Chapter-6
6.1 CONCLUSION

In the preceding study we have tried to show the role of WTO as a multilateral trade organization. We have made an analysis of India's foreign trade under the aegis of WTO. The WTO agreement came into force from January 1, 1995, by replacing the GATT. India along with 110 other countries became the founder members of the WTO. The WTO shall be regulating global trade in commodities, agriculture, textiles, international services like, insurance and tourism. Protection of intellectual property rights, reduction in state subsidies, etc. It places special emphasis on the removal of NTBs and low level of tariffs. It is expected to provide the common institutional framework for the conduct of trade relations among its members. We have shown this in our study of chapter-II.

Trade being an engine of growth has a significant role to play in the economic development of a nation. India's trade links with all the regions of the world have increased over the years. In the current wind of globalization, India has also taken major initiatives to diversify its exports base as also their destinations. The foregoing chapter III has shown this. Indian economy is being diversified. Both traditional and non-traditional items of exports are growing in importance. Currently, India is the 31st leading exporter and 24th leading importer in world merchandise trade. Trade policy reforms of the recent past, with their focus on liberalization, openness, transparency and globalization have provided an export friendly environment with simplified procedures for trade facilitation. As a member of the WTO, the Indian government has bound about two-thirds of its tariff lines and has been making a phase reductions in these bound levels. Export promotion is now a continuous and sustained effort. Imports are also being gradually liberalized. The Indian government has submitted a detailed proposal to the WTO for curbing quantitative restrictions. It notified the WTO of its removal of restrictions on 714 and 715 imports items in December 2000 and February 2002, respectively.
The previous study of chapter III, revealed that for the entire post reform period i.e., 1991 to 2000, the compound annual growth rate of exports was 10.2 percent. Between 2000 and 2003, India's exports have increased by around 32 percent. Exports growth rate averaged at 15.2 percent. Imports growth after stagnating for two years, accelerated in 2002-03. It was averaged at around 13 percent. During the 1990s India's terms of trade was in her favour. After a gap of 24 years the current account turned into a surplus in 2001-02. India's share in world exports rose to 0.8 percent in 2003. However, India's share is still negligible in world trade. According to WTO, exports from India are currently subject to 40 anti-dumping and 13 countervailing measures, mainly for agricultural products, textiles and clothing products. Imports have galloped because of increasing requirements of capital goods, defense equipment, petroleum products, raw materials and occasionally food grains and edible oils. Trade deficit has been on the increase. It is also manifested from the foregoing study that presently over three fourths of country's exports consist of manufactures. Agriculture and allied products contribute a merely less than one fifth of the total export earnings. Its share stood at 14 percent in 2000-01. Ores and minerals together with crude and petroleum products represent a very small segment. Among manufactured goods about one-fifth of total export earnings are provided by handicrafts, of which gems and Jewellery hold the largest share. Its exports grew at the rate of 10.3 percent per annum during the 1990s. In 2002-03, major traditional exports like textiles (including garments), gems and Jewellery, engineering goods contributed to the bulk of increase in manufactured goods. However, it is also clear from the prior study of chapter III that, most of the manufacturing goods exported are of low value, low tech items. High tech products comprise only 11 percent of India's exports. Cost competitiveness is one of the major concern as India is not in a very comfortable position. Textiles and clothing is the largest manufacturing sector in India. It accounts for around 30 percent of India's total merchandise exports. Indian textile and Apparel industry is expected to touch $ 30 billion by the end of
2010-11. The Post MFA scenario is expected to bring significant gains. Yet, currently the domestic textile industry has only a 3 percent share in global markets. The preceding study also reflected that India's agriculture exports responded positively to trade liberalization of 1991. Nevertheless, the rising export trend could not remain sustained in the post WTO periods. Among various commodities, exports of wheat and oil meals have been hit most seriously. However, despite adverse price situation, India has been able to maintain flow of export of commodities such as fresh and processed fruits, fish products and meat products. Among imports, edible oils have shown very high growth in post WTO period. In India, the domestic support to agriculture is largely in the form of lower farm inputs price. India does not provide any direct subsidy to agricultural exporters. Being under a BOP cover, India had not been maintaining quantitative restrictions and had not taken any commitments with regard to market access. The study also reflected that new tariff barriers faced by Indian products in various overseas markets are severely constraining our exports.

The foregoing study of chapter III also indicated that, there is a sea change in the direction of exports and imports. OECD group accounts for major portion of India's exports. The share of this group stood at 52.7 percent in 2000-01. USA, UK and Japan were the largest markets for Indian exports during the 1990s. UAE is now the second largest trade partner of India after USA. China has also emerged as another biggest trading partner. The sourcing of imports have shown lowest shares from regions like OECD, OPEC and other Eastern Europe, with gains in the share of other developing countries mainly from Asia. Composition of exports and imports has also undergone with changes. Fruits, vegetables and processed foods are becoming significant in our exports. Presently, major items of the Indian import baskets are petroleum, crude and products, pearls, precious and semi-precious stones, machinery, organic and inorganic chemicals, electronic goods, gold and silver.
Over the past decade and a half, the services sector has been growing faster than others. *Of this exports are the most remarkable feature.* In the foregoing analysis of chapter IV, we have reflected this. Services are very important today for the world in general, and Asia and India in particular. It grows more than 12 percent per annum compared to 5-6 percent in the merchandise trade. It has been highlighted in chapter IV that Indian economy has come to that stage of development where the role of services sectors have become more and more dominating. Services now constituted around 50 percent of our GDP. Presently it accounts for 31 percent of total exports. The GATS has recognized 4 modes of delivery of services. For the developing countries like India, the major mode of interest is mode 4, i.e., temporary movement of natural persons. For India Model (Cross Border Supply) and Mode 2 (Consumption Abroad) are also important. India has submitted a comprehensive list of commitments to the GATS. It has made commitments in 33 activities, compared with an average of 23 for the developing countries. India's export of commercial services amounted to $24667 million in 2003-04. Services exports grew by 20.5 percent in 2003-04. A recent IMF study suggests that growth acceleration in the services sector is explained by high-income elasticity of demand, user industry demand and rising exports, in addition to reforms and technological advances. It also reflects the positive impact of foreign trade and investment policy changes. The preceding chapter IV also mirrors that software and other miscellaneous services (including professional, technical and business services) have emerged as the main categories in India's export of services. The relative shares of travel and transportation in India's service exports have declined over the years. Services such as tourism and professional services have been providing considerable foreign exchange earnings as well as remittances from the NRIs.

With regard to direction of services it is revealed by the foregoing study that currently Dollar Area is overriding region with respect to services trade with India. Sterling Area is also another principal area of India's invisible trade.
From the sectoral analysis of services sector, it has been focused that with regard to financial services, foreign banks have been operating in India for decades. The number of foreign bank's branches in India has increased significantly in recent years. The principle of reciprocity has also helped in the opening of foreign banks in the country. The most significant achievement of financial sector reforms has been a marked improvement in the financial health of the commercial banking sector. Aggregate deposits of scheduled commercial banks increased from 37988 in 1980-81 to 962618 in 2000-2001. FDI in the insurance sector upto 26 percent is allowed under the automatic route. However, India's export of financial services is negligible and is yet to match the quality and quantum of such services provided by the industrial countries. Profitability in India is still low. A major issue, which will influence India's securities market in the future is the challenge of globalization. With regard to tourism and travel related services, the preceding chapter have revealed that, despite a negligible player in world tourism, it is playing a significant role in augmenting foreign exchange earnings of the country. It generates 10.8 percent of the total exports from the country. According to the figures given by Confederation of Indian Industry (CII), by the year 2020, India could have 40 million arrivals, constituting 4 percent of the world travel as against 0.4 percent at present. Today, health tourism is growing in importance. Kerala is leading in health tourism. Despite this, tourism sector is plagued by a number of factors such as poor infrastructure, law and order problem, visa problem etc. The number of tourist arrivals has not increased dramatically. Still, there is very good potential for obtaining growth in this industry, given India's unique endowments of biodiversity, forests, culture etc. Travels have also significantly contributed, where receipts through this item always remain higher than payments. The study also showed that in our international account the net transportation proceeds always remained unfavourable or negative. Indian telecommunication sector is making rapid move with the liberalized policy and growth of telenetwork. But, currently it is a
marginal exporter of telecommunication services. Nevertheless, India's future potential in this sector is unlimited. As far as software services are concerned, it is indicated by the analysis of chapter IV, that, in a short span of time India has been able to slice its own corner in world export of computer software. Our software industry has been growing from strengths to strengths. For Indian firms, the major modes of delivery pursued are that of "body shopping", i.e., having joint ventures with foreign firms, and of late, moving offshore for large project software. Specific commitments in GATS for modes of trading in computer software services favour cross border trade and consumption abroad by importers going abroad. In total export, the share of software export has reached to 10.5 percent in 1999-2000. Yet, it is beset with the number of problems such as shortage of competent professionals, inadequate communication facilities, weak domestic market, visa regulation, work permit, threat from China etc.

The study has also made visible that, India has been aggressively seeking access for its professionals in the markets of developed countries. However, India so far remains isolated on the issue of movement of natural persons. It has not even been able to align itself with any strong negotiating group whose interests are similar to India. The potential has to be actualized and we could see the multilateral negotiations under GATS as a means for realizing the potential.

FDI inflows are being increasingly seen as a means of supplementing foreign aid flows and bon-owings for bridging the BOP gap. The impact of FDI on the export performance of the Indian industry assumes significance as the ongoing liberalization policy is based on the belief that FDI helps resolving foreign exchange constraints to development by its contribution to increased exports apart from bringing in net resource inflows on the capital account of the BOPs. In chapter Vth, we have discussed the role of FDI in India. FDI can provide valuable support to BOP in the Indian Economy. The TRIMs agreement of WTO explicitly and exclusively deals with certain investment issues such as local content requirement, export commitment, dividend balancing, etc. TRIMS agreement is a
sensitive area in the context of the Indian economy. The implications of the TRIMs agreement is likely to have important bearing for developing countries by taking away some of the flexibility to regulate foreign investors in pursuing developmental policy objectives. In a joint submission with Brazil to the WTO's committee on TRIMs in October 2002, Indian has proposed that developing countries should be allowed to use investment measures or performance requirements to promote domestic manufacturing capabilities in high value added sectors, to stimulate transfer and indigenous development of technology, to promote domestic competition, and to correct restrictive business practices. Within the purview of the TRIMs agreement. Government of India has indicated that the TRIMs agreement should be reviewed with the objective of not hindering industrialization of developing countries. Prior study of chapter V has also shown that, although the economic reform measures might not have substantially bridged the current account deficit, that they have definitely encouraged the process of FDI into the country. Approved investment has grown largely. Although the actual inflow of FDI has not picked up so fast yet, it has improved, and significantly strengthened the capital account of the I30Ps of the country. Nevertheless, India is still on a lower ladder among some major FDI receiving countries of Asia. The foregoing study has highlighted that the new liberalized policy has attracted investors from different parts of the world. Yet, over one-half of the approved amount is claimed by only six or seven countries. UNCTAD"S ranking of countries in terms of foreign investment relative to the size of the economy for the period 1998-2000, is 119 for India. Statistics show that the annual average of the FDI flow into India during 1992-97 was $ 1.6 billion compared to $ 29.8 billion in China, $ 6.6 billion in Singapore, $ 3.6 billion in Indonesia, $ 4.5 billion in Malaysia, and $ 2.2 billion in Thailand. India has still a long way to go to attract FDI flow into the country. China has maintained its top ranking as the most attractive FDI destination. Investors favour China over India of its market size, access to export markets, government incentives, favourable cost structure,
infrastructure and macro economic climate. However, these investors cite India's highly educated workforce, management talent, rule of law, transparency, cultural affinity and regulatory environment as more favourable than China. However, the quantum of foreign investments from the advanced economies that could improve domestic production capability is perhaps not very different from that in India in relation to its domestic output. The preceding study also showed that the largest share of FDI to India up to November 2004, was by Mauritius. It was nothing, but US investments, which were routed through Mauritius because of the tax advantages. Sector wise analysis has indicated that, with the opening up to new areas for foreign investors, a huge amount of approval and actual FDI inflow is are also found in non-traditional areas such as, fuel, power, services and some consumer goods industries. The foregoing study has also soon some asymmetries related to TRIMs agreement. It has been shown that developed countries have managed to circumvent the provisions of trade distorting investment measures to deepen their industrial structure, measures that are denied to developing countries under the provisions of the TRIMs agreement.

India should effectively use its external openness to increase the domestic capability and access foreign markets for its labour intensive manufactures. All these need a strategic view of foreign investment. India's apparently large and growing domestic market is probably the main attraction for foreign firms. China's success in FDI is not only a challengebut also a message of hope that India too can make a quantum jump by greater opening of the economy and by ensuring that domestic policies are conducive to the expectation of the growth potential of trade and FDI.
6.2 SUGGESTIONS

Despite liberalization of various policies and procedures, India has so far been unable to define its ability and direction to conduct international trade in the face of highly competitive international trade regime. External sector reforms have not lived up to expectations. In this new world economic scenario, where the WTO envisions a global market based on competition, our country will be exposed to competition. Today opportunities are lot, but the need is to change the opportunities into results. If opportunities are to be seized, challenges also need to conquer. In the light of foregoing discussion, some important points may be suggested so as to make India as another roaring Asian Tiger in the field of International Trade.

In the field of India's Merchandise Trade, following suggestions can be made.
•" In the changing global agricultural scenario, domestic available resources should be exploited fully at maximum possible.
•" To meet the growing challenges and opportunities coming out of the WTO agreement, Indian agriculture should be made cost effective.
•" Agriculture growth has to be yield based.
•" There is a need to fasten the credit flow to agriculture. To bring a change in the product mix towards aquaculture, fish farming, horticulture and floriculture, there will be requirement of huge investment. This will also generate large export surplus.
•" As India is exporting rice and wheat to some countries including China. There is a vast scope of exporting the cereals to various countries.
•" Today Sanitaiy and Phylo Sanitaiy (SPS) issues are seen as more important than issues relating to tariffs. If opportunities are to avail for agricultural exports in the WTO regime, there is a need to keep attention on health, safety standards and environment, etc. For this attention should be paid in the following directions.
a. There is an information gap about quarantine system. Indian Inspection system should be strengthen.
b. New Laboratories should be set up. Laboratories, both in the government and private sectors should be strengthened.
c. Laboratory equipments also need to be upgraded, keeping in view the practices in the importing countries.
d. India's food safety standards should also be upgrade.

India needs the most modern infrastructural facilities, so that we compare with the global standards in terms of exports costs and to support global trade.

Our export success also depends on our ability to control inflation.

To sustain the manufacturing sector's growth, the government must accelerate the second generation reforms on labour issues, remove infrastructural bottlenecks and leverage India's strengths to promote the export of manufactures goods.

Certain sectors having potential for accelerated exports growths need special focus. These include textiles, auto components, gems and jewellery, chemicals, drugs and pharmaceuticals and electronic hardware.

County's manufacturing based WQuld have to be built up.

The development of a strong and vibrant capital goods sector is a must for the growth of Indian Industry.

Indian can make a grade with an eye on education, innovation, competition and market access.

Issues of capacity expansion, technology upgradation on and R & D bottlenecks must be focused on priority if we are to substantially increase our share of the world textile trade in the post MFA Phase.

Regular extension and market support should be provided to small growers and manufacturers.
Inessential imports should also be curb effectively to save valuable foreign exchange for import of critical raw materials and capital goods.

With regard to India's services trade following suggestions can be put forward.

In order to face external challenges, we will have to bargain for better market access in both Mode 1 and Mode 4, where India has a comparative advantage.

Institutional and regulatory reforms should help services exporters.

India has to gear itself for some hard negotiations at the WTO, as progress on services trade liberalization has been unsatisfactory so far. In international trade negotiations it is very difficult to push any agenda unless we endorsed by a formidable alliance. The Cancun meeting has flopped, but it saw the emergence of the southern alliance, the G-20. This G-20 put the big trading powers like EU, US and Japan in the board over agricultural subsidies. If India has to move the agenda on services forward, it necessitates to construct a similar alliance of like minded group of demandeur countries or may be a Cairns group type of alliance, comprising both developing and developed countries.

There are many services like nursing, hotel trade, construction etc., which can be exploited.

Benefits of the liberalization of the services sector should also reach to the poor and weaker sections of society.

In the field of financial services, challenges would be to maximize the advantages and minimize the disadvantages of the foreign bank's local presence.

India has already made a mark in Business Process Outsourcing (BPO). The width, depth and geographical reach of such services are expanding. India has to go further beyond the "feel good factor".
•" We will have to market our services. Marketing is another weakness of India compared to the rest of the world.

•" Services are still a neglected sector. India should focus on the important areas and markets where we can score much higher than our rivals. We will have to do our best.

•" Whether it is hygiene, sanitation, or tourism, or providing infrastructure, it is the state governments, which has to play a very important role.

•" In the software services, we have to move rapidly to more sophisticated segments to sustain our early success. It needs a shift from low cost, high quality, simple products to high cost, high quality and value added products.

*" It is necessary to see that India does not lag behind in getting full advantage of the new technology. Indigenous technology should also be encouraged.

•" A massive investment in the telecom sector will promote exports.

*" Tourism is waiting to be tapped. We have to convert the opportunities into results by having an action plan and implementing it in a defined time and cost frame.

•• The constraints on potential opportunities in services trade include, lack of set up like export promotion councils other than for computer software various visible and invisible barriers to services trade, for e.g. visa restrictions, economic needs test, sector specific restrictions and selective preferential market access through regional initiatives. These need careful examination in the context of the requests and offers of different countries in WTO.

For the promotion of FDI, following points can be made.

•" Foreign Investors should get the signal that FDI is welcome to India, that their investment will be safe. We should not fear of foreign investments, but encourage it.

*" Policy makers need to play the most important role. They should be aware of various measures to induce FDI and the factors that determine their flows.
FDI can be extremely useful for emerging economies if it is used strategically.

- India will have to encourage investment from small and medium businesses as well in the selected services sector.

- A more liberal policy regime, industrial labour market reforms and infrastructure investment are needed. The FDI regime in India is still restrictive.

- Government should reduce the uncertainly, asymmetric information and other transaction costs, faced by the foreign investors.

- Attention is also needed on the ground of high corporate tax rate, so that foreign investors need not to seek tax heavens.

- A policy targeting export oriented FDI or high technology FDI may be very favourable for the country's BOP.

* There should be efforts to enhance transparency of rules and procedures and to ensure socio-political stability.

- WTO should permit an integrated treatment of investment, trade and development.

* Indian Government should participate in the future negotiations at the WTO so as to protect the national interests.

- Market size is crucial to domestic market oriented investment.

- It is required to keep hold options of channeling investment to appropriate sectors and geographical locations.

To sum up, WTO offers tremendous opportunities, but the need is to make aware of it. For India, to become a leading exporter in the world trade, it will have to achieve at least 2 percent share of the world exports by the year 2020. This might be a difficult task, but we should not underestimate the great potential of our agricultural sector and our services sector. As Vibha Mathur, has rightly pointed out that "it should not be surprising if our IT exports alone cross 150 billion dollar mark by the year 2020. What is required is to formulate a highly focused strategy
and its rigorous implementation to achieve the desired exports". A higher share of world market will require improved quality and greater openness. Pitfalls and apprehensions are many. The only way to handle the situation is to take required actions on time so that the country does not find itself lagging behind in free trade offered by the WTO agreements. Certain key areas, such as R & D, technology up-gradation, Human Resource Development and strengthening of infrastructural facilities required great attention. It would be sensible for India to create an alliance of like-minded group. For India, implications are that in the short run, gains may be unimpressive, but certainly it will pick up in the long run as the reform process gathers momentum. All these need hard work, total commitment and complete dedication. Here we can put the phrase that "Time and Tide Wait for None", which is very relevant to the today's international trading system. We will have to address challenges our selves.