CHAPTER – VI

WTO AGREEMENTS – GAINS AND LOSSES TO INDIAN INDUSTRY
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The present chapter is devoted to an analysis on the impact of WTO on the Indian Industry. This chapter focuses on the gains and losses undergone by the Indian Industrial sector as consequences of the related WTO Agreements. The changing Industrial scenario in the country in the post-WTO regime and the future prospects of this sector are also analysed in this chapter.

It is presumed that once The Indian industry fully realizes the effects of WTO and its agreement the industrialists and business men will, on one hand try to safeguard their share in the Indian market, and at the same they will start exploring the new opportunities that will be thrown open for them. However, an Official Document of the WTO explicitly stated.¹ “To sum up, the ability of Indian industrialist and business persons to benefit from the improved institutional framework that has resulted from the Uruguay Round depends upon the following conditions:

- Their knowledge of the trade rules and rights that these give and obligations impose.

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• Their knowledge of the new opportunities for trade that have been created by countries.

• The initiative they show in bringing to the notice of their governments their problem in selling so that governments can raise the issues at appropriate levels under WTO.”

In the light of the above the opportunities for Indian industry for enjoying the full benefits of WTO and its agreements, are as follows:

1. The world economy is globalising rapidly through international trade and the flow of foreign direct investment. Revolutionary changes in transport and communications make it possible even for small manufacturers in developing countries like India to look for markets thousands of miles away;

2. by becoming the member of WTO India got access to the markets of 139 countries. It means that India need not sign individual bi-lateral trade agreements with individual countries;

3. the exporters fear that if they expand their plant capacities to cater to the global demand, and if the importing countries impose restrictions on imports, their capacities may remain under utilized. Further, the rule-oriented system assures them that access to foreign markets is not suddenly disrupted by higher tariffs or import
restrictions. Firms increasingly obtain components and intermediate products from countries where costs are lower. Industries can now plan their export production without fear of losing foreign markets due to restrictive government actions;

4. the bindings laid down by the WTO provides secure access to markets, enabling exporting industries to make investment and production plans under great conditions of certainty. In “trade in goods” almost all tariffs of developed countries and a higher proportion of those of developing and transitional economies have been bound against further increases in WTO. Binding ensures that importing countries will not disrupt improved market access, by sudden increases in rates of duties or by other restrictions;

5. several enterprises are required to import raw materials; intermediate products and services for export production. To facilitate imports, the basic rule requires that imports be allowed without restrictions upon payment of duties. The exporters got an assurance that their requirements are met without delay and at competitive prices. The Indians manufacturers can acquire the best quality raw materials and consumables from all over the world. This will help them to achieve a globally accepted quality of their final product;
6. It is possible for the exporters to approach the Indian Government for protection from the anti-dumping or countervailing duties imposed by the importing countries. Government can then take up issues for discussion and solution in the appropriate committees.

THE EFFECTS OF WTO ON INDIAN INDUSTRY

In the opinion of several experts the removal of quantitative restrictions by the Government of India is taking its toll on the Indian industry. During the first five years there is a despair in the industry. The small scale Industry was the worst hit. Further, the Industrial estates in the country are also adversely affected to a large extent.²

Scholars have attempted to analyse how the Indian Industry has been affected by the WTO's Agreements. These scholars concluded that the effect of WTO on the Industrial sector in India is quite discouraging. The Indian Industries are not in a position to face the competition from the foreign enterprises. Their financial position is not strong enough to continue their existence in the midst of the tough competition posed by the foreign investors. These experts proposed certain alternatives to the Indian Industries to survive in the present scenario.³
1. **To run the enterprise as long as possible.** When the capital runs out the company downs its shutters. This alternative is presently faced by most of the SSIs and tiny Industries.

2. **To sell out the stakes completely or partly to a foreign enterprise.** A Company like Parle Products found it safe to sell its stakes to Coke instead of fighting it out in the market place. Presently sell out seems to be the overwhelming choice of the Indian industry. Even the Government is not averse to the idea of diluting its stakes in many PSUs. We are witness to the debate going on about disinvestments in Government owned Air India and Maruti Udyog Ltd. In the present scenario, the Government is finding it difficult to find Indian suitors. Hence it is seriously considering the foreign proposals. One of the biggest hurdles is the backlash from the employees against privatization. The example of Balco is fresh in our minds where the Sterlite Industries even after 2 months of making the down payment of Rs.550 crores for 51% stake is unable to take control of Balco.

3. **To fight it out in the market place:** This option is available to companies with either deep pockets or with export orientation or both. There are a number of companies like BPL, Videocon, Ranbaxy, Dabur, Dr. Reddy's Lab, Titan, Shaw Wallace, Bajaj Auto,
Sunderam Fastners etc., Who had anticipated the competition well in advance and had started preparing to meet it. They achieved ISO 9000 Certification, to get recognition for their quality. They engineered their products to make them world class and they brought about cost cutting measures to make their products competitive in the market. Ranbaxy has gone ahead and has established a Research and Development lab in USA in order to get approval to their new drugs from US authorities. More and more companies are recognizing the importance of registering the product patents and trademarks.

It is reported that several companies will be affected by the product patent laws evolved under the TRIPs. The worst affected sector will be pharmaceutical industry, which will have to pay royalty to the foreign companies for their inventions.

ADVANTAGES AND DISADVANTAGES TO INDIAN INDUSTRIAL SECTOR

The Government of India expected that because of the potential export competitiveness certain specified industries be benefited immensely. Assuming that India's market share in world exports improves from 0.5 per cent not 1 per cent, and that the country take advantage of the opportunities
that created, the Government believe that the trade gains may conservatively be placed at 2.7 billion U.S. dollars extra exports per year. A more generous estimate will range from 3.5 to 7 billion U.S. dollars per year. The phasing out of the MFA (multi-fiber arrangement) by 2005 will benefit India as the exports of textiles and clothing will increase. While develop countries had demanded a 15 years period, the developing countries (including India) had insisted on a 10 years period. Another India expects relates to the improved prospects for agricultural exports as a result of likely increase in the world's prices agricultural products due to reduction in domestic subsidies and barriers to trade. While on the one hand earnings from agricultural exports are likely to increase, on the other hand, India has ensured that all major programmes for the development of agricultural will be exempted from the disciplines in the agricultural agreement. The most important of these relate to anti-dumping, subsides and countervailing measures, safeguards and disputes settlements. This is likely to ensure greater security and predictability for the international trading system and thus crate a more favourable environment for India in the New World Economic Order.

The most serious disadvantage to India is likely to flow from the WTO Agreements pertaining to the TRIPs, TRIMs and Services. The question of loss of sovereignty and interference in the functioning of the nation state is also serious issue but due to its political connotations, it needs to be is treated separately.
The Indian Industrial Sector likely to lose much more than it gains by joining the free trade regime. Consequent of the WTO Agreements some of its poorest and most under privileged sections like the labourers and other petty workers in the non-organized small organized sector are to be badly affected. The extent of destructions of the lives of these sections is unlimited.

The Government of India took a policy to lift Quantitative Restrictions on the import of the remaining batch of 715 items, of a total of over 10,000 entities as per the Agreements of WTO. The new regime allows unlimited imports, without license permit, of a wide range of goods, from pencils to cars, garments to cosmetics, liquor to lingerie, fruits and vegetables to furnishings and electronic appliances.

As a result of this new regime several Indigenous industries face unfair competition from the dumping of a variety of goods, like synthetic textiles, drycell batteries, toys and watches. Already, the importing of Palmolive and soybean oil in large quantities gave a death blow to the oil seed growers. Many farmers have abandoned mustard.

**COMPETITIVENESS AND RESPONSE OF INDIAN INDUSTRIAL SECTOR**

The sharpest weapon that an industry can develop to survive, in the globalised market economy is the competitiveness. Competitiveness is
supposed to create more value, on a sustainable basis, for the customer than its rivals can. The competitiveness of a corporation flows from a clearly, defined strategy, devised after analyzing the different forces in the industry impacting on the company.8

It is the company's power to provide the greatest value to the customers at the lowest price and thus getting profits, that make it fit enough to counter the forces of evaluation.9 The Indian companies are competing with others in the global markets. The key parameters of competitiveness in Corporate India. While other companies try to trundle up improvements in performances, India's competitive quintet are thinking in bullet-train terms, quickly discovering and building new competencies by reading and interpreting market signals. The classic example: Reliance Industries progressive backward integration from petrochemicals into oil exploration-activities that require new skills. But provide gigantic scale and a breathtaking span that no other 5 petro-chemicals players in the country, or in Asia, is even considering. Competitiveness in terms of quality is being achieved by companies that have been clever enough to lock into highly-demanding global customers. Sunderam Fastners has upgraded its commodity business of radiator cap-manufacture by meeting the $79.10 billion General Motors requirements. And Renbaxy is getting its bulk drugs approved by the US Food and Drug Administration.10
Cost Leadership on a global scale holds obvious promise, particularly since labour is cheap in India. Every efficient Indian company is virtually benefiting in the global market operations. It is the unique quality of the leadership that characterizes India's most competitive companies. Great Managers, owner, leaders and their visions on their companies helped on strategic focus, cost leadership and differentiation.\footnote{11}

**WTO's PATENT REGIME AND INDIAN INDUSTRIAL SECTOR**

The issues raised by the WTO are mainly of an International marketing nature. The changing trade perception of a developing country such as India is that the threat is more from the marketing intent of the WTO and the free trade regime it represents. The giant grown Indian pharmaceutical sector is feared to be a lamb in the looks of WTO tiger.\footnote{12}

The announcement of WTO prescription of patent regime for the global pharmaceutical industry was like a bolt from the blue that sent shivers through the spine of Indian pharmaceutical industry. Though the prescription was pronounced in 1995 a transition period of 10 years is allowed for the Indian industry and the product patent regime is dated for implementation from January 1, 2005. All the time the Indian pharma industry accustomed to introduce new patented products, originally innovated and developed by the Western counterpart, in the Indian market almost simultaneously with the
Innovator. The outcome is that the Indian companies, through the legal process of reverse engineering and process patents copy the most modern drugs developed by the Western Innovators without basic research expenditure. Moreover, the Indian industry used to export these drugs to the third world countries at cheaper rates compared to the Western countries. This is the basic cue for twisting the arm of the Indian pharma industry, inter alia other countries, through the WTO international declaration of patent regime and protection of intellectual property rights.13

As already stated the Trade-related Intellectual Property Rights (TRIPs) section of the WTO Agreement covers several types of intellectual property rights which include copyright, trade marks, trade secrets, geographical indications, industrial designs, integrated circuits and patents. However, the most confronting issue of TRIPs is patents.14

In the industrial sector, the WTO Agreements made it necessary for India to modify its Patent Laws. Accordingly, the Government of India modified its earlier Patent Laws and brought into force the new Indian Patents Act, in certain products like food and pharmaceuticals, the patents are limited to the manufacturing. For example, a medicine developed and patented by a firm in India if the manufacturing process used is different from the original one. Any one who is impartial would admit that it is unfair. The UR stipulated product patent (as against the process patent in India). There are many experts in this country who feel that in industries like the
pharmaceuticals, industry the adoption of products patent "was over-due as
the latter amounted to open theft". Such a change should give a boost to the
R & D in the Indian companies. It may also be noted that India got a grace
period of 10 years to effect the change over in the new Patent Law.\textsuperscript{15}

It is argued in some quarters that the fears of monopolisation and
resultant sharp increase in prices if product patent is accepted seems to be
exaggerated. A recently conducted study reveals that the patented drug
segment of the Indian pharmaceutical sector is less than 16 per cent of the
total marketed quantity and within this segment more than half of the drugs
have other therapeutic equivalents. It can be assumed that in the near future
seven per cent of the total pharmaceutical market would constitute patented
inventions with few substitutes. Even in respect of these drugs it would not be
easy to jack up prices to very high levels as Government could prevent
monopoly abuse by price controls and other means. It is also pointed out that
"today the lack of patent protection has made foreign firms shy away from
producing most of them in India, and without any compulsion to do so, Indian
companies have shown no interest in sub-licensing their manufacture. As a
result, the people are forced to buy life-saving drugs at abnormal prices. Once
the patent protection comes into operation many of the drugs now being
imported will start being made here and their prices will fall".\textsuperscript{16}
WTO AND INDIAN TRADE

The trade agreements of the WTO championed mainly by the U.S. Through the World Trade Organisation, have been facing a number of obstacles for the following reasons:

The so-called developed countries’ push agenda that suit their particular economic interests in the name of free trade. At the same time the developing countries like India have recently united to jointly oppose such moves. One consequence of the slow progress of WTO has been the rush for regional Free Trade Agreements (FTAs). The FTAs are essentially bilateral agreements, or multilateral agreements among a group of countries as against a universal agreement envisaged by WTO among all members.17

The apparent benefit of an FTA is an extension of the free market theory, namely, that this concept will increase trade and investments, improve quality of products and services, lower prices and enhance consumer welfare. This theory holds good only when a country trades with a number of countries and the law of averages evens out the advantages and disadvantages across various segments of products and services. In a bilateral situation, unless the economics of the two countries complement each other, it can never work for the benefit of both. Let us look at some of the facets of free trade in a bilateral sense.18
If there is an artificial incentive to encourage trade between two countries, the investments, if at all, would seek a very narrow perspective and not aspire for a bigger share in the global market. Studies have shown that the Multi-National Companies in the auto industry, for example, reduce their overall investment by producing only in one of the FTA countries instead of both. There is a need that a consumer fulfils by buying products and services, which enhances trade. It is difficult to understand how overall trade will go up if a person is redirected from buying in the global market to buying from a favoured nation as envisaged by an FTA. The sum total of needs of consumers will only go up by economic growth, which can happen by having a large domestic economy and participating increasingly in the global economy.

It is pointed out that in case an importer uses the FTA facility, his Government loses potential revenue which it could have otherwise earned if the import in an FTA country is a constraint with no economic rationale.¹⁹

Development and rapid implementation of progressive policies to make Indian industry competitive is the key to increasing its global trade prospects. India has one of the highest levels of taxation. Infrastructure inadequacy adds to transaction costs. Corruption and delays adds further to the costs. Dealing effectively with these will need political will, which is rare in India and even if present among a few politicians and bureaucrats, coalition politics will ensure
nothing is done fast. Signing regional FTAs will not automatically improve the country's exports or trade.\textsuperscript{20}

A study conducted in 2003 on the impact of WTO on the foreign trade in India revealed several trends. The study analysed the position of Indian foreign trade for the period between 1990 and 2000 i.e., pre and post-WTO regimes in order to estimate the impact of WTO.\textsuperscript{21} The findings of this study can be summarized as follows: The study mainly focused on certain variables such as exports, imports and trade balance. For the study of these variables, certain statistical tools like quintal average (Q.A) and coefficient variation (CV) were used by the scholar. The study revealed that QA value of exports during pre-WTO period (1990-95) was to the extent of Rs.56,541 crores which increased to Rs.131589 crores during the Post-WTO (1995-2000) on the other hand the QA value of the exports for the pre-WTO was to the time of Rs.63499 crores and it went to Rs.159738 crores during the post-WTO period.

In the case of trade balance, the QA value of trade balance was negative at 6957.8 crores and it declined to reach the level of Rs.28,148 crores. Thus the trade balance presented a high degree of negative trend during the post-WTO period.\textsuperscript{22}

Further, a comparative analysis of pre-WTO and post-WTO period situations show that the total quantities of exports, imports and trade balanced have increased considerably. However, it is clearly evident that the growth
rates of these three items have recorded a fluctuating trend. In the case of exports, the growth rate varied between 18.5 and 35 per cent in the pre-WTO period and 7 to 16.6 per cent in Post-WTO period. The growth rate of imports also show a fluctuating trend but nevertheless the post-WTO period registered a lower growth rates than the pre-WTO period.\textsuperscript{23}

On the whole, it is evident that the imports grew at a faster rate than the exports during the post-WTO period. Further, it is also evident that there is a increasing trade deficit in the post-WTO period. This is mainly on account of increase in import. Prices growing trade competition removal of quantitative restrictions and other conditionalites of the WTO. However, it is interesting to note that the trade balance went on increasing terribly after the advent of WTO.\textsuperscript{24}

**GROWTH OF INDUSTRIAL PRODUCTION**

There has been a general slowing down of the rate of growth of industrial production during the post-WTO period. The AAGR of the General index of industrial production declined from 6.98 per cent during the decade 1982-83 to 1991-92 (pre-reforms) to 6.16 per cent during the decade 1992-93 to 2001-02 (reforms period). The decline in the AAGR was the largest in Mining and Quarrying (6.63\% to 3.29\%) followed by Electricity (8.85\% to 6.05\%) and manufacturing (6.75\% to 6.52\%).\textsuperscript{25}
The Composite Index of Infrastructure Industries too recorded a lower AAGR (5.96%) during the reforms than during the pre-reforms period (7.13%). The AAGR of Index of Coal production declined from 6.34 per cent during pre-reforms to 3.50 during reforms period, of Cement from 9.97 per cent to 7.25 per cent and of Crude Petroleum from 7.08 per cent to 0.82 per cent. The Index of Petroleum Refinery Products, however, registered a higher AAGR of 8.09 per cent during reforms as compared to 5.68 per cent during pre-reforms period. Similarly, the Index of Steel production recorded a higher AAGR of 8.42 per cent during the reforms as compared to 4.70 per cent during pre-reforms period.\(^{26}\)

The available empirical evidences show that there has been marked deceleration in the growth of production of Basic Goods (e.g. electricity, coal, finished steel, fertilizers, cement and aluminium ingots) and Capital Goods (such as commercial vehicles, electric motors, tractors, diesel engines and railway locomotives) during the reforms period. While Intermediate Goods (like cotton yarn, petroleum refinery products, tyres, paints and jute goods) and Consumer Non-Durables more or less maintained the pre-reforms growth of production. Consumer Durables recorded a very high Growth Rate, which was still lower than the Growth Rate during the pre-reforms period.\(^{27}\)

The AAGR of Index of Basic Goods production declined steeply from the reforms (1981-82 to 1990-91) to 3.58 per cent during the reforms period (1992-93 to 2000-01); and that of Capital goods from Index of
Intermediate Goods production showed some buoyancy, the AAGR reforms period; but in the year 2001-02 even this Index dipped to just 1.6 per cent. The AAGRs of the Index of Consumer Goods and Consumer Non-Durable nearly maintained their pre-reforms performances and 6.46 per cent during reforms. In the case of Consumer Goods, the corresponding figures for Consumer Non-Durable being 5.47 per cent and 5.05 per cent, respectively. The AAGR of Consumer Durable was very high (11.55%) during reforms, but still lower than that of the pre-reforms period (13.87%).

The challenges faced by the Indian Industrial Sector in the globalisation process are intricate and numerous. Of these, the domestic factors could be marshaled by the design of appropriate socio-economic polices for the country’s development. But the external factors, like the environmental standards of WTO, impose restrictions, which are outside the domain of domestic policy experiments, and the scope for international cooperation and coordination seems extremely difficult and time consuming in the present day context of global political economy. The positive aspects of trade liberalization under the WTO regime have to be counter-balanced against the stupendous task of enhancing the market access problem for Indian exports, which are facing numerous non-tariff barriers in the garb of environmental protection. The adverse consequences of distorted trade liberalization in a globalised world on the Indian economy, however, pose fresh challenges to our analysts and policy makers to find
solutions to the new challenges problem facing the Indian economy is to improve the living conditions of millions of its poor people. But the market friendly (in the name of eco-friendly) measures initiated by the WTO would threaten the human face of our reform experiments unemployment, retarded growth, and growing trade deficit are the likely results of our unguarded adventure towards the WTO arrangements, which now appears to be fait accompli in nature.  

SIGNOS OF INDUSTRIAL REVIVAL  

Recent trends and surveys do indicate that the Indian Industrial Sector may finally be coming out of the recession in the second half of 1999-2000. The growth of Industrial production during April – September 1999 has been 6.4 per cent compared to 4.1 per cent for the corresponding period in 1998. Similarly, the Growth Rates of basic, intermediate and capital goods industries picked up in the first 6 months of the year 1999-2000 which again might be suggestive of the impending recovery of industrial growth. A survey conducted by a noted research centre also finds that 46 out of 84 segments show 10 per cent or higher growth during April – November 1999 led by strong recovery of transport and equipment sectors. Another indication of future growth of industrial production can be had from the trends in growth of a composite index of infrastructure sectors comprising electricity, coal, saleable steel, cement, crude, and petroleum refinery products. This index
registered a Growth Rate of 6.7 per cent during April – September 1999 compared to 3.4 per cent during the corresponding period in the previous year (RBI 1999). The stock market also started to rise in the second half of the 1999-2000 with Bombay Stock Exchange sensitive index crossing the level of 5,000 points for the first time and staying there. All these indicators suggest that the industry may finally be coming out of recession that it has faced in the past three years. However, one has to wait and watch if these trends are sustained and the Indian economy will be firmly on a higher growth trajectory.

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