CHAPTER 8

SUMMARY CONCLUSIONS AND SUGGESTIONS
In this chapter we summarize & conclude our study as well suggest some measures in subject context wise.

- **Summary**

  General Agreement on Tariffs and Trade (GATT) was signed at the Geneva conference in 1947. It came into effect on 1 January 1948. After nearly five decades of its existence, GATT made way to the formation of the World Trade Organization (WTO) on 1 January, 1995. GATT was a multilateral trade agreement that set rules of conduct for international trade relations and provided a forum for multilateral negotiations regarding the solution of trade problems and the gradual elimination of tariffs and other non-tariff barriers of trade.

  All that changed with the conclusion of the eight and the most ambitious multilateral trade negotiation the Uruguay Round on April 15, 1994. By that time many policy makers and development economists had become convinced that the highly protectionist policies followed by developing countries in the name of import substitution were inimical to sustained economic growth, and the outer oriented policies and integration with the international economy offered a better hope for rapid development. Sachs and Warner (1995) extensive study has shown that trade boosts economic growth. It is argued that developing countries achieved some considerable gains by participating in the round.

  As per the final act of the Uruguay round, the World Trade Negotiation (WTO) was established on January 1, 1995. The WTO builds upon the organizational structure that existed under the GATT auspices as of early 1990s. The basic underlying philosophy of the WTO is that open markets, non-discrimination, and global competition in international trade are conducive to the national welfare of all participating countries.

  The first WTO Ministerial Conference was held in Singapore in December 1996. The Second Ministerial Conference, held in Geneva in May 1998, carried forward the results of the Singapore Ministerial meeting and established the work programme to examine trade-related issues involving global electronic commerce. Attention was paid to preparations for the negotiations mandated under the Uruguay Round built-in agenda. There was an ongoing interaction among the WTO members as follow-up of the two ministerial meetings and for the preparation for the Third Ministerial Conference to be held in Seattle from November 30 to December 3, 1999. This conference was expected to launch a new round of multilateral trade negotiations to begin in 2000 (millennium round). This new round was to be devoted to items on
the Uruguay built in agenda together with new issues to be decided upon. The Third Ministerial Conference ended in failures with the members of the WTO not being able to agree on an agenda for Millennium Round. There was a number of reasons for the failure of the

Seattle Ministerial to launch a new round. Domestic US politics played a key role. There was strong differences between the EU and the US on the issues relating to agricultural liberalization. Developing countries were unwilling to accept inclusion of labour standards and environmental issues within the purview of the new round. The collapse of talks at Seattle is both sobering and heartening in their lessons for developing countries. Sobering because the threats are arising to the multilateral trading system not only in the form of proliferation of preferential trading arrangements but also with member countries resorting to anti-dumping measures and other forms of implicit protection not covered under WTO rule. Krueger (1999) notes that the postponement of a new round may lead to (a) sectoral liberalization which is a trend that bodes poorly for future multilateral liberalization and (b) in the absence of a new round, small developing countries are left to their own (very weak) bargaining positions whereas a new round would enable them to cooperate and gain bargaining strength. Mattoo and Subramanian (2000) agree and note that "The hardening of partner country attitudes toward opening their own markets and the emergence of insidious forms of protectionism will make the bargaining climate less favorable for India in future." Equally, however, Seattle Round demonstrates the ability of developing countries to resist successfully these protectionist demands while claiming the high ground and retaining legitimacy.

At the Doha Ministerial Conference in November 2001, trade ministers launched the Doha Development Agenda. With this Agenda, WTO members have placed development issues and the interests of poorer members at the heart of the WTO's work.

The Fifth Ministerial Conference of the World Trade Organization (WTO), that took place from 10 to 14 September 2003, in Cancun, Mexico, ended without agreement on the Ministerial Text.

The Sixth WTO Ministerial Conference was held in Hong Kong, China, 13–18 December 2005. Representatives from 148 countries had attended that event. The
discussed matters pertain to this ministerial conference are Special and differential treatment, Sustainable development & Agriculture.

The objectives for the study is

1. To analyze the effect of penetration of ICT on the economic development of developing economies, taking into account the two-way causation that exists between them.
2. To assess the inflows of FDI to prepare the guidelines for policymakers.
3. To assess the role of tariff liberalization in the spread of antidumping.
4. To Assess the Regional trade integration viz. south Asian trade integration.

To analyze all these subject matters ICT, Anti Dumping, RTA & FDI we have used secondary data from different sources. we have analyzed by means of Econometric modeling, Percentage method & through diagrammatic presentation to find out the relationship between Multilateral Trading System & Developing Countries especially India.

After analyzing the data with the aid of econometric tools, percentage method & diagrammatic representation the conclusions & suggestions reached as follows.

Conclusions

INFORMATION COMUNICATION TECHNOLOGIES & Multilateral Trading System

In this study, we investigate the simultaneous relationship between telecommunications and the economic growth, using data for developing countries. We estimate a system of equations that endogenise economic growth and telecom penetration (respectively production function and demand for telecom services), alongwith supply of telecom investment and growth in telecom penetration. We find significant effects of main landline and cell phone penetration on economic growth, when we control for the effects of capital and labour, but lower than that found for OECD countries, dispelling the convergence hypothesis.
We also find that while traditional economic factors explain demand for main land phones, they do not explain demand for cell phones. When we use the model to predict the level of telecom penetration for India, we find that India's teledensity will reach 14 by 2006. In fact, what has occurred in our post-sample period, in India validates the model. The total number of mobile subscribers in the country touched 24 million in November 2003. Taking this and the main landlines into account, teledensity in the country has reached 7 in 2003, and is expected to reach 15 percent by 2006 well ahead as specified in NTP. Remember that there are data limitations that could limit the value of the estimations. The cell phone sample is quite small since data on cell phone related information are reliable and available only post 1996.

For regulatory structure, we have used only the most current year regulatory structure and assumed that it was valid for the entire study period. Our assumption here is that anyway, since the regulatory structure has evolved to what it is today, that is reflective of current and future market structure in the industry.

It would probably be a good idea to use number of service providers instead of a dummy for denoting market structure. However, this data is not available from ITU. Further, license fees and interconnect agreements affect telecom penetration and are important especially in the context of developing economies. Again, however, these detailed data are not available for developing economies. Government deficit, may have been a good indicator of governments' ability to invest in telecom given the ITU database, but reliable estimates of government deficit were not available either from ITU or from WDI. Data on central government debt, as a proportion of GDP, available from WDI, seemed to be highly erratic across countries, time periods and sparse. So we were unable to use a good measure of this indicator to determine the supply of telecom investment. It is possible that we may have obtained better estimates of the supply function if we had access to better data. Our research shows, how, for the first time, in the context of developing economies, we can expect telecom penetration to affect GDP and how telecom investment can impact penetration.

This has implications for how developing economies can increase their penetration with increases in telecom investment, and if they do, how much they can expect their national output to grow. We work through an example to show what our
findings mean for India. Our model (for total telecom penetration) predicts the total GDP for India to have been US $454 billion (constant 1995 dollars). Note that India’s actual GDP for 2001 was US $496 billion (again in constant 1995 dollars). The error in prediction is roughly -9 percent. We note that India’s National Telecom Policy (NTP), 1999 envisages a tele-density of 7 (main lines + cell phones) by the year 2005, and 15 by 2010. This, we assume, is the expected total telecom penetration.

At these envisaged levels of tele-density, India’s GDP, using our model (for total telephone penetration), taking into account the 9 percent prediction error, in 2005 would be US $529 billion, 7 percent increase over its 2001 actual GDP. In 2010, with tele-density of 15, India’s GDP would be US $589 billion, 19 percent increase over its actual 2001 GDP. Alternatively, if India were to have Ukraine’s teledensity (20, which is the highest in our sample), holding its capital and labour resources constant, India’s GDP would be $614 billion, 24 percent increase over its actual 2001 GDP. How can India achieve this tele-density? The Telecom Regulatory Authority of India (TRAI, 2001) noted that “… by the year 2010, the tele-density is targeted to reach 15 percent. … To achieve all this, both the basic and the cellular mobile services will have to achieve a high rate of growth involving a very substantial investment of the order of about US $70 billion” (ICRA Report, 2002).

To evaluate the implications of TRAI’s suggestion, we convert their envisaged level of investment to average, annual constant US $ using India’s implicit price deflator. This turns out to be US$72 billion (in 1995 constant dollars) over a period of 10 years, or US $7.2 billion per year. At India’s 2001 investment of US $3 billion (constant 1995 dollars), our model predicts India’s telecom penetration to have increased by 1.11 times its penetration in 2000. However, in reality, India’s actual penetration over 2000-01 increased by 1.23 times. Again, factoring into account the 11 percent prediction error, we find that at the levels of telecom investment envisaged by TRAI, India’s telecom penetration can increase by 1.26 times every year. Given this growth, our model predicts a tele density of 14 by 2006 for India, at the investment level envisaged by TRAI.

Our research also shows in developing countries wireless mobile networks contribute significantly to national output. Hence policymakers need to create a conducive competitive climate for the growth of this industry segment. Traditional
compartmentalisation and separation of licenses for landline and mobile services is blurring owing to convergent technologies. For example, in India, Unified Access License that integrates basic and cellular services has been initiated by the government and the regulator.

This allows basic services to provide mobile services using appropriate technologies. The license fees and spectrum charges for mobile services are still high in most of developing countries. The interconnect charges are fixed to favour the incumbent government firms which in turn increases the price. Hence the regulator and the government should fix optimal license, spectrum, and interconnect charges which provides enough revenue for the government without affecting the competitive climate. Being green field projects, setting up telecom infrastructure requires huge investment, especially in developing countries.

Domestic market in developing economies cannot generate required funds due to their smaller size. Countries such as India, set upper limit on Foreign Direct Investment and cite security concerns for restricting the flow of foreign investment in the telecom sector. Foreign investors also are reluctant to invest when telecom policies are not transparent and stable. Policymakers and regulators should promote a conducive climate for foreign investment so that the huge capital investment required for building telecom infrastructure can be met. Everything said and done there is no doubt regarding the fact that most of these developing economies have leap-frogged in cellular telephony as a quick and inexpensive way of increasing telecom penetration.

Most of these economies have actually significantly deregulated their telecom sector, and investment to increase telecom penetration (especially using the wireless local loop route) does not seem to be the big issue any more. The big question that continues to haunt many of these economies is, however, how increased telecom penetration can be used to accelerate their economic growth and alleviate poverty. This, it may be realized, is largely possible only with the effective use of a very important resource, information, ICT has enabled all to acquire. Telecom services may be used to obtain information regarding prices, job opportunities, and markets. This is not a substitute for actual economic growth, but a good enabler for economic growth to trickle down, once it occurs.
On Multilateral Trading System

Increase in access to ICT (telecommunications) leads to increase in trade volume of developing countries. So that it enhances the trade relationship among the developing countries as well as growth & development of developing countries in multilateral framework. Information technology was developing extremely fast, strongly boosting the process of globalization and bringing about many opportunities for economic growth.

Suggestions: This multilateral system should work to enhance policy co-ordination and promote co-operation. At the same time, it should ensure that the particular needs of the developing countries be taken into full consideration.

Foreign Direct Investment & Multilateral Trading System

To compete in the global market, reduce poverty and improve standard of living of regional population South Asia requires faster growth 6-8 percent a year. Achieving this growth is possible, as East Asia has demonstrated. The countries that have attracted high inflow of foreign investment including FDI have demonstrated that they have achieved a high saving and investment rate. For example during 1993-2002, China had saving and investment rates of 39.8 percent and 42.3 percent respectively, and grew at 8.9 percent a year; Korea’s income per capita increased 55 percent with saving and investment rates of 32.3 and 34.4 percent respectively. In comparison to these saving rates South Asia’s saving and investment rate at around 25 percent of the GDP are significantly lower). Accelerating economic growth would require increases in saving and investment rates and simultaneously overcoming the problem of huge infrastructure deficits; reduction distortion in labour markets; and increasing total factor productivity levels.

- India, after USA has become the second-most attractive destination for foreign direct investment among manufacturing investors. The booming Indian economy augurs well for automation. India manufacturing sector will need massive investment of $135 billion over the next five years if it is to support economic growth of more than 8 percent per year. And given
that the government has targeted 12 percent growth in manufacturing, in support of a 10 percent growth target for gross domestic product (GDP), even this amount may be insufficient. Recently, a government-appointed panel has projected that India requires $1.5 trillion including $72 billion in FDI in all sectors over a similar period.

- Apart from allowing FDI up to 100 percent in most industries, the government has initiated a slew of measures to boost manufacturing, such as improving infrastructure and developing growth centers. India needs to ensure that the FDI in the country goes up to $84 billion by 2010-2011 from $6 billion at present. This calls for a total investment of $331 billion in the country's infrastructure over the next five years, according to a study on infrastructure done by the Confederation of Indian Industry (CII) infrastructure council. So far, the manufacturing sector has attracted $2 billion as FDI in 2005-2006, a 75 percent rise over $671 million in 2003-2004.

- Many overseas companies -- large and small -- have made successful entries into the market since India began its liberalization process in 1991. Yet, some have also attempted and failed. There is no doubt that the potential is vast. India's total market is 950 million and the middle class is huge and growing. Both the central and state governments are aggressively seeking foreign investment -- adding incentive on incentive to encourage overseas companies to set up shop. On the surface in fact, India looks like an investment dream come true. But, in reality, the challenges are equally vast. Those that will succeed in tapping this great nation's potential will do so through careful research and a well designed plan.

- The general economic direction in India is toward liberalization and globalization. But the process is slow. Before jumping into the market, it is necessary to discover whether government policies exist relating to the particular area of business and if there are political concerns, which should be taken into account.

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FDI in the last two decades has assumed considerable importance for host developing countries. The direct and indirect effects of the FDI package on financial resource flows and investment, transfer and diffusion of technology, export activity and employment helped domestic efforts of host developing countries to improve their investment levels and thereby achieve high economic growth and improvement in the living standard of their population.

The liberalization reforms initiated since early 1960s in the SAARC member states have resulted in a significant opening of regional economies. The reform process has been successful in virtually eliminating quantitative restrictions. Tariff levels have come down over the years and export producers have enjoyed duty free access to implored inputs from the very beginning of the reform process. Liberalization of the foreign investment regime has gone hand in hand trade liberalization. These reforms have led to far-reaching changes in the structure and performance of the manufacturing sector. The manufacturing sector has become increasingly export-oriented, and it is no longer reliant on the fortunes of the traditional primary export industries to obtain required imported inputs.

Apart from the potential economic benefits of FDI there may also be a number of risks, economic as well as non-economic, for host developing economies. The challenge for host developing economies is to minimize the risks, and benefit to the maximum extent possible from these new sources of FDI. In that context, national and international policies matter.

The magnitude of FDI in South Asia remains relatively low. The region despite a supportive macroeconomic environment and financial sector stability has attracted very low amount of FDI. Its share in the world inflows is negligible and as a proportion of its GDP. It compares poorly with other regions. Reasons are many. South Asia so far failed to offer a coherent socio-economic system and an internal security environment, which develop foreign investor’s confidence in South Asia. South Asia countries can learn substantially from the experience of high FDI inflow countries and create an enabling environment for FDI flows in the region.

The key policy implications for South Asian countries attempting to attract FDI are to create a better investment climate by (a) improving access to adequate
infrastructural and institutional facilities; (b) providing a stable, consistent, and transparent legal and regulatory framework and decreasing red tape; and (c) engaging in international governance arrangements. More importantly, these countries should identify and develop those national competitive advantages that are likely to be of particular interest to foreign investors. In this context, the regional countries should promote local skills development and encourage private sector development in order to broaden the opportunities for entrepreneurial activity. Countries also should strengthen their investment-promotion activities by establishing a broad-reaching agency that can list and market investment opportunities as well as provide information about doing business in the country. Countries should focus not only on policies to attract FDI, however, but also on the policies that are necessary for FDI to generate a positive development impact in the recipient country.

The South Asian countries have recognized that FDI is a key channel for the inflow of much needed capital, knowledge, technology and access of international markets. To facilitate greater inflows of FDI, many countries in the region have taken important steps to create a more favourable investment climate. While much still remains to be done in this regard, there are undoubtedly significant opportunities for FDI in South Asia.

Past trends in inward FDI and policy experience lead to two policy conclusions. First, HRD polices should at the minimum, address access-to and quality-improvement of basic education. Without a sound basic education policy, the education system will constantly feed under-skilled worker into the labour market, which give a bad signal for potential MNEs seeking location advantages. While basic education is important in itself to upgrade human capital, it also provide mean for further increasing human capital by opening options for tertiary education, which has become increasingly demanded by high value added MNEs.

HRD policies must be demand-driven. Past experience indicate that participation by industries and foreign academic institutions that have close ties with high-technology industries can be effective. Moreover, experiences in Singapore and Ireland show that IPA-driven educational policies allow demand sensitive HRD policy reforms.
To attract high value-added MNEs, it is necessary to develop the tertiary education sector with close collaboration with the industry so as to formulate demand-driven programmes.

MNEs can contribute to the HRD of the host developing country by providing training and supporting formal education. Small and medium domestic firms tend to under invest in training as compared to MNEs and large domestic firms, even though the former group usually enjoys higher productivity gains from training.

Under appropriate home-country conditions, including, in particular, adequate technological capacity and absorptive capabilities conducive to the formation of linkages between outward-investing firms and other firms and institutions and to spillovers from the former to the latter, the improved competitiveness of outward investing firms can contribute towards enhancing industrial competitiveness in the home economy as a whole. FDI, can help accelerate industrial upgrading and restructuring in the home economy.

The trade and employment effects of FDI on home economies depend considerably on the motivations and type of investments abroad, and this applies to developing-country FDI as well. To the extent that market-seeking motivations drive the greater part of FDI from developing countries, and such FDI has been found to be generally complementary to home-country exports (excepting where host countries pursue import-substitution policies), a positive impact on home-country exports may be expected. Results of some studies on Asian NIEs as home economies and data on trade by affiliates of developing-country MNEs in the United States and Japan suggest a positive relationship, but more evidence is needed to confirm complementarity’s between outward FDI and home-country exports.

While the limited evidence presented in this study suggests that for home as well as host developing countries, the positive effects of FDI may outweigh the negative ones, it is important to emphasize the contextual nature of the impacts observed and the limitations of the information available. Further research and understanding of FDI, particularly its impact on South Asian economies is necessary to assess its benefits as well as risks, economic and non-economic.
Investors are generally concerned with the quality of the enabling environments for investment which covers whole range of issues, from macroeconomic stability, to structural factors, to public and corporate governance, market size, transparency and host of other economic and non-economic factors. A better investment climate in many developing countries has played a role in the recent rapid growth of FDI.

It is widely recognized that FDI brings economy-wide efficiency gains through the transfer of management know-how, technology, and business practice, access to foreign markets, increased employment opportunities, and enhanced social and boosts competitiveness globally.

The analysis of high performing economies suggests that these countries have used different and changing sets of economic policies, and other factors to attract FDI. These economies have maintained a stable macroeconomic environment, developed infrastructure and human resources to attract foreign investors.

A stable macroeconomic environment and internal security is precondition for attracting FDI. The lesson for South Asian countries is that stronger economic fundamentals and sound economic responses to large capital inflows increase the likelihood that these inflows would be sustained, and less vulnerable to volatility. South Asian countries must manage macroeconomic prudently and reduce fiscal deficit and debt burden. Improvement in the law and order situation and good governance practices are likely to attract foreign investors in the region.

FDI raises the productivity of domestic factors and possibly domestic firms, it also raises the productivity of domestic factor and possibly domestic firms, and increases competition with the firms. The effect of FDI on national welfare depends on the relative magnitude of increased domestic factor income versus the reduced profitability of domestic industry.

MNEs contribute to technology transfers through numerous channels of training spillovers, including vertical/horizontal linkages, labour turnovers, and spin-offs. Host country efforts to improve the absorptive capacity have also been shown to facilitate technology transfers. Most of the successful training policies have been demand-driven, involving industries, MNEs, IPAs and foreign academic institutions that have close ties
with the advanced developments in technology, business administration and management.

**Recommendations for Foreign Direct Investment**

The inflow of private capital flows; including FDI require presence of a well developed infrastructure and availability high quality of human capital. Public investment is crucial for attracting FDI and other private flows. These investments are essential for sustained growth and productivity. The challenges of globalization, accelerating FDI flows, and rapidly evolving information and communications technology call for investment in major changes in education systems and curricula to raise levels of technical knowledge and skills.

Ineffective, discriminatory, and overly burdensome taxation policies and practices can discourage the voluntary payment of taxes by taxpayers. This brings down tax revenue, increases incentives for corruption, and tempts some companies to adopt non-transparent, inefficient practices to conceal “off the books” transactions.

The South Asian countries should encourage foreign private investment, particularly FDI through:

a) **Getting the fundamentals right**: The market-friendly economic policies are the foundation of economic success and most prudent way to attract FDI. The experience of many countries suggests that an enabling environment not only brings high economic growth but also results in high investment rate and FDI flows.

b) **Ensuring stable macroeconomic climate**: Macroeconomic stability based on sound fiscal and monetary and regulatory policies with flexible exchange rate management are essential elements for building foreign investors confidence.

c) **Building human capital**: Developing human capital is critical for attracting foreign investors in the country. The South East Asian economies experience suggests that availability of educated and skilled manpower encourages domestic and foreign investors to invest in the country. The education system must be developed to achieve high level of quality education. All the countries that now enjoy high level of FDI stock achieved high literacy rate and health and
population indicators. Governments should invest significantly in education and vocational and technical training in fields that will keep citizens and their countries competitive for the future. States should make efforts to ensure a large supply of workers who can speak the major languages of international business, including English.

d) Absorbing Foreign Technology: FDI comes with a bundle of technical, managerial, and sometimes labour force skills. Efforts should be made to absorb these technologies in the domestic economies by promoting knowledge and skills.

e) Adopting Consistent Economic Policies: Consistent Economic Policies are key to foster investment. There is a need for continuity in economic policies, legal protection to foreign investment and upholding the sanctity of Agreements. South Asian countries need to follow procedures that instill confidence in foreign investors that contractual obligations are honoured. Instead of making abrupt policies these should be evolved by experts and experienced policy makers so that need does not arise to reconsider and reformulate the same after few years,

f) Achieving political stability: Political stability is of paramount importance for attracting FDI. Continuation of the political system, stable political institutions and continuation of policies of previous governments, having bearing on investment policies, are the main requirements.

g) Provisioning of infrastructure: The adequacy of infrastructure helps in determining a country's ability to expand production and trade, and improving investment environment. Once the investor is satisfied with all other pre-requisites, his next concern would be infrastructure and infrastructure services. The availability, reliability and cost effectiveness of infrastructure services affect the manufacturing cost. To draw in investment, government in joint venture with private sector should invest more for infrastructure development.

h) Accountability and Transparency. Accountability and transparency continue to remain the twin elusive pre-requisite for the overall development of the country. Private investment and FDI inflow are severely hindered by the administrative barriers that arise out of a lack of transparency and accountability, which logically leads to inefficiency and corruption. Competence and efficiency, which are both
appallingly, lacking in bureaucracy, will both become achievable goals with the infusion of transparency in decision making and governance. This will also reduce what is commonly known as “red tape” or “bureaucratic wrangling” since the tiers of the decision making process are bound to become fluent and responsible if they are held accountable for their work.

i) **Strengthening Judicial and Legal System.** A sound judicial system, which is must for good governance, is possible when the judiciary can exercise its authority independently. Efficient and honest judiciary is essential for ant economic activity in the country. Special commercial courts on the pattern of banking courts may also be set up to provide speedy justice.

j) **Reducing Cost of doing Business.** Adequate steps must be taken to reduce the cost of doing business in South Asia. Reduction of utility cost along with ensuring uninterrupted power supply is important. The mark up on commercial loans and the utility cost should be such that investors get reasonable profits on their investments. The need to build more effective government institutions and improve public service delivery, overcome the problem of severe power shortages, and improve maintenance of the existing public infrastructure is required to improve the investment climate in the region.

k) **Protecting workers:** While protecting the basic right of worker, government should reduce unnecessary obstacles to the hiring and termination of employees when and as dictated by the necessities of business. Employers should have the right to hire contract, part-time, and temporary worker, and to engage worker voluntarily to work overtime in exchange for reasonable compensation.

l) **Harmonizing Commercial Laws:** SAARC countries should harmonize their commercial laws with those of major trading blocs such as ASEAN, EU, so that investors can operate confidently within a system with which they are familiar.

m) **Adopting common incentive strategy:** There should be an overall strategy on incentives. Investment incentives must be coordinated across countries. Governments should avoid “stacking” incentives. Investors often receive multiple incentives that cause fiscal deficits by offering far more than was really necessary to attract FDI.
The incentives should be non-discriminatory as possible according to the amount of investment or the specific region, and not according to the country of origin of the investor or the specific industry.

**Impediments of FDI inflows in South Asia**

There are many factors effecting investment climate in the region. Most of the factors discussed below such as administrative and legislative matters add to the transaction cost of doing business and discourage foreign investors to invest in South Asia.

**Infrastructure**

Lack of proper and efficient infrastructure in some of the SAARC countries like India, Pakistan and Bangladesh is an impediment in attracting FDI. Foreign investors are getting increasingly interested in infrastructure investment such as electricity, fuel, road, air, and sea communications and seaports.

**Corruption and Bureaucratic Tangles.**

There is a wide spread dissatisfaction over the hiatus between policies *per se* and their implementation. Corruption and bureaucratic bottlenecks are the main reasons. Political uncertainty and law and order situation are also responsible for investment hurdles, as these raise the cost of doing business.

**India:** As per Report of Rediff. Com, the biggest stumbling block in attracting FDI is India’s bloated bureaucracy. Approximately only 20 percent of FDI approvals translate into actual investment. This implies that the initial enthusiasm to invest peters out by the time companies actually go through the process. Streamlining procedures for FDI approval, such as environmental clearance and legal work, are still time consuming. It further adds that the bureaucracy of India needs to shift from a stifling mode to a serving one.

**On Multilateral Trading System**

Foreign Direct Investment enhances the multilateral Trading system in Developing Countries because of investment incurs from different countries by means of the international trade .in the era of electronic commerce Foreign direct investment

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1 12 December 2003
will be more helpful in increasing the trade volume as well as growth & development of world economy in the multilateral trading system.

**Anti Dumping & Multilateral Trading System**

**Part-I**

Theoretical models and intuition suggest that the amount of non-traditional protection such as antidumping protection will increase as more traditional forms such as tariffs are lowered under multilateral trade agreements. The empirical results in this Study confirm that, at least for developing economies, tariff reductions agreed to under the Uruguay Round not only increased the likelihood of a country using antidumping protection, but also the total number of antidumping petitions filed by countries. This is not to say that Uruguay Round liberalizations went for naught. Anderson and Schmitt (2003) discuss how welfare gains and a narrowing of the industry scope of protection may accompany the movement to antidumping from tariff and then quotas. While we do not address the welfare issue in this Study, it seems plausible that there may be indeed have been welfare gains from the increased use of antidumping protection over the last decade when considered as quid pro quo for general trade liberalization.

**Part-II**

we investigate the determinants of industry pursuit of antidumping across nine major developing countries in the 1995-2002 period and provides evidence that this use is consistent with industry characteristics predicted by the WTO's evidentiary requirements, the theory of endogenous trade policy and macroeconomic shocks. After controlling for country-specific effects, a general increase in antidumping use in these countries over this time period, and that industries like chemicals and steel are major users across countries, we find that the industries that successfully pursue new import protection via antidumping have the following characteristics: they are larger, they face substantial import competition and more rapidly declining industry output, and they are more likely to have been confronted with negative exchange rate and real GDP shocks. Our results are statistically and economically significant, and they are robust to subsamples of data. Nevertheless, the results are the average across countries, and estimates on country-specific subsamples of data indicate substantial heterogeneity in the key determinants of
antidumping use at the industry level. This highlights both the flexibility of the trade policy instrument, and the lack of discipline that WTO rules have likely had on limiting its use during this time period.

Understanding the causes of developing country use of antidumping is important for a number of reasons. First, many of these countries are increasingly taking on WTO commitments that restrict their ability to use other trade-restricting policies. The resulting pattern of antidumping import protection may thus be an increasingly important indicator for their overall pattern of industrial import protection. Furthermore, the increase in antidumping use by developing countries raises the concern that much of the trade liberalization commitments they undertook as part of the Uruguay Round negotiations may be offset *de facto* by new protection. However, some analysts have suggested a potentially important function of the antidumping undertaken by these developing countries. For example, contains arguments that antidumping in many of the Latin American countries in our sample helped provided an escape valve to manage an overall program of trade liberalization. The theory is that antidumping may positively affect the sustainability of the overall liberalization commitment and/or increase a country’s ex ante willingness to take on more extensive liberalization commitments than it would take on without such an option.²

Even if antidumping contributes to a country’s process of trade liberalization, it is equally important to identify the potential long-term economic costs of this contribution. As a caveat, we conclude by pointing to some of the costs experienced by the historical users of antidumping where the policy has a longer track record. First, there is evidence that it is difficult for governments to remove an antidumping measure once it has been imposed and an industry is benefiting from the protection it provides. While Article 11 of the WTO Antidumping Agreement introduced a mandatory 5-year “sunset review” investigative procedure for each imposed measure, evidence for the US suggests that this requirement has little impact on the removal of already imposed measures. Furthermore, among WTO members, there is no historical precedent for a country that has been an intensive user of antidumping suddenly to curtail that use (table 2). These combined findings suggest that over time, the *cumulative* impact of imposed antidumping measures

² For a broader discussion of the theory behind this issue, see Hoekman and Kostecki (2001, chapter 9).
may be substantial even though each distinct new AD investigation may cover only a few products and may thus seem to pose little overall economic threat. Indeed, in a study of the cumulative effects of the US use of antidumping law, we conclude that US-imposed import protection under antidumping made it the second most costly trade policy program in terms of lost US economic welfare in 1993, trailing only the Multi-Fibre Arrangement.

**On Multilateral Trading System**

Curtailing domestic use of anti-dumping (AD) measures. Argue for drastic reform of multilateral antidumping rules to eliminate current protectionist use, ideally by subjecting them to competition policy among the developing countries. Competition laws on predatory pricing can provide appropriate safeguards against protectionist use of AD. Alternatively, AD laws should be required to incorporate buyer/consumer interests and provide meaningful representation for such interests in AD proceedings.

**Regional Trade Agreements & Multilateral Trading System**

The analysis, in using various definitions of the “natural trading partner” hypothesis, demonstrates that the South Asian countries can be characterized only moderately as “natural trading partners”. Additional statistical measures evaluating the evolving trade patterns among SACs point to further obstacles to a rapid increase in intra-regional trade. The evidence is as follows:

First, the “volume of trade” criterion for “natural trading partners” suggests that the South Asian countries fall short of this characterization. Bhutan and Nepal—which, by virtue of being landlocked and smaller in size, maintain strong trade links with India—are exceptions to the overall low shares of intra-regional trade. None of the other countries trade “disproportionately” within the region.

The evidence of South Asia’s recent trade patterns also does not strongly support another version of the hypothesis that characterizes “natural trading partners” on the basis of geographical proximity. The countries of the South Asian region have, instead, demonstrated an increasing tendency to trade relatively intensively with partners _outside_
the region, due to either pure endowment differences—that is, vis-à-vis industrial countries—or due to long-standing cultural, ethnic, and/or religious affiliations.

In terms of "trade complementarity"—a third criterion of the natural trading partner hypothesis—the evidence on South Asia is mixed. India's, and to a limited extent Pakistan's, more efficient exports (defined by RCA indices greater than one) complement the import demands of a number of countries in the region, particularly those of Bangladesh and Sri Lanka. However, the other South Asian countries display efficiencies in only a limited range of products that can fulfill India's or any other regional members' major import requirements.

Mirroring the lack of complementarity among the members' trade patterns is the highly competing nature of their trade. Except for India, most of the countries in the region are competitors in their export markets in a narrow range of products—dominated by textile and apparel exports—which may further inhibit the prospects of increasing regional trade to the level envisioned under SAFTA.

The evidence suggests that the products for which the region demonstrates strong comparative advantages are predominantly labor-intensive manufactured goods. There is limited evidence that the rise in intra-regional trade has provided opportunities for these most dynamic exports, for which the South Asian countries appear to be competing against each other in third markets. It should be noted, however, that up to and including the latest data year analyzed (2003), India implemented very extensive quantitative restrictions, which for most manufactured consumer goods and some primary commodities amounted to an import ban. As a result, many of these products were not being imported at all or in small quantities, either from ROW or from the other South Asian countries. Consequently, these products are not picked up in the various indices, especially the complementary indices, even though it is likely that at least some of them would have been exported from the other South Asian countries to India in the absence of such restrictions.

At the same time, the evidence here is consistent with empirical evidence from other developing countries that suggests that more dynamic exporters tend to rely less on
other developing country markets. In effect, South Asia’s trade patterns tend to support the Heckscher-Ohlin model of trade for developing countries. Therefore, it is plausible to assume that the highest gains are likely to continue to accrue in those sectors and markets for which South Asia has a high differential in factor endowments, i.e. vis-à-vis industrial countries.

While this static analysis, based on recently evolving trade patterns, points to trade structures that may hinder the rapid, successful implementation of SAFTA, there is evidence that unilateral, non-discriminatory trade liberalization has already helped the South Asian countries to refine their incentive environments by reducing distortions and has helped to enhance the region’s competitiveness in manufactured exports. Continuing on the process of unilateral liberalization would be more likely to mitigate any welfare decreasing effects that a preferential trade arrangement may induce through trade diversion. More importantly, continuing unilateral/multilateral liberalization would likely help South Asia to further diversify and evolve new comparative advantages and complementarities, thus, creating the requisite environment for the successful implementation of SAFTA.

**On Multilateral Trading System**

Despite its underlying principle of nondiscrimination embodied in the MFN requirement, the WTO permits preferential trade agreements so long as they reduce to zero essentially all of the tariffs among the participants. Thus it is permitted to form free trade area, where this is done without changing each country’s tariff against nonmembers, as well as customs union that also include a common external tariff. In the latter case the WTO requires that the external tariff does not increase the average protection against nonmember exports.

Restrictions do not assure that RTAs are beneficial from the perspective of world welfare since they will still inevitably cause welfare reducing trade diversion as well as trade creation. There has been proliferation of RTAs from mid 1980s, especially after the formation of

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3 Havrylyshyn (1987).
5 Panagariya (2001) demonstrates how preferential liberalization in South Asia involves substantial trade diversions.
NAFTA and expansion of EU. However, WTO has done little to answer questions that whether movement towards the RTAs will act as "stepping stone" or a "stumbling block" (protectionist in nature) towards achieving multilateral liberalization and how beneficial are RTAs for member states? It is to be noted that the latter question can be answered if the WTO RTA provisions had insisted that RTAs stand ready to admit new members on the same terms as existing members.

It is unlikely that developing country members of RTAs can block entry of new members should the major developed countries—the US, Japan, and the EU—decide upon enlargement. For that reason, there is a significant interest even among developing countries already in RTA for attempting to find rules governing formation of RTAs that are more consistent with the open multilateral trading system.

**Multilateral Trading System & Developing Countries**

It is in the interest for the developing countries to take an informed stand on the WTO issues. Developing countries should seriously involve themselves in WTO discussions and proceedings to make sure that emerging interpretations and practices concerning provisions in the agreement does not result in either an increase in obligations or dilution of their rights. Developing countries including India need to formulate an appropriate mix of domestic and external policies. However, the challenges are, above all, domestic. Active multilateral engagement can be incrementally helpful in facilitating domestic reform and gaining access for developing countries export of goods and services. Liberalization based coalition/coalitions (which can differ across issues) can be an effective force for reform internationally with beneficial internal consequences. In so far as developing countries can influence the agenda for the next round of multilateral trade round, keeping negotiations cross-sectoral, indicating lack of desire, insuring that the undertakings made in the Uruguay Round (especially with respect to the multi-fibre agreement) are carried out, and measures that reduce protection in developed countries should surely be at the top of the agenda for developing countries. Developing countries should not be averse to discuss new issues like the development of multilateral codes in investment, competition policies, anti-dumping, government procurement, services and standards in the future multilateral rounds. As far as GATS is concerned, developing countries should support deeper and wider commitments. It is also in the interest for developing countries to bind their tariff levels because it can be an effective means of liberalization.
Since it is in the developing countries interest that there be a strong and effective WTO underpinning the open multilateral trading system, it will clearly be in the interest to support a new round, and to seek outcomes which offer prospects for accelerated growth of international trade and their access to each others and developed countries markets. Instead of watchfully waiting to support meaningful proposals originating from other countries it is time that developing countries should take initiative to evolve and design beneficial policies on their own.

• **Increasing coherence among multilateral institutions**: In the Ministerial meeting in Marrakesh to give formal approval to the Uruguay Round, ministers called for "greater coherence" between the IMF, the World Bank, and the WTO. In this, there was clear recognition of the linkages between global trade and monetary policies and the ability of developing countries to achieve rapid economic growth on sustainable basis. The need for greater coherence has been apparent at least since the debt crisis of the 1980's, when simple arithmetic showed that heavily indebted developing countries could not service their debt and resume growth (a monetary issue) unless their exports grew at a sufficiently rapid rate. That rate was well above the rate of growth of world GDP; as such, it was clear that should protectionist measures in developed countries increase, efforts of the World Bank and IMF to support the necessary measures in developing countries would in any event be destined to failure. The same is still true. Healthy growth of world trade cannot continue unless the underlying functioning of the international monetary system and of international capital flows is sound. Likewise, healthy evolution of the international financial system, and of the flow of capital from countries with lower real rates of return to those with higher real rates of return cannot persist without an open multilateral trading system. It is clearly in the interest of all countries, developed and developing, to attempt to achieve greater coherence among themselves.

Clearly, there are flaws in the structure of the multilateral system as well as limits to what it can deliver, an observation reinforced by the events in Seattle & Cancun. But Seattle & Cancun should not deflect attention from developing countries pressing need to reform domestically and to engage multilaterally. Multilateral engagement should be measured but broadly active and supportive, rather than defensive.