Chapter-4

India’s Foreign Trade Policy From Global Perspective
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INDIA'S FOREIGN TRADE POLICY FROM GLOBAL PERSPECTIVE

4.1 Introduction

The present chapter is divided into three sections. First section explains different lessons for India from East and Southeast Asian counties' trade policy reforms experience. Second section discusses the trade policy commitments of India with world trade organization and India’s role in various negotiation procedures in an attempt to provide some direction to India regarding trade policy reforms. Third section, explores various regional and bilateral agreements of India that were initiated for liberalizing and opening trade with the rest of the world, with the aim to draw some implications for India’s foreign trade policy.

4.2 Section 1: Lessons from East and Southeast Asian Countries’ Trade Policy Reforms

First section illustrates various trade policy reform measures that started in different East and Southeast Asian countries as a part of economic reforms. The objective of studying trade policy reforms of these countries is to evaluate the nature and characteristics of trade policy reforms of these countries and draw out different lessons for India. The countries of these regions under study are Hong Kong, South Korea, Taiwan, Singapore, Thailand, Malaysia, Indonesia and China. This region and countries have selected to study as these countries adopted an export oriented trade policy for growth and development of their economies especially since seventies and outward orientation has been a marked feature of this region since then. These countries implemented trade policy reform successfully and achieved high growth rates after the initiation of these reforms.

After world war second a perceptible shift came in patterns of foreign trade. By that time only Europe and North America were the main trading blocks. But after that period a liberalization move splintered all over the world and developing countries began to play an active role in world trading system. As a
result a new trade block of East and Southeast Asian countries emerged in the global trade scenario. In the new trade block Hong Kong, South Korea, Taiwan and their Southeast Asian counterpart Singapore were considered as Newly Industrialized Countries (NICs) or Asian tigers. Then came the tiger cubs, all in Southeast Asia, i.e. Thailand, Malaysia and Indonesia. And finally spectacular trade performance achieved by China. As noted by Arize (1990) “while these economies followed differing strategies, they had one thing in common: they created conditions favorable for export-oriented manufacturing. This resulted in a new international division of labor with low-tech factories shifting from higher-wage to lower-wage countries”. These favorable conditions for exports had developed with the help of trade reforms that initiated in these economies at different time periods.

Therefore, a brief description of nature and characteristics of trade policy reforms of different East and Southeast Asian countries is being provided, so that important lessons could be drawn for India. This region has been studied by dividing the region in to three parts i.e. NIEs or Asian tigers, Southeast Asian countries known as tiger cubs and China. However, viewing the success of China in the area of foreign trade and the success of its trade policy reforms, the description is elaborate for China as compared to other East and Southeast countries.

4.2.1 China’s Trade Policy Reforms

China launched its economic reforms program in 1979 with the aim to improve the efficiency of the economy. China’s economic reform program was different from the reforms of other developing countries, which were started due to the conditionalities imposed by IMF and World Bank. These reforms were not a part of any structural adjustment program. China’s reforms were of ‘experimental nature’ (as quoted by Zhao, 2005) as some locations and industries were chosen to liberalize first an on the basis of their success the process of reforms furthered. Moreover, these reforms were ‘incremental’ (as quoted by Martin 2001) in nature, as after taking feedback from each reform, new reform
process was initiated. Actually, two types of liberal policies were initiated. First, intensive liberalization policy on regional basis were imitated and second, a mild liberal movement at national level were taken. By and large, considering the role of foreign trade in the growth of any economy, trade reforms were taken as a focal point of economic reforms of China.

Prior to this reforms movement of 1979, China followed an import substitution policy with export promotion. Even after the initiation of reforms, China’s trade policy did not shift immediately from import substitution to export orientation. For a long period during the reform era, it was a mix of both import substitution and export orientation, but gradually shifted toward the East Asian growth model of export oriented growth. Various measures were initiated for the promotion of exports such as devaluation of the currency; permission for local governments, ministries and export enterprises to retain a portion of foreign exchange earned in exports; tariff exemptions for imported inputs used in producing exports, and rebates of indirect taxes for exports.

Added to this, an important feature of China’s trade reform was the decentralization of foreign trade activities, in which it granted permission to various trading firms for participating in trade activities. Other notable initiatives taken were the creation of special economic zones and active promotion of foreign direct investments (FDI) in joint ventures. Imports of intermediate inputs and capital goods for use in the production of exports were completely liberalized. China also liberalized the labor market in a steady manner in order to provide greater flexibility in the labor market.

Some important initiatives taken as a part of trade policy reforms were:

- Devaluation by 21 per cent in 1989 and 9 per cent in 1990.
- Relaxation of restrictions on convertibility: By January 1994, not only the unification of exchange rate was achieved but also convertibility on current account was almost complete.
- De-monopolization of the foreign trade regime: From 12 national monopoly corporations, the number of foreign trade corporations (FTC's)
had grown to over 9000 in 1998 (The Ministry of Foreign Trade and Economic Co-operation).

- Reduction in non-tariff barriers: In the early stages of the reform process, all exports and all imports were planned. In that sense, virtually all trade was covered by non-tariff barriers (NTB's). Administrative controls and NTB's have now been substantially reduced, although not eliminated altogether.

- Change in pricing principles: China follows the multi-tier pricing system, where in prices are determined by a combination of administrative and market forces (Narayana and Nataraj 2002).

- Reduction in tariffs: In January 1992 the government announced sizable reductions in tariff levels of 225 tariff lines and abolition of the import regulatory duty. Further progress was made in lowering tariffs and other import restrictions in 1993 and early 1995. A significant tariff reform was implemented in October 1997, reducing average tariffs significantly below 20 percent.

- Regional policy: A three tier structure was adopted, which divides different regions into Coastal Open Areas, Coastal Open Cities and Special Economic Zones (SEZ's). These SEZ's had been identified mainly for their locational advantage, close to advanced countries primarily with a large non-resident Chinese concentration. Subsequently open cities appeared covering much larger areas.

- Introduction of special arrangements for processing trade: Imports of intermediate inputs for use in the production of exports were almost completely liberalized. This category of imports came to represent a very large share of total imports, accounting for almost half of total imports by 1996.

- Provincial subsidiaries of the national corporations were set up as independent companies, and new FTC's were created. Direct export and import rights were also granted to some manufacturing enterprises.
A major change in China’s trade reforms scenario came when it joined the WTO in 2001 and attempted to change its trade policy in compliance with WTO regulations. Concerning TRIMs, mainly requirements on domestic components, export performance, and foreign exchange balance of foreign enterprises, were removed. Upon China’s WTO accession in 2001, the banking/insurance and telecommunication sectors, which were not opened to FDI before, were opened. Not only were the trade policies relating to FDI changed, trade liberalization also occurred in the domestic sectors. More and more manufacturers that produced export goods were also permitted to directly purchase inputs and sell products overseas (Scott McDonald et al, 2008). By the year 2005, tariff reductions on most products and the elimination of other trade distorting measures were completed. China has completely eliminated certain non-tariff restrictions, including licensing restrictions, quotas, and tendering practices on imports. Most markets access commitments for services with WTO have been completed by 2007.

4.2.2 A Comparative Analysis of India and China’s Foreign Trade Performance

China’s trade reform process started more than a decade before of India’s trade reforms and consequently, the performance of China has been better than India. Table 4.1 shows that in 1953, China and India had similar shares of world merchandise trade. But due to adoption of an import-substituting industrialization strategy, India’s share of world exports reduced in 1983 by two-thirds to just 0.5 per cent and share of world imports by half to 0.7 per cent. China’s export share remained unchanged at 1.2 per cent where import share decline by a third to 1.1 per cent. After initiation of reforms by 2008 China’s share in world merchandise exports (imports) rose to 8.89 per cent (6.9 per cent) and made it the second largest exporter and third largest importer in the world. During post-reforms regime, India’s exports (imports) share also increased but to a modest 1.1 per cent (1.79 per cent) making it only the 27th largest exporter and 16th largest importer. This fact is also pointed out by Economic Survey 2009-10, which states that while
India’s exports were higher than those of China till 1954, they started lagging thereafter. Ironically the gap started widening since the nineties, the period of India’s reforms. In 1990, the shares in world exports of China and India were 1.8 per cent and 0.5 per cent respectively and in 2008, their respective shares stood at 8.9 percent and 1.1 percent. This growing gap between India and China calls for greater introspection on the part of India.

### Table 4.1: Percent Share in World Merchandise Trade

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<td>Export</td>
<td>Import</td>
<td>Export</td>
<td>Import</td>
<td>Export</td>
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<tr>
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<td>1.1</td>
<td>1.2</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
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<td>2.2</td>
<td>3.1</td>
<td>1.3</td>
<td>1.4</td>
<td>0.5</td>
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Source: WTO (2006a), Tables II.2 and II.3 & WTO Trade Profiles 2009

A closer look of Table 4.2 indicates that the share of China’s merchandise trade has grown significantly after the initiation of reforms. Exports and imports as a percentage of GDP continuously increased. For instance, exports as a percentage of GDP stood at 4.9 billion USD in 1970-79, 13 billion USD in 1980-89, 21.5 billion USD in 1990-99 and further increased to 32.22 billion USD in 2000-08. Similarly imports as a percentage of GDP which stood at 4.7 billion USD in 1970-79, 13.5 billion USD in 1980-89, 19.2 billion USD in 1990-99 and further increased to 27.44 billion USD in 2000-08. Total merchandise trade as a percentage of GDP increased significantly during the period 1970-08. For the decade of 1970, this share was 9.3 billion USD, which rose to nearly 25 billion USD in the decade of 1980 and reached at the level of 36.5 billion USD in the next decade. Interestingly, the share of merchandise trade to GDP touched the mark of 54 billion USD during the period 2000-08.

As exhibited by the Table 4.2, the case of India does not depict such a spectacular performance. For India, exports as a percentage of GDP stood at 5.3 billion USD in 1970-79, 5.9 billion USD in 1980-89, 10.1 billion USD in 1990-99 and further increased to 17.78 billion USD in 2000-08. Similarly imports as a percentage of GDP which stood at 5.7 billion USD in 1970-79, 8 billion USD in
1980-89, 11.1 billion USD in 1990-99 and further increased to 20.22 billion USD in 2000-08. Total merchandise trade as a percentage of GDP increased significantly during the period 1970-08. For the decade of 1970 this share was 9.3 billion USD, 11.4 billion USD for the decade of 1980 and reached at the level of 16.8 billion USD in the next decade. The exploration of the data depicts that even after eighteen years of reforms the share of India’s merchandise export to GDP has remained almost half i.e. approximately 27 billion USD to China’s.

4.2.3 Lessons for India from Chinese Trade policy reforms

After examining the above data, now, it is important to get some lessons from the success of China’s trade policy reforms. First, China adopted a regional policy of trade liberalization and got the desired success from the SEZs. In India, though, SEZs have been created largely in imitation of China’s SEZs, but the particular aspects of China’s SEZs, namely the provision of adequate infrastructure, allowing flexibility in hiring and firing, and welcoming unrestricted foreign ownership, limiting fiscal sops to attract investors, are not present in Indian SEZs. Thus these factors behind the success of China’s foreign trade should be taken into consideration.

Second, the policy of export-led growth is more appropriate for large size country like India. Viewing the results of china’s and other East and Southeast Asian countries’ experience from export led growth policy and by taking different lessons from these economies India can obtain the impressive results.

Third, China employed its import policy for export promotion. To increase export related production, different types of raw material, technology and machinery were allowed to import freely. By the help of this advance technology and machinery cost effective products were manufactured and exported to the diversified foreign markets. Thus an attempt is made to inculcate technology related goods in export basket and to be a final goods exporter. India can learn this strategy and ensure its success in the final goods sector.

Fourth, India should focus on gaining advantage in cost so that competitiveness could increase. It has worked in the case of China (as illustrated
by Kalirajan 2008), whose cost competitiveness help its exports in negotiating large distances. For that labour reforms can be initiated in different labour intensive industries such as apparel and textile.

Fifth, the proven technological potential of the country can best be exploited and made robust by exposing the economy to external competition by strategically reducing tariffs. Low level tariffs have strong signaling effects, besides reducing inefficiencies in resource allocation and operations.

Sixth, a relatively restrictive foreign investment regime in India needs review. FDI inflow should be viewed as a vehicle of technology transfer, spillover effects in production processes and of increasing exports.

Seventh, China’s experience edifies that measures should me taken to reduce the transaction cost of exporters for cutting the cost of production and movement, facilitating rapid and reliable delivery, and for increasing labor productivity. Therefore, trade related infrastructure especially for power and transportation should be strengthened.

Eighth, China focused on consumer goods, which were manufactured through final assembly operations that are large in scale, but where a great deal of outsourcing to small enterprises is undertaken to preserve their competitiveness. Therefore, freeing of restrictions on the size of small-scale industries through de-reservation is so that these enterprises could grow fast and could contribute in the growth of foreign trade.

Some educationalist states that China’s and India’s experience are not comparable because there are lots of dissimilarities in terms of trade openness process. China has gradually opened up to world trade, with authorities purposefully encouraging the export of manufactured goods as an engine for domestic development. China’s reform were initiated on an experiment basis to fewer geographical areas and after their success implemented in the nationwide. In contrast, India has started to open up since 1991, with a significant acceleration in the first three years. India adopted a process of widely distributed economic reforms in the country, with a little focus on creating trade infrastructure. However, since both the countries are large sized economies and incorporate the
external trade as a salient part of their development strategy, the above lessons can be valuable for India’s external trade accomplishments.

Over the past 38 years, different East and Southeast Asian countries have moved to a more liberal trade regime and achieved the economic growth. These countries adopted a gradual and continuous process of reforms, but it has not been without periods of increasing protection. We have discussed the lessons from China’s trade policy reforms earlier. Now from other countries’ trade reform process and their performance, we are illustrating different lessons, which India can take by the success of various East and Southeast Asian countries’ trade policy reforms.

4.2.4 Other East and Southeast Asian Countries

Taiwan, Korea and Singapore were the initiators of reform process in East and Southeast Asian region. These economies shifted from inward oriented trade policy to outward oriented trade policy in start to mid sixties. The main objective of this shift in trade policy was to increase the competitiveness of labour intensive manufacture exports by providing them larger access to capital goods, raw materials and components at close to international prices. A 'dual-track' trade strategy were adopted which means i.e. one of maintaining relatively high tariffs and even quantitative restrictions on imports on the one hand and yet maintaining domestic exporters' competitiveness in the international market through a set of strong but conditional and time-bound export incentive measures. This is protection coupled with competition (Wade 1988).

As a consequence of first oil price shock, various changes were initiated in the trade policy of these NIEs. Taiwan adopted a two-fold strategy: (i) speeding up the trade and exchange liberalization process which it had initiated in the earlier decade, and (ii) launching a science-based industrial park, which was a duty-free, bonded area reserved for the operation of high technology firms i.e. a version of Taiwan's earlier decade's export processing zones (Madhur, 1994). The responses of Korea and Singapore differed somewhat from that of Taiwan. Both these countries resorted to greater state intervention to shift resources away from
labour intensive to skill and capital intensive sectors. Korean government intervened heavily in the capital market and the foreign trade regime whereas the Singapore government intervened in the labour market (Madhur, 1994).

By the early eighties, the situations in all the three countries were different. In eighties, due to various national and international reasons Korea's economic performance worsened sharply and GDP declined in 1980 for the first time in Korea's modern history (Aghelvi and Marquez-Ruarte 1985). In response to these emerging problems, the Korean government introduced a series of stabilization and structural adjustment measures. As part of this program, the government further, liberalised the trade and exchange system. Various measures initiated in this context include a devaluation of 17 per cent in national currency, liberal licensing requirements and reduction in tariff rates. On the other hand, Taiwan generally continued its liberal approach towards trade policy reforms.

In the case of other Asian countries, by the early eighties, Singapore had a highly open trade and exchange regime comparable to that of Hong Kong with an average tariff rate of only about 5-6 per cent. Along with it, the domestic saving rate of over 40 per cent was very high as compared to various other regions. Therefore, Singapore shifted from being an exporter of labour intensive light manufactures to an exporter of capital and skill-intensive products without any major structural problem. Unilateral liberalization and domestic regulatory reform, especially since the Asian crisis, have also reduced protectionist barriers in some services sectors. The fourth economy of NIEs, Hong-kong was very liberal even before sixties. Hong-kong was inclined towards a liberal trade and commercial policy. Therefore this country did not adopt any specific tariff and non tariff measures to curb foreign trade or foreign investment.

By the early seventies the trade policy regime of Indonesia, Malaysia, and Thailand was somewhat lies between the strong outward-orientation of the NICs and the strong inward-orientation of the south Asian countries like India, Pakistan, and Nepal. It was in many respects a mixed bag. Their tariffs were, in general, lower and in some of them quantitative restrictions on imports were also less pervasive than among the south Asian countries (World Bank 1987).
To a large extent, until the late seventies, primary commodity exports have been one of the major sources of foreign exchange earnings for most of these countries. With primary commodity prices remaining depressed for quite a while in the early eighties, most of these countries found themselves in trouble. In Indonesia and Malaysia, because of their oil exports, the problem was less severe initially but by mid-eighties, the international price of oil also fell sharply. Between 1980 and the mid-eighties export earnings fell in Indonesia, and Malaysia whereas it increased marginally in Thailand. Since imports remained more or less unchanged during this period, trade imbalance worsened considerably. In response, most of these countries started significant trade and exchange reforms (Madhur, 1994)

4.2.4.1 The ‘Tiger Cubs’ Indonesia, Thailand and Malaysia

Prior to the first oil price shock of 1973 Indonesia was adopting a process of unilateral reforms. Tariff rates were lower and barring few, all other export and import were away from quantitative restriction. After this first oil price shock period, Indonesia severely controlled both exports and imports by using both tariffs and non-tariff measures like export quotas, import licensing, state trading etc. The Indonesian government adopted trade liberalization and export promotion policies from the late eighties. There were many reasons for this move. At the end of the oil boom in the early eighties, petroleum and petroleum and gas products accounted for almost three-quarters of total merchandise exports. The collapse of oil prices in 1982, followed by another precipitous fall in 1985-1986, brought about a massive decline in total export earnings. Taking lessons from this massive decline in oil export earnings government took steps to increase non-oil exports and also directed its foreign trade policy toward liberalization. Like India, the economic reforms in Indonesia initiated nation wide in the areas of exchange rates, fiscal sector, monetary and financial sector, trade and business sector and investment sector. Major steps taken to reform the trade sector include reduction in tariffs rates, providing liberal import for export production, reduction in regulations on exports, measures to decrease the transportation cost of exports,
and reduction in import licensing requirements. These trade reforms have been supported by an aggressive exchange rate management and a liberal policy towards foreign investment by the Indonesian government.

Indonesia accepted the IMF Structural Adjustment Programme in 1998 and as a result significantly accelerated trade and FDI liberalization and domestic regulatory reform in goods and services sectors. Indonesian trade policies have swung from high protection to openness in a comparatively short period. Its average unweighted tariff has come down to under 10 per cent in 2007. However, there are higher tariffs and tariff escalation, particularly in agriculture. Like India, over the past 35 years, Indonesia has moved to a more liberal trade regime, but it has not been without periods of increasing protection and the direction of trade liberalization in the short to medium term has been adhoc.

Thailand is considered as a new Asian Tiger with other economies like Malaysia and Indonesia. This success of Thailand in the past two and a half decades is mainly a consequence of various trade reform measures initiated in the beginning of 1982. At that time Thailand, who was a net oil importer, suffered badly by the oil price shock and in an effort to increase its oil import bill, implemented some measures to encourage manufactured exports. Therefore, a gradual process of trade and financial sector reforms was implemented. With the aim of promoting export of labour intensive manufacturing goods, various incentives and tax exemptions has been provided to export oriented units. Since quantitative restrictions were less pervasive and tariffs and the exchange rate were the primary instruments of import control in Thailand, these reforms focused almost exclusively on tariff reductions and exchange rate adjustment. Average nominal tariffs were reduced substantially and the ceiling rate was set at 60 per cent (World Bank 1987b). In the beginning of nineties, this reform process furthered and various foreign exchange reforms were initiated. Thus, the focus of the government shifted from Import Substitution to Export Promotion with the aim of attaining competitiveness in labour intensive manufacturing goods.
As stated by Athukorala (2005) "historically, trade and investment barriers in Malaysia have been low in relation to other countries in the region except for Hong Kong and Singapore". It is also illustrated by Sally and Sen (2005) that Malaysia is one of the world's most globalised economies with relatively liberal trade policies by developing-country standards. Since the mid eighties the policy reforms in Malaysia have generally focused on tariff reduction and domestic deregulation. On the trade and exchange regime, the key measures that have been taken are the promotion of free trade zones and the liberalization of the foreign investment policy. Due to the liberalized foreign investment policy, foreign investors were allowed to hold equity up to 100 per cent principally in export-oriented industries. Currently, Malaysia is following a relatively high liberal trade policy as compare to other developing-countries.

It is also noticeable that though a phase of negativity towards trade policy reforms was came during late nineties by east and southeast countries due to slowdown in the world economy, yet an ad hoc approach has always been followed by most of these economies regarding trade reforms.

4.2.5 Highlights of Performance of East and Southeast Asian Countries

The share of exports in gross domestic product (GDP) in different East and Southeast Asian countries has grown continuously after the initiation of trade policy reforms as evident by the figure 1.

Chart 4.1: Exports of Goods and Services to GDP (Percent share)

Source: World Development Indicators Online Database, World Bank.
This figure shows that the share of Export of goods and services to GDP of countries like Malaysia, Indonesia, Thailand and Korea is increasing since 1982 and this increase is even more pronounced than the World. This rise is even more visible after the year 2000 (Figure 1).

Table 4.2 also exhibits the export success of these countries. Since seventies, the share of South Korea’s Exports and imports as a percentage of GDP has continuously increased. Total merchandise trade as a percentage of GDP increased significantly during the period 1970-08. For the decade of 1970, this share was 49.5 percent, which rose to nearly 61.3 percent in the decade of 1980. This share, however, decreased and reached at the level of 49.5 billion USD in the next decade mainly due to East Asian crisis. Interestingly, the share of merchandise trade to GDP touched the mark of 65.78 percent during the period 2000-08, which was even higher than the decade of eighties. The average share of services, value added as a billion USD of GDP also reached at a level of nearly 59 billion USD in 2000-08, which was remained 44 billion USD for the whole decade of seventies. This shows a significant rise in the absolute values of services.

Singapore is a significant part of NIEs and considered as the initiators of trade policy reforms. Trade performance of this country, especially in merchandise trade, has been very impressive since the decade of seventies. The average share of Merchandise trade as a percentage of GDP for the decade of seventies has been very huge i.e. nearly 251.2 billion USD. It further increased in the decade of eighties and reached at 308.8 billion USD per year. Though due to Asian crisis it decreased in next decade and reached at 279.1 billion USD, but again rose significantly to reach at a level of approximately 325 billion USD. The share of services has been meager as compare to the performance of merchandise trade, which was just 68 billion USD for the period of 2000-08.
Table 4.2: Performance Indicators of Various East and Southeast Asian Economies: 1970-2008

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<tr>
<td>Exports of goods and services (% of GDP)</td>
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<td>Services, etc., value added (% of GDP)</td>
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<td><strong>China</strong></td>
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<td>613</td>
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<td>440</td>
<td>44</td>
<td>474</td>
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<td><strong>Malaysia</strong>*</td>
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<td>618</td>
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<td><strong>Thailand</strong>*</td>
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<td>36.5</td>
<td>480</td>
<td>48</td>
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<td>468</td>
<td>46.8</td>
<td>500</td>
<td>50</td>
</tr>
<tr>
<td><strong>Indonesia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>224</td>
<td>22.4</td>
<td>253</td>
<td>25.3</td>
</tr>
<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>191</td>
<td>19.1</td>
<td>222</td>
<td>22.2</td>
</tr>
<tr>
<td>Merchandise trade (% of GDP)</td>
<td>334</td>
<td>33.4</td>
<td>387</td>
<td>38.7</td>
</tr>
<tr>
<td>Services, etc., value added (% of GDP)</td>
<td>357</td>
<td>35.7</td>
<td>385</td>
<td>38.5</td>
</tr>
</tbody>
</table>

Source: Compiled from IMF Database (in US Billion Dollar); * Data Up to 2006-07
Since the decade of seventies, Malaysia's exports and imports as a percentage of GDP have continuously increased. For instance, on an average, exports as a percentage of GDP stood at 44 billion USD in 1970-79, 57.1 billion USD in 1980-89, 91.3 billion USD in 1990-99 and further increased to 113 billion USD in 2000-07. Similarly imports as a percentage of GDP which stood at 39.9 billion USD in 1970-79, 54.7 billion USD in 1980-89, 86.8 billion USD in 1990-99 and further increased to 93.25 billion USD in 2000-07. This illustration depicts that Malaysia always had a positive balance of trade as the value of exports has been more in comparison of imports. Total merchandise trade as a percentage of GDP increased significantly during the period 1970-08. For the decade of 1970, this share was 74.9 billion USD, which rose to nearly 95.3 billion USD in the decade of 1980 and reached at the level of 156.6 billion USD in the next decade. Notably, the share of merchandise trade to GDP touched the mark of 180 billion USD during the period 2000-08. Contrary to the massive growth of merchandise trade, the share of service grow very marginally i.e. from nearly 40 billion USD in the decade of seventies to nearly 48 billion USD in 2000-07.

Thailand's exports of goods and services as a percentage of GDP on an average stood at 19.1 billion USD in 1970-79, 25.9 billion USD in 1980-89, 43 billion USD in 1990-99. Thus in three decades this share doubled. Notably for the period of 2000-07, this share increased to 70.38 billion USD. Further, evaluation of the table shows that for three decades the balance of trade has been negative for the country. However, this trend reversed for the period 2000-07, as imports has remained less during this period. The share of services in the GDP has been more or less same since 1970 and has been very less as compared to share of merchandise trade.

After adopting various reform measures, the Indonesian economy managed to regain export dynamism from about 1987 by shifting to non-oil exports, particularly manufacturing exports. An exploration of Table 4.3 indicates that the share of Indonesia's merchandise trade has grown significantly after the initiation of reforms. Exports and imports as a percentage of GDP have continuously increased. For instance, exports as a percentage of GDP stood at
22.4 billion USD in 1970-79, 25.3 billion USD in 1980-89, 30.2 billion USD in 1990-99 and further increased to 32.22 billion USD in 2000-08. Similarly imports as a percentage of GDP which stood at 19.1 billion USD in 1970-79, 22.2 billion USD in 1980-89, 27.4 billion USD in 1990-99 and further increased to 27.56 billion USD in 2000-08. Total merchandise trade as a percentage of GDP increased significantly during the period 1970-08. For the decade of 1970, this share was 33.4 billion USD, which rose to nearly 38.7 billion USD in the decade of 1980 and reached at the level of 49.5 billion USD in the next decade. Interestingly, the share of merchandise trade to GDP touched the mark of 53 billion USD during the period 2000-08. By the mid-nineties, manufactured goods contributed around 50 per cent of the country’s total merchandise exports, compared with less than 10 per cent at the beginning of the eighties.

4.2.5.1 A Comparative Analysis with India

The recent performance of different East and Southeast Asian countries along with India, emerging and developing economies and world has been presented in Table 4.3. This table illustrates that share of emerging and developing economies in total world export has been increasing since 2000. It has increased from nearly 26 per cent to 39 per cent in 2008 (Table 4.3).

In contrast, the share of various east and Southeast Asian countries like Hong kong, Singapore, Indonesia, Thailand, and South Korea have decreased marginally. On the other hand, the share of China and India has increased since 2000. India’s share in world merchandise exports, after remaining unchanged at 1.1 per cent between 2007 and 2008, reached 1.2 per cent in 2009 (January-June) mainly due to the relatively greater fall in world export growth than India. The five per cent increase in China’s share of world exports between 2000 and 2008 is around 39 per cent of the total increase in the share of emerging and developing countries over this period. On the other hand, in absolute terms, India is far behind China as its exports constituting only 12.4 per cent of China’s in 2008.
Table 4.3: Export Growth and Share in World Exports: India & Other Select Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Value US$ billion</th>
<th>CAGR</th>
<th>Growth Rate (%) Annual</th>
<th>Share in world exports (%)</th>
<th>Change in Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,429</td>
<td>25.4</td>
<td>25.6</td>
<td>17.3</td>
<td>-21.7</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>363</td>
<td>7.8</td>
<td>8.7</td>
<td>5.3</td>
<td>-16.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>210</td>
<td>8.5</td>
<td>9.6</td>
<td>19.1</td>
<td>-31.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>148</td>
<td>7.9</td>
<td>14.7</td>
<td>24.4</td>
<td>-28.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>173</td>
<td>11.3</td>
<td>17</td>
<td>12.9</td>
<td>-23.4</td>
</tr>
<tr>
<td>India</td>
<td>338</td>
<td>12</td>
<td>10.1</td>
<td>13</td>
<td>-31.7</td>
</tr>
<tr>
<td>South Korea</td>
<td>422</td>
<td>11.2</td>
<td>14.1</td>
<td>13.6</td>
<td>-22.7</td>
</tr>
<tr>
<td>Emerging &amp; Develop. Econ.</td>
<td>6,218</td>
<td>17.3</td>
<td>15.2</td>
<td>25.7</td>
<td>-27.6</td>
</tr>
<tr>
<td>World</td>
<td>16,001</td>
<td>11.2</td>
<td>14.1</td>
<td>16.2</td>
<td>-29.5</td>
</tr>
</tbody>
</table>


While analyzing the performance of East and Southeast Asian countries, it is observed by Jongwanich (2007) that the reason of fast growth of these economies in early eighties has been their success in manufacturing exports. A shift in commoditity composition also pointed out by author as he stated that “the region (East and Southeast Asia) tended to start with a focus on technologically simple labor intensive goods such as apparel and footwear, and then moved to a range of more capital-intensive, technologically sophisticated items, especially electrical and nonelectrical machinery”.

This feature is clearly exhibited in the following table which depicts that during the period of 1980-89 the high technology export share in total manufactured exports of various East and Southeast Asian countries were very high as compared to countries like India. The share of high technology exports as a percentage of manufactured exports was very high during the period of 1990-99 for countries such as China, Korea, Malaysia, Singapore, Thailand, and Indonesia. For Singapore, Malaysia, Thailand, and Korea this share were 50.8 percent, 45.2 percent, 25.8 percent, and 23.5 percent respectively. For China and Indonesia the
share of high technology exports in total manufactured exports were 8.8 percent and 6.3 percent respectively. India’s share reached at 3.4 percent in the period of 1990-99 as compared to 1980-89 when it was a mere 0.6 percent, which shows an improvement during the post-reforms regime. However, the share of India is very less if we compared it with other East and Southeast Asian countries.

Table 4.4: High-technology exports (% of manufactured exports)

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>China</th>
<th>Korea</th>
<th>Malaysia</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-89</td>
<td>Total</td>
<td>6</td>
<td>NA</td>
<td>34</td>
<td>79</td>
<td>36</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>0.6</td>
<td>NA</td>
<td>3.4</td>
<td>7.9</td>
<td>3.6</td>
<td>1.9</td>
</tr>
<tr>
<td>1990-99</td>
<td>Total</td>
<td>3.4</td>
<td>88</td>
<td>235</td>
<td>452</td>
<td>508</td>
<td>258</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>3.4</td>
<td>8.8</td>
<td>23.5</td>
<td>45.2</td>
<td>50.8</td>
<td>25.8</td>
</tr>
<tr>
<td>2000-07</td>
<td>Total</td>
<td>40</td>
<td>211</td>
<td>258</td>
<td>452</td>
<td>458</td>
<td>235</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>5</td>
<td>26.38</td>
<td>32.25</td>
<td>56.50</td>
<td>57.25</td>
<td>29.38</td>
</tr>
</tbody>
</table>

Source: Compiled from IMF Database (in US Billion Dollars).

During the period of 2000-07, China’s share of high technology exports in total manufactured exports increased remarkably and reached to 26.38 percent. This growth of nearly 17 percent is mainly achieved by assembly/component specialization and contributed in the success of China’s manufacturing exports. The share of High-technology exports as a percentage of manufactured exports increased significantly for all other countries like Korea, Malaysia, Singapore, Thailand and Indonesia. The share of India, though improved but it is still very less if we compared it with other East and Southeast Asian countries.

An analysis of Table 4.5 highlights the same fact that India is still lagging behind in using technology for business and export purposes. The First Factor in this table explains that how common is licensing of foreign technology in a particular country. Second factor describes to what extent businesses in a country absorb new technology. Third factor illustrates that how do companies obtain technology? (1 = exclusively from licensing or imitating foreign companies; 7 = by conducting formal research and pioneering their own new products and processes). Fourth factor explains to what extent do companies within your country use the Internet for their business activities (e.g., buying and selling
goods, for interacting with customers and suppliers)? Fifth factor shows the
Exports of creative industries products as a share of world total in such exports.
Ranking based on hard data. Sixth considers the number of utility patents (i.e.,
patents for invention) granted between January 1 and December 31, 2008, per
million populations based on hard data. Seventh factor shows high-technology
exports as a percentage of total goods exports based on hard data.

Table 4.5: Ranking of East and Southeast Asian Countries based on Business Usage
of Technology

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>China</th>
<th>Korea</th>
<th>Malaysia</th>
<th>Singapore</th>
<th>Thailand</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevalence of foreign technology license</td>
<td>31</td>
<td>78</td>
<td>34</td>
<td>30</td>
<td>5</td>
<td>45</td>
<td>49</td>
</tr>
<tr>
<td>Firm-level technology absorption</td>
<td>30</td>
<td>47</td>
<td>15</td>
<td>37</td>
<td>13</td>
<td>61</td>
<td>65</td>
</tr>
<tr>
<td>Capacity for innovation</td>
<td>35</td>
<td>22</td>
<td>15</td>
<td>25</td>
<td>18</td>
<td>59</td>
<td>44</td>
</tr>
<tr>
<td>Extent of business Internet use</td>
<td>43</td>
<td>52</td>
<td>3</td>
<td>39</td>
<td>16</td>
<td>67</td>
<td>71</td>
</tr>
<tr>
<td>Creative industries exports</td>
<td>10</td>
<td>1</td>
<td>20</td>
<td>21</td>
<td>19</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Utility patents</td>
<td>58</td>
<td>50</td>
<td>5</td>
<td>29</td>
<td>11</td>
<td>68</td>
<td>87</td>
</tr>
<tr>
<td>High-tech exports</td>
<td>50</td>
<td>8</td>
<td>6</td>
<td>4</td>
<td>5</td>
<td>12</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: Compiled from ‘The Global Information Technology Report’ 2009-2010, World
Economic Forum. Note: Total No. of Countries 133; Ranking are based on Weighted
Average score of the countries.

India’s performance in business use of technology is better in the area of
frequency of foreign technology license, Firm level technology absorption and
creative industries exports in comparison with the area of innovation capacity,
utility patents and high-tech exports. If we compare India and China alone, it
exhibits that India is far behind from china in creative industries exports and
High-Technology exports. China is also ahead in case of innovation and utility
patents from India. So there is a need to further enhancement of capacity
particularly in these areas.

4.2.6 Lessons Taken from Different East and Southeast Asian Countries

Generalizations of the reasons behind the success in trade and economic
growth are very difficult as countries face different economic and other situations
at different time periods. However, considering the fact that it is better to learn
from other’s experience than own mistakes, this study provides a few general
lessons for India from the experiences of East and Southeast Asian countries’ trade policy reforms.

First and foremost, “trade and exchange reforms constitute a continuous process”. In the present globalised world, where changes are coming faster and impacting all the countries by one or other way, trade and exchange reforms constitute a continuous process rather than a one time change in policies. Since the decade of seventies, East and Southeast Asian countries are showing outward orientation and implementing the reform process slowly but steadily. Though there were phases of protection yet the reform process in these countries have been continuous. In the present scenario, this is a big lesson for developing countries, like India that for long term success reforms should be furthered slowly but steadily.

Secondly, there has been a trend towards greater outward orientation and less government intervention in the area of trade policies in different countries such as the Indonesia, Singapore, South Korea and Malaysia. In these economies such trade policies have been implemented that offers minimum restrictions on imports, fewer subsidies for exports and a more uniform tariff structure. These kinds of policies have produced the desired results in different trade scenarios and are a big lesson for developing countries like India. A notable example of less government intervention and increasing privatization is of Indonesia government, who handled its custom department to a private company in order to reduce the transaction cost. As a consequence average time spent on custom procedures and cost of business reduced considerably. Added to this, to improve transparency and public scrutiny of trade policies, the Indonesian government has carried out a review of trade rules and regulations in order to identify and, where necessary, rectify onerous bureaucracy and poorly conceived trade and investment policies. This provides big lessons for India that good governance and privatization of different trade related government departments can provide less stringent bureaucratic procedures like single window clearance and business friendly approach.
Thirdly, another lesson that can be drawn from the experience of different NIEs and other emerging Southeast Asian countries is related with the liberalization of foreign investment and other capital flows. Financial sector liberalization along with trade liberalization has been a part of almost all countries' economic policy. Especially, countries like Thailand, Malaysia and Indonesia placed more emphasis on liberalizing capital flows along with trade reforms. Thus foreign investment should be taken as a measure of trade facilitation in a developing country like India.

Fourth, since early eighties manufacturing export sector were the main success factor in the sustained industrialization and trade related growth of East and Southeast Asian nations, especially of Malaysia, Singapore and Thailand. So a broad set of trade policies should be adopted that use tariffs, quotas and exchange restrictions to avoid discrimination between domestic production and export production, and at the same time encourage the high end goods exports.

As illustrated by Peter A. Coclanis and Tilak Doshi (Jul. 2000) that the mainstream economics explanation of the growth experience of Southeast Asia has been based on the "Washington consensus": that is, the pursuit of economic policies based on outward orientation, macroeconomic prudence, and domestic liberalization. This means, in common parlance, first, trade a lot; second, avoid inflation and maintain sensible and stable exchange rates and interest rates; and third, promote competition and, in general, let the private sector thrive. The crisis events of Southeast Asia qualify the basic message of the Washington consensus with an important rider: that it is important to sequence liberalization of domestic capital markets to match the development of adequate regulatory and supervisory capacity of financial regulators. This is a significant lesson for India to follow.

4.2.7 Conclusions

India initiated trade policy reforms within the broad framework of economic reforms in July 1991 and since then the country is exercising many trade reform measures. However, the pace of implementation these have been
very slow. Thus, India has to follow concerted and continual trade policy reform measures to utilize its potential and to achieve the success.

The trade policies success in East and Southeast Asia were due to the better implementation of fundamentals i.e. macro economic measures and interventionist policies i.e. sectoral policies and targeted programs such as export promotion specially for manufacturing products, providing export subsidy, duty free import of raw materials but high tariffs on final products, technological upgrading for increasing productivity, FDI promotion and foreign exchange liberalization with tax concessions. Beside these trade policy measures, the countries focused on achieving macro economic stability, sound public policies, building the institutions for growth and accumulating the physical and human capital. Similarly in sectoral and fiscal level, the East Asian Economic Model (EAEM) was the most useful tool that comprises dual track policy, firstly the diverse and combined strategy to emphasize mass manufacturing production with greater FDI (mega projects) and secondly the domestic focus on local enterprises with indigenous skills and resources along with productivity enhancement programs at micro level (Scott McDonald et al, 2008). One another finding emphasizes the importance of productivity as a determinant of export performance for the East and Southeast Asia. The key findings of the study by Jongwanich (2007), which was related with exploring the determinants of export performance in East and Southeast Asia suggest that rapid diversification of exports away from traditional products and toward assembly/component specialization within global industries have tended to weaken the link between the real exchange rate and export performance. World demand and production capacity have increased in importance in determining exports. Particularly in the long run, production capacity tends to play an important role in determining performance of exports. Thus, proper implementation of coordinated and integrated external sector policies along with enhancing productivity in the areas of core competitiveness is the best way for different developing countries, including India to replicate the success story of East and Southeast Asian countries.
4.3 Section 2: World Trade Organization and India's Foreign Trade Policy Reforms

Over the last sixty-five years, the world has followed the path of economic liberalization. By and large, this move was started with the creation of the General Agreement on Tariffs and Trade (GATT) after Second World War in 1947. After birth, in short span of time, the GATT swiftly completed four rounds of negotiations by 1956, resulting in substantial drops of thousands of tariffs covering billions of world trade (WTO, 2006). After that, on January 1, 1995 a sea change came in history of global trade, as World trade organization (WTO) emerged from General Agreement on Tariffs and Trade (GATT) as a result of a world trade treaty known as the ‘Final Act’ of the Uruguay round of trade negotiations which was continued from 1986 to 1994. The Uruguay round was mainly focused on the removal of trade barriers which hindered the growth of foreign trade between countries. The Uruguay round of trade negotiations had identified four major issues affecting international trading relations; these issues being: (a) Domestic and export subsidies on agricultural products, (b) Phasing out quota system in textiles and clothing, (c) Uniformity in national patent laws for commodities, and (d) Bringing services under the GATT system of free flows akin to commodities. As a result after the completion of Uruguay round new areas were included in the sphere of GATT such as agriculture, Trade related aspects of Intellectual Property Rights (TRIPs), Trade Related Investment Measures (TRIMs) and General Agreement of Trade in Services. Consequently, this round led the emergence of the World Trade Organization, which was an important landmark in international trading relations and policy formulation.
Table 4.6 GATT and WTO trade rounds

<table>
<thead>
<tr>
<th>Name</th>
<th>Start</th>
<th>Duration</th>
<th>Country</th>
<th>Subjects covered</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geneva</td>
<td>April 1947</td>
<td>7 months</td>
<td>23</td>
<td>Tariffs</td>
<td>Signing of GATT, 45,000 tariff concessions affecting $10 billion of trade.</td>
</tr>
<tr>
<td>Annecy</td>
<td>April 1949</td>
<td>5 months</td>
<td>13</td>
<td>Tariffs</td>
<td>Countries exchanged some 5,000 tariff concessions</td>
</tr>
<tr>
<td>Torque</td>
<td>Sept. 1950</td>
<td>8 months</td>
<td>38</td>
<td>Tariffs</td>
<td>Countries exchanged some 8,700 tariff concessions, cutting the 1948 tariff levels by 25%</td>
</tr>
<tr>
<td>Geneva II</td>
<td>Jan. 1956</td>
<td>5 months</td>
<td>26</td>
<td>Tariffs, admission of Japan</td>
<td>$2.5 billion in tariff reductions</td>
</tr>
<tr>
<td>Dillon</td>
<td>Sept. 1960</td>
<td>11 months</td>
<td>26</td>
<td>Tariffs</td>
<td>Tariff concessions worth $4.9 billion of world trade</td>
</tr>
<tr>
<td>Kennedy</td>
<td>May 1964</td>
<td>37 months</td>
<td>62</td>
<td>Tariffs, Anti-dumping</td>
<td>Tariff concessions worth $40 billion of world trade</td>
</tr>
<tr>
<td>Tokyo</td>
<td>Sept. 1973</td>
<td>74 months</td>
<td>102</td>
<td>Tariffs, non-tariff measures, &quot;framework&quot; agreements</td>
<td>Tariff reductions worth more than $300 billion dollars achieved.</td>
</tr>
<tr>
<td>Uruguay</td>
<td>Sept. 1986</td>
<td>87 months</td>
<td>123</td>
<td>Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc</td>
<td>The round led to the creation of WTO, and extended the range of trade negotiations, leading to major reductions in tariffs (about 40%) and agricultural subsidies, an agreement to allow full access for textiles and clothing from developing countries, and an extension of intellectual property rights.</td>
</tr>
<tr>
<td>Doha</td>
<td>Nov. 2001</td>
<td>?</td>
<td>141</td>
<td>Tariff, Non-tariff measures, agr., Labor standards, environment, investment, patents etc.</td>
<td>The round is not yet completed</td>
</tr>
</tbody>
</table>

Source: Adapted from 'The GATT years: from Havana to Marrakesh', WTO

WTO is intended to integrate the economies of the member countries in to the world economy and to bring about a significant increase in world trade. It is based on the broad principles of non-discrimination between imports, exports and domestic sales and between enterprises and sectors (Weiss 2005). The WTO provides the possibility of assuring direction of trade reforms. This can be done through consolidation processes, safeguard agreements, subsidies etc. (Mikic,
The WTO agreements ensure that the members display greater transparency and predictability in many areas of trade policy. They have to give advance notification of changes in rules regarding import systems and subsidy programs. The main objective of WTO is to ensure fair, smooth, and predictable and free trade flow among nations. This it does by:

- Administering trade agreements
- Acting as a forum for trade negotiations
- Settling trade disputes
- Reviewing national trade policies
- Assisting developing countries in trade policy issues, through technical assistance and training programs
- Co-operating with other international organizations.

India being a founder member of both GATT (1947) and its successor organization WTO, committed to facilitate imports and to open up trade environment. By virtue of its WTO membership, India automatically avails of Most Favored Nation and National Treatment from all WTO members for its exports, and its participation in this increasingly rule-based system is aimed towards ensuring more stability and predictability in the governance of international trade. To get these benefits, India has made following changes in the economy as mandated by WTO.

- Quantitative Restrictions (QRs) have been completely phased out in 2000-01 and only the tariff structure remains which itself has been lowered considerably, with 67% of the tariff lines being bound.
- Under the TRIMs (Trade Related Investment Measures) agreement, restrictions on entry of foreign investment and conditions upon various aspects have been removed and relaxed. Except a few sectors, FDI is being allowed up to 100% through automatic route and Indian companies are also free to invest abroad.
Under the GATS (General Agreement on Trade in Services), India has made commitment in 33 activities where foreign service providers are allowed to enter keeping in view national interests.

India’s legislation on Custom Valuation rules, 1998 has been amended to bring it in conformity with the provisions of WTO agreements on implementation of article VII of GATT 1994 and the Customs Valuation Agreement.

The main issues of concern for India revolved around Agriculture, Trade Related Intellectual Property Rights (TRIPs), the Multi-Fiber Agreement (MFA) in textiles, Trade related Intellectual Properties (TRIPS), Trade related Investment Measures (TRIMs), the General Agreement on Trade in Services (GATS) and the Integrated Dispute Settlement Mechanism under the WTO. India’s foreign trade has been affected due to establishment of WTO and its provisions.

4.3.1 Agreement on Agriculture

The Agreement on Agriculture provides a framework for the long-term reform of agricultural trade and domestic policies with the aim of enhancing the global agricultural trade. It includes the area of market access, domestic support which provides assistance to production and export competition. It is significant as the agriculture export and import has been highly controversial in the sphere of foreign trade. However, ability to take advantage of these opportunities will depend upon the structural strength of the agriculture sector.

With the exception of few import items, import tariffs in India had not been previously bound under the GATT. There were very high import tariffs and high level of bound tariffs. This led to a condition of high cost and prices and inefficient use of resources as well as lack of competitiveness of the products of Indian agriculture sector in the world markets. All basic agricultural commodities and processed food continued to remain under the general ban on consumer goods. Now after the advent of trade reforms, tariff structure has been reduced and rationalized gradually in India, and quantitative restriction has been eliminated completely from India.
Under the Agreement on Agriculture, except for a few items, India's bound rates range from 100 to 300 per cent and no commitments have been made regarding market access, reduction of subsidies or tariffs. For India it was expected that agreement on agriculture will put a favorable impact on agricultural exports since the world prices of agricultural products will increase due to reduction in domestic subsidies and barriers to trade. As Indian domestic prices were lower than the international prices, the condition of reducing the domestic price as compare to international price was not applicable for India. Thus it was expected that the reduction of subsidies and tariffs by developed countries should give a fillip to Indian agricultural exports. Unfortunately, in the emerging liberalized and globalised environment, the domestic agriculture sector is becoming weaker and getting further marginalized. With the withdrawal of various types of domestic incentives and also with the increased threat of dumping of agriculture goods in the liberalized framework, there is every danger of our agriculture sector shirking further. Moreover, various studies have demonstrated that developed countries like EU countries are increasingly adopting the Green Box Measures of the Agreement which are exempted from the subsidy reduction commitments. In this background, continued increase in the exposure of domestic agriculture to international unfair competition would imply considerable damage to the domestic agriculture sector. It is, therefore, necessary that an integrated strategy for the agriculture sector is adopted in the context of new trading system.

4.3.2 Multi-Fiber Agreement (MFA) In Textiles

Textile sector is the most important sector of the Indian economy, next only to the agriculture sector that plays an important role in income generation and employment creation. Under WTO, the trade in textiles and clothing had been governed in terms of the Multi-Fiber Agreement (MFA), which fixed the quota of exports from countries like Japan, South Korea, Hong-Kong and India. The Agreement on Textile and Clothing of WTO obligates the member countries to phase out multi-fiber agreement and other quantitative restrictions. India can take
advantage from this system but for that textile sector must modernize, technologically competitive and financially strong. Thus, a broad based and diversified national textile strategy needs to be formulated to harness the full potential of this sector.

4.3.3 Trade Related Intellectual Property Rights (TRIPS)

The agreement of Trade Related Intellectual Property Rights (TRIPs) is very important for technological progress, innovation, and competition in the global economy. It sets out the minimum standards of protection to be adopted by the parties, in respect of (a) Patents; (b) Lay out design of integrated circuits; (c) Copyrights and related rights; (d) Trademarks; (e) Geographical indications; (f) Industrial Design; and (g) Protection of Undisclosed information (trade secrets) and the enforcement of these.

India is part of most key international conventions on this topic and has progressively made its domestic legislation conform to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Considering the obligations of this agreement, the Patents (Amendment) Act, 1999 was passed in India on March 1999 to provide for exclusive market rights. This was followed by the adoption of Patents (Amendment) Act, 2002, in May 2002. Moreover, in order to meet its commitment to the WTO to introduce product patents act by January 1, 2005, the government of India prolonged an ordinance and adopt patents (Amendment) Act in March 2005. This new patent regime provides for product patents in drugs and farm products. However, there is also a dire need to strengthen our institutional facility for patent registration, copy-right protection and legal processed of dispute settlement. An integrated one roof system should be implemented for dealing all the aspects of the IPR regime. There should be a linkage between Research and Development (R&D) activity and industrial application and patenting facilitation.

4.3.4 Trade Related Investment Measures (TRIMS)

The Agreement of Trade Related Investment Measures (TRIMs) provides that there would be rational treatment to all companies and all trade restriction
and distorting investment measures, such as restriction on multi-national companies requiring them to use a minimum local content in production and imposition of export obligation would be removed. The Government of India notified two TRIMs i.e. that relating to local content requirements in the production of certain pharmaceutical products and dividend balancing requirement in the case of investment in 22 categories of consumer items.

4.3.5 General Agreement on Trade in Services (GATS)

The General Agreement on Trade in Services (GATs) focuses on free trade in services like banking, insurance, shipping, transport, and telecommunications so as to promote growth in developed countries by providing wider markets and in developing countries through transfer of technology. This agreement has a “positive list” approach, thereby allowing WTO members to take on obligations in the sector of their choice. The initial commitments made under GATS were such that the existing policy framework should be either more liberal, or equivalent to the bound measures. In both areas, thus, India, like most other developing countries, used a ceiling on its protective structure, rather than binding it at effective levels, while pursuing unilateral liberalization. India had made commitments in 33 activities, as compared to an average of 23 activities for developing countries. According to the Indian government the guiding objective for these commitments and in service negotiations had been guided by consideration of national benefit in terms of capital inflows, technology and employment.

In services the two most important modes of supply are mode 1 (cross-border supply) and mode 3 (supply through commercial presence). So far members appear to have concentrated much of their negotiating effort on mode 3. However, India has always tried to get increased market access especially through liberalization of professional services trade in modes 1 and 4, while securing a balance in the outcome of commitments across all modes and sectors and the negotiations on domestic regulations. Therefore, in the area of services India seeks to extend opportunities for cross border service. India searched for grater
flexibility in movement of technically qualified personnel and greater opportunities for its skilled manpower to work in different countries.

4.3.6 Other Agreements under the Purview of WTO

India used the WTO Special and Differential Treatment in two ways: as a beneficiary, because of its status as a developing country; and as a provider, especially for Least Developed Countries (LDCs). Indeed, the WTO Agreements contain special provisions which allow for the possibility of more developed countries treating developing countries more favorably than other WTO members. These provisions include longer time periods for implementing agreements and commitments, measures to increase trading opportunities for developing countries, support to help developing countries build the infrastructure for WTO work, dispute resolution, and implementation of technical standards (WTO, TPR, No. 182, p.33), in addition to provisions relating specifically to LDC members. Secondly, India receives preferential market access in the EU, US, Russia and Japan, among others, under the General System of Preferences (GSP).

Along with it, the Agreement on Safeguard measures has a significant place for the interest of India. Under the Agreement on Safeguards, a Member must determine that increased quantities of imports are causing or threatening to cause serious injury to the domestic industry producing like or directly competitive products. Developing countries are given more flexibility in two ways: the maximum duration of a safeguard measure, including extension, is two years longer than for developed countries (that is four plus six at a maximum) and they are allowed to re-impose a safeguard after a period of non application that is shorter than for developed countries. Developing countries as well as transition and developed countries have made use of the Agreement. India has been main users of these measures.

Under the agreement on hardware for IT products India was bound to reduce tariffs on inputs and products for the IT industry to zero by 2005. The agreed list contained several goods that were used by they entertainment industry, for the manufacture of televisions etc. with a large indigenous manufacturing
pace, it was important to find a soft landing for these agreements. Work on this started as early as 2002. Tariffs for selected inputs were reduced, that would help local industry to add greater value. Tax concessions and excise duty concessions were announced, and simultaneously, the concept of countervailing duty on imported products, to the extent of local duties, was also introduced. Customs tariffs were reduced progressively by 5% every year, starting with input materials, and finally in the budget of 2005, all tariffs in the agreement were reduced to zero. The benefits for the computer and the telecom industry have been quite significant.

4.3.7 India's Stand in Various Negotiations

India has been an active member of WTO. It has been engaging with coalition groups to ensure that her key interests are maintained. On the subject of agriculture, it is now a part of G20, a coalition of developing countries pressing for ambitious reforms of agriculture in developed countries with some flexibility for developing countries, and also a part of coalition of developing countries pressing for flexibility for developing countries to undertake limited market opening in agriculture. On issue of NAMA India is actively participating in a coalition, which is seeking flexibilities to limit market opening in industrial goods trade. With regard to NAMA, India, along with its coalition partners, believes that: progress must be made on achieving a fair, balanced, and development-oriented set of modalities based on the mandated principles of placing development concerns at the heart of the negotiations; ensuring less than full reciprocity in reduction commitments for developing countries; achieving a comparable level of ambition with regard to agricultural market access; and appropriate flexibilities to manage adjustment costs and address development needs(WTO, 2006).

On Intellectual Properties subject India is a sponsors of TN/C/W/52, a proposal for “modalities” in negotiations on geographical indications and “disclosure” (patent applicants to disclose the origin of genetic resources and traditional knowledge used in the inventions). Moreover, developed country’s
effort to include labour and environmental issues as a precondition to have better market access were partially thwarted by India and other developing countries who argued that labour issues were to be dealt with ILO (International Labour Organisation). Also, India succeeded in underlining the importance of non-trade concerns like food security, rural development, PDS for the developing countries.

India's position prior to the launch of the Doha Round of negotiations placed emphasis on securing the objectives outlined in the mandated negotiations and the implementation issues raised by a number of developing countries. The main negotiating issues and the key elements from India's perspective in the Doha Round have been to honour the development dimension; protecting the interest of poor farmers and industry and seeking greater market opportunities for its farmers and industry. India's role in post-Doha multilateral trading system has been:

➢ To sustain and improve south-south cooperation
➢ To play a pro-active role in implementation will be crucial-delivering on development through increased trade.
➢ To further strengthen trade and economic ties with LDC’s, duty-free, quota free market access.
➢ To popularize trilateral development cooperation for better trade-related capacity building of less income countries. India's role in post-Doha multilateral trading system

Considering the above issue, at the ministerial conference in Cancun, in September 2003, and in Hong Kong, China in December 2005, India stressed the need to address agricultural subsidies in rich countries and tariff and non-tariff barriers maintained by these countries on products of export interest to developing countries. Thus, on the issue of reduction of agricultural subsidies India has been seeking enlargement of its list of sensitive products and exert greater pressure on reduction in tariffs by the developed countries. Non-tariff barriers to agricultural trade including psyto-sanitary conditions, and environmental issues have been taken up strongly to increase market access of Indian agricultural products. Due to collective efforts of different partner countries it was decided to phase out all their
agricultural export subsidies by the end of 2013, and terminate any cotton export subsidies by the end of 2006. Further concessions were provided to developing countries included an agreement to introduce duty free, tariff free access for goods from the Least Developed Countries.

In the Seventh WTO Ministerial Conference on November 2009 in Geneva, India has submitted proposals relating to, *inter alia*, agriculture, non-agriculture market access (NAMA), services, disputes, competition policy, trade facilitation, rules, TRIPS, and special and differential treatment. India has proposed urgent reforms in the functioning of the multilateral trade body specifically more transparency on the issues related to the non-trade barriers. Due to global financial crisis the US, EU and Japan have together undertaken trillions of dollars worth of bail-outs, subsidies and trade barriers in the past year. In the present situation these big powers are unwilling to concede their respective domestic protections and support such as for agriculture. At the same time they are aggressively pursuing both WTO agreements and free trade agreements (FTAs) that cover fewer countries but extract even deeper liberalization commitments. With a view to these developments, India decided for adopting "common positions" with Brazil and South Africa on all major issues pertaining to WTO.

Taken together, the trade policy reforms in India since 1995 have been compliance with the commitments to the WTO. From this viewpoint, although the trade policy reforms as such have not been influenced by the WTO, the changes in the trade policy reforms in the recent times have been guided by the provision of the WTO. For example, the incentive structure for Indian exporters had been recanted to make them consistent with India's commitment to the World Trade Organization. Accordingly, India's trade policy reforms cannot be strictly separated from the country's commitments to the WTO. Different trade agreements under the purview of WTO are providing various opportunities in different areas such as agriculture, services, and favorable manufacturing foods such as textile and clothing's. So, trade policy reforms should be in such a
direction that could help India to properly negotiate, protect and exploit these opportunities.

4.4 Section 3: India’s Regional Trade Policy

During post-reforms regime, Indian trade policy has been versatile and comprehensive in nature. Nowadays Indian trade policy is multifaceted, which is working at multilateral, regional as well as bilateral levels. It has been implementing various commitment taken as a member of a multilateral organization i.e. World Trade Organization and side by side, as a further proof of moving forward, it has been taking part in various regional and bilateral trade agreements since 1991.

India actively participated in regional trade agreements within the framework of multilateral rules after the initiation of trade reforms in the country. In April 1993, the members of South Asian Association for Regional Cooperation (SAARC), which was created by eight South Asian Nations in 1983, signed the SAARC Preferential Trading Arrangement (SAPTA), which provided limited preferential market access. After this, the agreement on setting up the South Asian Free Trade Area (SAFTA) was signed by member countries of SAARC in January 2004 and a phased tariff liberalization programme under its aegis, has been implemented from 1 July 2006.

With this, considering the political and other difficulties of the whole SAARC process, India also signed bilateral trade agreements with its neighbouring least developing countries. Bhutan and Nepal are the two countries which has close historical and political ties with India. India has signed bilateral trade agreements with both countries, which provides them preferential market access. A Free Trade Agreement between India and Sri Lanka was made operational in March, 2000.

With the aim of close relationship with the East and Southeast Asia, The Bangkok Agreement was signed by India on 31st July 1975, which was the first important tariff agreement in the Asian region and the only regional trade agreement to link East, Southeast and South Asia. The text of the Bangkok
Agreement had been re-negotiated and re-named as the Asia Pacific Trade Agreement (APTA). The APTA is operational among five countries, namely, Bangladesh, China, India, the Republic of Korea and Sri Lanka. Philippines and Thailand, which was a member of Bangkok agreement, could not join it due to their commitment of ASEAN. APTA provides not only for new tariff concessions but also for a certain degree of institutional organization and for a political dispute settlement system. In recent years, indeed, APTA has been offering member States a growing list of concessions with a margin of preference around 25 per cent less than the MFN tariff.

India is also a member of a regional grouping named BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Cooperation) formed in 1997 with the aim to establish a firm foundation for common action to promote sub-regional cooperation in the areas of trade, investment, technological exchange.

A framework agreement on comprehensive economic cooperation has also started between ASEAN and India during 2003 with the aim to strengthen trade and economic cooperation, to create a free trade area in goods, to liberalize trade in services, facilitating trade and to establish a free and transparent investment regime in the zone. Trade in goods is the primary concern here, particularly through the reduction or elimination of customs tariffs. India’s cooperation with ASEAN is an integral part of her look east policy. On 13 August 2009, India signed an agreement with ASEAN countries for duty free import and export of 4000 products ranging from steel to apparels to sugar and tobacco over a period of eight years. This agreement would kick in from January 1, 2010. It is expected that this agreement would provide access to the large ASEAN market to India. India would do well to become a more intimate and integral part of ASEAN because of the latter’s trade and export-oriented experience and because it is a gateway to North-East Asia and to the world economy in general.

The table below depict the growing regional and bilateral trade initiatives of India during the post-reforms regime
The illustration of the data shows that India not only focussed on Asian regions for bilateral cooperation agreement but also tied up with its two major partners i.e. North America and EU for trade enhancement. In order to facilitate trade and maximize investment opportunities, especially in IT, infrastructure, biotechnology and services a commercial dialogue was started with US in 2000. Moreover, a US-India Trade Policy Forum made in 2005 to institutionalize a regular dialogs between the two parties and pave the way for a closer economic and strategic partnership.

### 4.4.1 An Evaluation of India’s Bilateral Initiatives

To evaluate India’s move towards bilateral and multilateral initiatives a Market Access-Tariff Trade Restrictiveness Index (MA-TTRI) is shown. This index measures the restrictiveness of policies confronting exporters from in each geographic region and country group. South Asia faces the most restrictive market access, due to export composition (agriculture, textiles and apparel) and because it has relatively limited preferential access.
India’s position in terms of market access is improving as shown in the table 4.8. The Index is low as compare to combine South Asian countries share and further reducing, which denotes that India has comparatively high market access to the rest of the world. India’s agricultural and non-agricultural exports face similar barriers. They are lower than South Asian countries. However, since this variable measures the restrictions placed by foreign markets, a country’s ability to affect this policy variable is limited, except for example through multilateral and bilateral initiatives to reduce barriers through trade agreements (WTI report 2009-10). Thus the less percentage of this index points toward the greater involvement of India in multilateral and bilateral initiatives.

ROW world tariff measures the average of the applied tariff rates, including preferential rates that the rest of world applies to each country. This tariff rate is also reducing for Indian exports as shown in Table 4.8. But for agriculture products this rate is greater than non-agriculture products. This depicts high restriction on India’s agriculture exports by rest of the world.

By and large, the study observes that during post-reforms regime India has not relied solely on unilateral reforms. It has become increasingly involved in bilateral and regional trade agreements (RTAs). While extending at least MFN treatment to all its trading partners, India has also signed a number of regional trade agreements (RTAs) to increase market access for its exports. Thus far, RTAs have been signed only with other developing countries, but India is also
examining the possibility of signing economic cooperation agreements with some developed countries.

These different regional and bilateral agreements are important as they present the opportunity to liberalize and further open Indian trade with the rest of the world gradually. However, as pointed out in a study by Henry (2008) there are some weaknesses, which should be removed. First, even when called FTAs, India’s agreements so far remain merely preferential tariff agreements, since they include only positive lists of items. Second, while developing partners complain of Indian attitudes towards negative lists, restrictive rules of origin and non-tariff barriers, developed countries emphasize the lack of efficiency and transparency in the way the Indian State works. Along with removing these hurdles, there is a need to put focus on “Look East Policy” and participation in ASEAN trade. China’s rapidly growing economy can provide many trade opportunities so an agreement to boost trade relations with this trade giant is also a need of the hour.

4.5 Notes
1. MA-TTRI is an Index that calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
2. ROW world tariff measures the average of the applied tariff rates, including preferential rates that the rest of world applies to each country.

4.6 References

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