korea, Japan and Norway want ‘non-trade’
multifunctionality concerns to be included under the Annexure 2 of the Agreement on Agriculture, which lists the so-called ‘green box’ subsidies. The ‘green box’ provides ‘food security’ to the North; but the non-trade concerns of the South are ignored in the absence of financial resources for supports under ‘green box’ measures.

According to Uliveppa (1959) and Singh (2003), the growing international demand for free trade is a direct threat to environmental quality, and there should be intervention in the environmental consequences of trade. According to WTO report (1999) on trade-environment interface, environmental degradation occurs because producers and consumers are not always required to pay for the costs of their actions. Reddy (2003a,b,c) has dwelt upon the non-trade issues of the negotiations agenda such as investment, competition, electronic commerce, government procurement, trade facilitation, environment and labour. The developing countries should follow certain minimum labour standards – otherwise there will be “a race to the bottom” as a result of trade.

Tharakan (1985) has cited various factors such as similarity of factor endowments, prevalence of product differentiation, and economies of scale as important determinants of intra-industry trade. Arnab et. al. (2002) have recommended for social labelling as preferable to a social clause in the WTO framework. It generates a market-based solution by enabling the provision that products produced according to acceptable labour standards deserve a price premium. Under systematic monitoring, social labelling offers a higher incentive for some producers to raise labour standards. However, social labelling schemes may reduce the demand for labour, with a resultant adverse impact on workers’ welfare.

Singh (1980) has done studies on relations between exchange rates, balance of payments and trade effects. He has estimated export demand functions using aggregate macro data upto 1982. He has tried to capture structural changes on export demand function
based on econometric analysis. Roy (1986) has given an elaborate mathematical exposition of modern theories of international trade. Paul (1992) elaborates contemporary trends in India's foreign trade and highlights the need for improving trade relations with Newly Industrialised Economies (NIEs). Anagal (1993) has given a critical exposition of trade issues in the context of emerging trade framework under the GATT. An analytical evaluation of Dunkel text is done for its implications of TRIPs, TRIMs and Trade in Services for developing economies. Veeramani (2001b) has analysed India's intra-industry trade under economic liberalization by examining the changes in the intensity of multilateral intra-industry trade at various time periods. He has analysed the country specific factors influencing the intensity and probability of intra-industry trade in the framework of Tobit and Probit model respectively. Veeramani (2001a) and Sonja (2001) have made a critical assessment of various available data sources on trade (export and import) flows, industry and firm characteristics. Joseph and Harilal (2001) has analysed the recent trends in India's software exports in terms of its structure and growth. The study underlined the need for a structural transformation of the India's IT export sector through enhancing its value addition capability so as to achieve the target of $50 billion exports by the year 2008.

Mathew (2002) has examined the implications of the WTO provisions as applicable to the small-scale industries. In international trade discussions, there are no specific provisions of protection to small-scale industries, but at the same time, liberalization of QR regime will have its adverse impact on this sector.

According to Ramachandran Nair (1999), the compliance to the WTO regime, pressures from the USFDA and application of non-economic issues such as social and labour standards are going to weaken most of Kerala's exports and their production base. Kerala, which enjoys a stronger outward orientation than any other state/region in India, is
expected to face the impact of the WTO much faster. Imposition of import controls, sanitary and phyto-sanitary standards, environmental and labour standards, safeguard measures, voluntary export controls and anti-dumping measures, coupled with India’s own domestic policy shifts in favour of privatisation, liberalization and globalisation, cut in subsidies, reduction in tariffs and quantitative restrictions in strict adherence to the WTO commitments will definitely hit Kerala’s economy hard.

Puspangadan (2003) has found that the revival and acceleration of the growth of Kerala economy in the 90s are mainly attributable to the growth and structural change in the consumer expenditure. This is made possible to a considerable extent by the combined effect of migration and the reform process started in the late 80s and 90s.

Sandhu (1993) has done econometric studies on India’s export share of black pepper in the world trade. India, which held a near monopoly in the international trade, is being priced out of the world markets by countries like Malaysia, Brazil, Indonesia and Vietnam. He has estimated price and income elasticities in general for the period 1950 –1988, in the USSR market and market share elasticities in the US in comparison to market share of Indonesia and Brazil.

Unneenkutty (2000b) has built import demand models for analysing India’s tea exports. He has estimated price and income elasticities of Indian tea in some principal markets of the world. As a long-term measure, Indian tea industry has to take drastic measures to reduce costs of production in the tea plantations at least to the level that Indian tea can compete with Sri Lankan and Kenyan teas in the highly competitive international market.

Duk Ahm et. al. (2000) investigated the impact of depreciation/devaluation on India’s trade accounts for the period 1984 –1998. Exports did not respond positively to
devaluation or depreciation measures as well as other exchange rate policy changes. Trends in import accelerated in the post-reform period. Therefore, singular and undue importance on the exchange rate management as a policy instrument may not bear the desired result.

Bhattacharyya et. al. (1996) explored a statistical appraisal of India's trade liberalization since 1991. Various parameters indicate an improved performance in the liberalized environment. Exports as percentage of GDP, exports as percentage of tradable sector, net export specialization index, and intensity of intra-industry trade have shown better results in the post reform period.

Harilal and Joseph (1999, 2000) has analysed the possible impact of India-Sri Lanka Free Trade Accord. According to them, the south Indian states would have to bear a disproportionately larger share of the adverse consequences of the free trade treaty. South India accounts for a lion's share of both area and production of the crops, which are likely to face Sri Lankan competition. The importance of and the dependence on such products would appear more dramatic in the case of Kerala.

Madan and Selvam (2001) have enquired into the impact of the WTO agreements on world spices industry in general and Indian spice industry in particular. On commenting India's external reforms, Virmani (2003) has found that the liberalization of India's external sector during the past decade was extremely successful in meeting the BOP crisis of 1990 and putting the BOP on a sustainable path. Illiyan (2002) has analysed India's potential, performance and problems in software export over the years. Software export has been growing consistently at a higher rate of 50-60 per cent in the 1990's. The study finds the important comparative advantages that India possesses over other countries: viz. world's second largest pool of scientific manpower with English speaking skill, low cost of labour, investment friendly economic climate and policy, locational time difference with the
Western world, etc. Ahuja (2002b) has explored the potential of enhancing trade and commercial ties between India and SAARC-ASEAN region in areas of comparative advantage. The collective self-reliance emanating out of regional trade blocs has become crucial for the developing countries to manoeuvre against the pressures exerted by the developed nations.

Chadha (1999) has examined implications of India’s global orientation during 1990’s. India’s integration with the world economy was accomplished tenuously, as reflected in three basic indicators, viz. Real FDI/GDP ratio, Real Trade/GDP ratio and the proportion of manufactures in exports. Narayana (1999) has studied export performance of Karnataka.

Unneenkutty (2002) has studied recent trends in the domestic production and imports of cashew, and export of cashew kernels and cashew nut and shell liquid. Bhatta et. al. (2003) have attempted to assess the long-term trend in marine fish production in Karnataka using two different growth functions and analyses the changes in species composition during the past three decades. According to Kundra (2001), while the initiative on implementation of SEZs is laudable, there should be aggressive marketing to attract foreign investment. Relaxation of labour laws and rationalisation of duty on DTA access can give a big boost to the scheme.

Khan (1999) has made a comparative analysis of India’s export performance between the pre-reform and post reform periods, i.e. before and after 1990-91. Reddy (1999c,d) has found that despite the average import duties in the Quad countries (the US, the EU, Japan, and Canada) being in the low range of 3.7 to 7.1 percent, there are still over 10 percent of 4,000 tariff lines in those countries with peak import duties of 12 percent or more, as confirmed by UNCTAD-WTO study. All products, which face peak tariffs, are of interest to
the developing countries. Among these, there are also high-technology products, which involve largely unskilled labour in the production of components. Hence, reduction of tariff peaks should become one of the main elements of the tariff negotiation agenda. Chandrasekhar and Ghosh (1999, 2000, 2001a,b, 2002a,b, 2004) have analysed various issues related to the implementation of WTO agreements in the developing economies. The removal of quantitative restrictions on commodities reserved for the small-scale sector has made the reservation policy redundant.

According to Prabhat (2004), with its accession to the WTO, China will have more leverage to edge out India's textile and garment exports in the global market. Choudhury (1999a,b, 2000a,b, 2001, 2003a,b) has pointed out that the WTO's involvement in labour and environment aspects of trade would reduce the comparative advantage of the developing countries.

1.3.7. GATS

Chanda (2003) has analysed GATS of the WTO and its implications for social policy-making against the criticism raised about WTO's alleged encroachment into social service sectors such as health, education and environment under the GATS and the issues of national sovereignty and autonomy in social policy-making. The GATS' commitment structure is highly voluntary and flexible in nature. There is no compulsion on member countries to open up a particular sector or sub-sector/activity or a particular mode of supply if there are sensitivities and concerns involved about the potential impact. In this regard, the GATS commitment structure tries to strike a balance between commercial interests on one hand and regulatory concerns and public policy objectives on the other. The GATS' architecture is thus a mixture of a positive and a negative list approach to liberalization, whereby scheduled sectors are positively listed while the limitations to the commitments
made in these scheduled sectors are negatively listed. Given the discretionary and weak nature of this agreement, future negotiations in services present both opportunities as well as challenges to developing countries.

1.4. Statement of the Problem

The present study is an attempt to capture the developments in the world trade scenario and the implications thereof on the formulation of external trade policies of India, and the overall impact on the external trade behaviour. The state of Kerala, which had exhibited outward orientation from very early times of recorded history, will be impacted by the developments in the international trade scenario like the implementation of the WTO Agreements and other regional trade arrangements. The impact of globalisation and removal of Quantitative Restrictions (QRs) on trade in agricultural commodities and agro-based industries has become a matter of concern and a subject for debate and discussion in the political and economic forums. The present study is an endeavour to analyse the implications of the WTO/GATT provisions as applicable to the major export items of Kerala, and such a disaggregated analysis, supported by empirical investigation of data on major export products of interest to Kerala, and a survey of the exporters would throw light on realities of situation.

1.5. Objectives of the Present Study

The objectives of the present study are:

1) To analyse the major developments in global trade environment with reference to multilateral trade liberalisation policies and measures under the GATT / WTO Agreements and to examine the external trade policies and export promotion strategies within the context of the Indian economic system.

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2) To examine the behaviour of India’s exports and to understand the impact and implications of the unilateral liberalisation measures of the government and regulations initiated under the auspices of the WTO’s multilateral trade system

3) To analyse the implications of various provisions of the WTO Agreements on the major export items of Kerala with special reference to SPMs (Sanitary and Phytosanitary measures), TBT (Technical Barriers to Trade), Safeguards like anti-dumping measures and countervailing measures

4) To empirically investigate the data on export items of major interest to Kerala and to find out the trend behaviour, and demand relationships of major commodities

5) To find out the problems of the exporters and to examine the policy implications of the WTO trade regime and external trade policies for the state of Kerala

1.6. Methodology

The study purports to be both theoretical and empirical exposition of the export performance in the context of liberalisation and globalisation. Theoretical analysis will be based on the principles of trade strategies and the dynamics of the emerging global trade scenario under the WTO’s multilateral trade system. While examining the evolution of the trade system from being unilateral, bilateral, plurilateral and regional to the full-fledged multilateral framework, emphasis is being given on the implications of such a system on the developing economies. This aspect is examined in the backdrop of unending debates and controversies on the topics.

The empirical study will be based on the data analysis using statistical and econometric methods. Period-wise growth rates and trend-breaks are worked out to find out any possible shifts in the trend behaviour of the trade variables under study. While growth rates are worked out by using Ordinary Least Squares (OLS) method of regression, trend-
breaks are tested by using the dummy variable method for the years 1991 and 1995 under OLS regression. The accelerated pace of economic reforms in India began in the year 1991 and the year 1995 marks the establishment of the WTO. This is also extended to studies at the disaggregated level - the major export items of interest to Kerala. Double log linear export demand equations are fitted under OLS method of regression on the aggregate data on exports of India and the principal commodities of export interest to Kerala. The time series data are further tested for stationarity of residuals by unit root testing (ADF unit root test), and Johansen cointegration relations are estimated by eigenvalues/trace tests by using EViews software. Granger causality test is also performed in EViews to find out if pair-wise granger causality exists from independent variables to dependent variables.

1.7. Sources of Data

The analysis is attempted based on the secondary time series data available from the sources like International Financial Statistics, IMF, World Development Indicators, World Bank, FAO Yearbook of Trade Statistics, UNCTAD Yearbook of Commodity Statistics, World Trade Statistics, WTO, Data on Indian Economy compiled by CMIE, Export data as compiled by MPEDA, Spices Board, Coir Board, Cashew Export Promotion Council of India, and various issues of Economic Survey, Govt. of India and Economic Review, Govt. of Kerala. A survey was conducted to analyse the problems faced by the exporters in the context of liberalisation measures and changed global environment of trade. The survey was limited to export processing units in Kerala and Cochin Special Economic Zone.

1.8. Limitations of the Study

The quantitative analysis is based on secondary data collected from various sources. There are some discrepancies in the data from different sources. International agencies provide data on calendar year basis, but in India, most of the data are available on financial
year basis. Though every attempt was made to collate data in a uniform manner, in certain cases, this has to be relaxed. Both published and unpublished data from various agencies have been collected. The quantitative analysis is limited to the period from 1980 to 2002. The survey of exporters is based on a sample, and limitations applicable to any sample survey will be applicable to the study.

1.9. Scheme of the Study

The Thesis consists of eight chapters. The first chapter gives a brief introduction, which includes an overview of trade developments, objectives, methodology, and review of literature. The second chapter traces development of multilateralism in trade liberalisation and its implications. India's trade policies and export promotion strategies are discussed and analysed in the third chapter. The fourth chapter presents an aggregate analysis on global trade trends and India's trade performance. A disaggregated analysis of Kerala's export basket is attempted in chapter five. A statistical and econometric analysis of selected trade variables is summarised in chapter six. The seventh chapter is a brief account of the problems faced by the processing units based on a survey of the units. The concluding chapter highlights findings of the study and policy implications.