ABSTRACTS

The World Trade Organization (WTO) came into force on January 1, 1995, replacing the previous GATT. Compared to GATT, WTO is much more powerful because of its institutional foundation. The WTO presently has 148 members, accounting for over 97 percent of world trade. It is head quartered at Geneva, Switzerland. The GATT rules did not work effectively. It failed in observing the complexities of world trade, which had been growing steadily since the Bretton Woods days both in terms of commodity, and the nature of regulators. GATT was adhoc and provisional. As a result efforts had been taken to improve the agenda through different trade negotiations round. The last round known as "Uruguay Round", eight in series was more important. This round led to the creation of WTO. The overriding objective of WTO is to help trade flow smoothly, freely, fairly and predictably. It is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of worlds trading nations.

With the establishment of the WTO the international scenario has rapidly changed and opportunities are available to all countries to benefit from great access to world markets. Several people in their study have analysed the implication of WTO for India. The Studies of Rana R.K, Kuldeep Singh, Chaddha G.K, Panchamukhi, V.R, Singh Sukhpal, Viblia Mathur, Kumar Nagesh, Mohandas, etc, have shown that, India's entrance in the WTO has been favourable to its external sector. They said that Government of India could mop up more benefits if it had taken some precautions. They have also suggested some future strategies and initiatives for India.

As the WTO has completed a few years of its existence, this study entitled "Effects of WTO on India's Foreign Trade", mainly cover the periods from 1990s onwards. It has divided into Pre and Post WTO period. The periods before 1995
have been treated as the Pre WTO Period, whereas the periods of 1995 onwards are regarded as the Post WTO periods.

To fulfill our effort, required data have been taken from publication of Ministry of Finance, RBI, CSO and other departments, offices of the government of India. In addition, the sources of data also include, CMIE, WTO, World Bank, and UNCTAD. In our study, we have used both theoretical as well as simple statistical approach. To proceed with the study some hypothesis are also proposed. It has been hypothesized that the prospects of India's foreign trade expected to be better in the world after the initiation of liberalization policies and trade policy reforms under the WTO. There will be enhancement of trade under the WTO and new trading partners, new markets will emerge. It has also been hypothesized that the WTO guided reforms would eliminate the barriers coming in the way of India's trade and would allow the maximum reallocation of resources according to the country's dynamic comparative advantage.

This study has attempted to analyze the impact of WTO on India's foreign trade. In order to make an indepth study we have focused on both merchandise as well as services trade. As the foreign investment has an important bearing on external sector, this study has also analyzed the position of FDI in India as an item of capital account of BOP.

Our study of WTO agreements and principles have shown that, the WTO agreement incorporates some 29 individual texts which are spread over three compartments, viz., goods, services and intellectual property rights. There are two more groups of agreements namely, agreement on Trade Policy Reviews and the Plurilateral agreements. Its trading system is founded on certain basic principles, namely. Most Favoured Nation (MFN) Clause, and National Treatment Clause. The WTO's top-level decision-making body is the Ministerial Conference, which meets at least once every two years and is composed of international trade ministers from all member countries.
India is proud to have been a founder member of WTO. It became the member of WTO on December 30, 1994, by ratifying the WTO agreement. The then Commerce Minister Sri Pranab Mukherjee signed the acceptance of WTO at Marrakesh in Morocco. There was a hot discussion in the country for the acceptance of WTO. Some people favoured it, while other opposed it. However, gradually an Unanimity began emerging in favour of India's association with WTO. It was considered that with an ever-largening number of developing countries opting for economic reforms and globalization of their economies, it would be non-prudent and reckless course of isolation in a more integrated and fiercely competitive world.

Our analysis of India's merchandise trade shows that, Indian economy is being diversified. Both traditional and non-traditional items of exports have grown in importance. Our country has also experienced a sea change in its trade direction. In the current wave of globalization, India has also taken major initiatives. In the beginning of mid 1991, the government of India has introduced a series of reforms to liberalize and globalize the Indian economy. The WTO's Trade Policy Review of India for 2002 concludes that India's economic reform programme has resulted in strong economic growth throughout the 1990s. In addition to duly drawbacks, it encompasses schemes such as export processing zones and special economic zones. Export promotion continues to be a major thrust of India's trade policy. Imports were also liberalized. India has notified the WTO of its removal of restrictions on 714 items on December 2000 and another 715 imports items on February 2002, respectively. Our analysis indicated that for the entire post reform period i.e., 1991 to 2000, the Compound Annual Growth Rate (CAGR) of exports was 10.2 percent. The period from 1991 to 2003 has also been marked by rapid growth of India's exports, even exceeding the growth of world exports. However, India's share in world exports declined since independence. India's exports as percentage of world exports remained at around
0.5 percent in the first half of 1990s but it improved and stood at 0.8 percent in 2003. However, this growth in exports- is accompanied by still larger growths in imports. Exports have remained sluggish due to lack of exportable surplus, competition in the international markets, inflation at homes and increasing protectionist policies of developing countries. However, instead of all these, India's external sector has performed credibly over the 1990s. This led to trade deficits. Our study of India's major exports items shows that, presently manufactures account for three fourths of country's exports. The share of agriculture and allied products has declined tremendously. It stood at 14 percent in 2000-2001. Among manufactured goods, about one fifth of total export earnings are provided by handicrafts, of which gems and jewellery holds the largest share. In 2002-03, major traditional exports like textiles, gems and jewelleiy, engineering goods, chemical and related products contributed to the bulk of increase in manufactured goods. Besides, fruits and vegetables, rice, and processed foods are also becoming significant in our exports. Currently, the top 20 products that we are exporting account for more than 70 percent of our exports. Export performance in April-October 2004, shows all round rise in growth across all major commodity groups. It is expected that, India's commodity exports would turnout to be around $ 345 by the year 2020, and it will be about 1.3 percent of the world exports.

Our study has also highlighted that Indian products face various new tariff barriers in the overseas markets, which are constraining our exports. According to the WTO, exports from India are currently subject to 40 anti dumping and 13 countervailing measures. It was against our hope that India would gains through new trade regime with the elimination and reduction of trade barriers. The country's exports of textiles, engineering products, chemicals and pharmaceuticals, agricultural and marine products have been affected on this count. With regard to market access for good product regulation and standards have become a growing issue. The major importers of Indian products, viz., the
us, EU and Japan, claiming for around one half of India’s exports. They have made use of the safeguard clauses and some other clauses. Our investigation of major import items shows that, presently, major import items are petroleum, crude and products, pearls, precious and semiprecious stones, machinery, organic and inorganic chemicals, electronic goods, gold and silver. During the 1990s over all imports grew at the rate of 10.1 percent per annum. Our trading relations also reveal marked changes. USA, UK and Japan were the largest markets for Indian exports during the 1990s. USA still continues to have a key influence on India’s exports. UAE is now the second largest trade partner of India after USA. China has also emerged, as India’s another biggest trading partner. With regard to sources of imports, the share of OECD countries has declined. As against of 63.8 percent in 1970-71, it declined to 39.9 percent in 2000-01. The share of other developing countries mainly of Asia have increased. The Enlargement of EU from May 1, 2004 is likely to facilitate greater market access. The decade of 1990s show positive results for terms of trade. The net terms of trade improved by an average annual rate of 2 percent per annum during 1991-92 to 2000-01, where as the income terms of trade grew by about 13.8 percent per annum during the same period.

Our sectoral research of merchandise trade shows that, despite being an agrarian economy, India has remained a marginal player in world trade. Presently, it has a share of less than 2 percent of the world market in agriculture. The Post Uruguay Round experience shows a mixed result for agricultural trade. Global liberalization of agricultural trade was seen as a great opportunity for promoting farm exports. However, opposed to the expectation and anticipations, the price situation changed dramatically and dropped to a very low level, and this made Indian market attractive for import of several agricultural commodities. The farmers in the developed countries with massive support of government through domestic and export subsidies and high tariffs clearly have unfair advantage over
the farmers in developing countries. There is a massive distortion in international trade in agriculture. However, despite the concern of farmers many believe that the WTO rules will not adversely affect the Indian agriculture. Better overseas market will be available for Indian agricultural products, etc. The EXIM Policy of 2002-07 gives a major thrust to agricultural exports by removing export restrictions on designated items.

The examination of manufacturing sector shows that, India's manufacturing sector has also undergone a transformation. Industrial deregulation and liberalization have opened up opportunities. Growth rate of manufacturing was higher than that of the Republic of Korea, Newly Industrialized Counties (NICs). However, it is lower than China and the average growth rates in South and East Asia. Exports of manufactured goods recorded a healthy growth of 14 percent in 1999-2000. Gems and Jewellery, readymade garments and cotton yarn, fabrics and made ups are the major manufactured items exported from India. Nevertheless, despite of progressive liberalization, the sector's performance has not been in proportion to the potential. Slow pace of reforms, inadequate development of infrastructure, utilities and R & D have combined to keep lagging behind most other developing economies. High tech exports consist of only 11 percent of India's exports.

The study of India's textile and clothing Industry has revealed that, it is the largest manufacturing sector in India, providing 30 percent of India's total merchandise trade. On January 1, 2005 the MFA was fully phased out and hence the trade in textiles and garments will no longer be subject to quotas. With the increasing market access for developing nations, competition is also expected to increase. Cost competitiveness, technology, energy, dyes, chemicals infrastructure are the major areas of concerns. Currently, domestic textile industry has only a 3 percent share in global markets.
Our study of India's services trade shows that services have been the fastest growing area in international trade. It grows more than 12 percent per annum compared to 5 - 6 percent in the merchandise trade. Both developed and developing countries are increasingly dependent on trade in services. In India, the services sector contributes around 50 percent of the GDP, as against 71 percent in USA, 67 percent in UK, 60 percent in Japan and 78 percent in Australia. The growth rates of the services sector have been consistently accelerating. Invisible flows continued to be buoyant.

The GATS (General Agreement on Trade in Services) recognizes 4 modes of delivery of services. For India and other developing countries, major mode of interest is mode 4 (Movement of Natural Persons). However, for India Mode 1 (Cross Border Supply) and Mode 2 (Consumption Abroad) are also important. By via Mode I, it can deliver professional services electronically and via Mode 2, it can provide services such as medical, educational and tourism services to the foreigners visiting India. The study shows that, trade in services particularly of tourism and professional services have acted as engines of economic growth in India. In India growth rate of commercial services in the 1990s was 14.5 percent. As far as composition of services is concerned the buoyant growth of professional, technical and business services has provided a cushion against the slow down in traditional services such as travel and transportation. Software and other miscellaneous services have grown as the main categories in India's export of services. These growths of services are attributed to many factors. According to IMF study, it was because of high-income elasticity of demand, user industry demand and rising exports, in addition to reforms and technological advances. The growth rate of net invisibles, invisible receipts and payment witnessed that India's invisible trade always generated surplus. It is playing its dominant role in earning foreign exchange of our country. It is a source of immense strengths to the current account. As far as direction of services is concerned, the share of two regions
namely Dollar and OECD area in India's invisible balance has moved up. Presently, Dollar area is overriding region with respect to services trade with India.

Our sectoral analysis of India's services trade shows that liberalization and opening up of financial sector to global winds in place of closed regimes have brought faster growth for developed and developing countries. India has opened up services sector where there are spin-off benefits by way of technology transfer, investment or employment. The RBI has become more liberal in permitting the entry of new private banks and foreign banks. At the end of March 2002, there were 8 new private sector banks and 40 foreign banks in India. The principle of reciprocity of WTO has also helped in the opening up of foreign banks in the country. The financial health of commercial banks has improved. However, the study also revealed that, India's export of financial services is negligible. Profitability is still low in India. India's position is far behind the developed countries, but reasonably good compared to other LDCs. The present interest of banks to enter into insurance business mirrors the global trends.

It is evident from our study of Tourism and Travel sectors that, GATS has opened a plethora of opportunities in tourism and travel related services. Despite a negligible player in world, tourism industry is playing a significant role in India. It generates 10.8 percent of the total exports. Although for India, the number of tourist arrivals has not increased dramatically, its composition has changed due to fall in the number of those visiting the country for sight seeing and rise at a rate of nearly the ten percent of those coming on health grounds. Tourist expenditure in India constitutes an important segment of travel receipts. Indian tourism, which glimpses a high potential area, suffers from several inadequacies. These related to poor infrastructure, law and order problem, visa problem etc. Yet, there is very good potential for obtaining growth in this industry. Travels have also significantly contributed where receipts through this item always remain higher
than payments. In our international account, the net transportation proceeds always remained unfavourable or negative. India is a small player in air transport services despite its liberalized policy. Whereas maritime services are diverse in India, they are comparatively small in volume.

With regard to telecommunication sector our study highlighted that, our telecommunication sector is making rapid move with the liberalized policy growth of telenetwork. Although export from this service is negligible, India's future potential in this sector is unlimited with a broad based of professionals and technical manpower.

In our study, we found that computer software is one of the growing items in which India has an edge over other economies. The growth of internet and global information technology market has increased the demand for computer professionals from India. In total exports, the shares of software exports have reached to 10.5 percent in 1999-2000, It is estimated to jump to 36 percent by 2008. In terms of quality also, Indian software industry is doing well. More than 170 companies have achieved ISO 9000 certification. Though Indian software industry has the momentum to achieve high growth rate, it is beset with a number of problems. These are related to shortage of competent professionals, inadequate communication facilities, visa regulation, work permit, threat from China, etc.

India has been aggressively seeking access for its professionals in the markets of developed countries. The emphasis by India for higher commitments by developed countries under the Mode 4 (Movement of Natural Persons) would correct an important imbalance and increase developing countries participation in trade in services. India has forwarded its request in respect of medical, dental and health services, computer aided services and maritime services. Some other services of India's interest, on which requests are being formulated, include computer and related services accountancy, auditing and book keeping services, construction and audio-visual services. It has so far remains isolated on the issue
of movement of natural persons. It has not even able to align itself with any strong negotiating group whose interests are similar to India.

We have also analysed the prospects and positions of FDI in India. Our study shows that, international commerce is today conducted by Multinational Corporation with substantial investments in many countries. The Uruguay Round included negotiations on Trade Related Investment Measures (TRIMs) and the WTO too includes a TRIMs agreement. 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. TRIMS Agreement requirements especially those relating to trade such as local content requirements and foreign exchange neutrality. Local content regulations have been used by a large number of developed and developing countries. The implementation of the TRIMs agreement requires member countries to phase out performance is likely to have important implications for developing countries by taking away some of the flexibility to regulate foreign investors in pursuing their development policy objectives. Yet, the agreement also brings a number of asymmetries. The study indicated that in India provisions regarding TRIMs is not different from those, which we have incorporated in our New Economic Policy since July 1991, leading to opening the economy for foreign investors. India allows foreign investment to varying levels of foreign equity participation ranging from 24 percent to 100 percent, depending on whether the sector is given priority. All sectors to the economy except those relating to security concerns, are now open to foreign investment.

In a joint submission with Brazil to the WTO's committee on TRIMs in October 2002, India proposed that the TRIMs agreement should be amended to include provisions that provide developing countries with the flexibility to
implement development policies. Under the purview of the TRIMs agreement, government of India indicated that the TRIMs agreement should be reviewed with the objective of not impeding industrialization of developing countries.

The study highlighted that the government is now pursuing a proactive policy to attract FDI. Liberalization of the FDI policy regime has resulted in a substantial expansion of FDI approvals and flows. From the data it is reflected that FDI inflows witnessed a rapid increase from $ 165 million in 1991-92 to $ 4222 million in 2001-02. However, after that, it declined and reached to $ 2776 million in 2003-04. The actual FDI has been considerably less. It was just 46 percent of the FDI approval. With regard to sources of FDI, Mauritius contributes the largest share. It's nothing but US investment, routed through Mauritius for tax heavens. The sectorwise analysis of FDI shows that, with the opening of new areas for foreign investors, a huge amount of approval and actual flow is found in non-traditional areas such as fuel and power, services and some consumer goods.

It is also focused that, despite much optimism shown by various countries regarding India as a favourable investment destination, India still falls well short of its ambitious target. Over one half of the approved amount is claimed by only six or seven countries. China has maintained its top ranking as the most attractive FDI destinations. However, India rose from sixth to third most likely FDI location globally, just behind USA.

India should effectively use its external openness. Its human capital and R & D base has pockets of international excellence, most notably in information technology and in some defence related heavy industry. Until recently and in contrast to most of East Asia, its educational priorities resulted in centers of international quality. The prospects for FDI flows to India are also promising as in China. India's seemingly large domestic market is probably the main attraction for foreign firm. The study revealed that China's success in FDI is not only a challenge but 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 conductive to the expectation of the growth potential of trade and FDI. What needed is a strategic view.

To sum up, in our study we found that, during 1990s India has become increasingly open to external trade and investment flows. Her active cohesion to a multilateral trade and investment regime under the aegis of the WTO is an important element of its economic and "foreign policy. Our country has undergone fundamental changes to correct the earlier anti-export bias. There have been phenomenal expansions in international trade and investment flows. Exports have been diversified. Imports have also been liberalized. New trading partners have emerged. But despite of all these achievements, still there is lot to do. Our country is still a negligible player in world trade. Several new tariff barriers used by the developed countries are constraining our exports. The major supply constraints that continue to hinder our exports include infrastructure constraints, high transaction costs, SSI reservations, labour inflexibility, constraints in attracting FDI in the export sector and quality problems. Despite huge potentials the lack of long term policies continue to hinder exports of agricultural products. The Indian policy makers need to address all the issues, which are obstacles in our growth. Much more growth focused EXIM policy has to be drafted. There are also several visible and invisible barriers to trade in services. Developing countries like India and others have never been veiy comfortable with the existing investment related provisions of WTO. It has been recognized that there are unequal players in the game and developing countries are limited in their financial and physical capacities to undertake equal commitments. In this new world economic scenario where the WTO envisages a global market based on competition, there will be challenges faced by the developing counties. It will lead to sudden and fierce competition, uncured imports, pressure to change from indigenous and probably poor technology to borrowed technology which will be costly. To achieve a higher
share of the world market, hard efforts are needed. It will require improved quality and greater openness. Greater focus has need to be accorded to certain key areas, such as, R & D technology upgradation, Human Resource Development (HRD) and strengthening of infrastructural facilities. In international trade negotiations, it is very difficult to push any agenda, unless we endorsed by a formidable alliance. India needs to construct an alliance of like minded demandeur countries. Today, if challenges are lots, opportunities are also exist. What is required, is to take actions on time with least cost so as to reap the benefits of free trade offered by the WTO.