

India: WTO and International Trade

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Abstract

The World is passing through a transition period in the order of its economy that promises by far to be the most crucial in its entire history. As a result of the new conditions with which we are confronted and the ever broader front upon which the lines of economic struggle are developed, we are rapidly becoming world minded whether willingly or not. The lackadaisical and uninformed days and daze, under which trade was conducted in a world of static repose, no longer exists. The world trader finds that the more clearly and completely he is able to analyse and interpret world conditions of economic, political and, social import, the more successful he is in developing the world market along profitable enduring lines. In the days of globalization, no economy can stand alone and immune from the developments in the abroad sector. India is, therefore, legitimately affected by what happens in the rest of the world. The international transmission effect is speedier, more substantial than ever before. International economic relations between India and other countries have been working through trade, payments technology transfer, joint ventures and the like.

Keywords: WTO, GATT, Uruguay Round, SSI units, Agreement of WTO, TRIPS.

Introduction

World Trade Organisation (WTO)

The Uruguay Round of GATT sought to expand the scope of the organisation by including services, investment and intellectual property rights. The Uruguay round proposals were accepted by all the members of the GATT in December 1993 at the official level and in March 1994 at the ministerial level. Thus WTO started functioning from January 1, 1995.

At present, 153 countries are its members. A Ministerial Conference that meets at least once every two years directs WTO. Till date, Ministerial Conferences have held in Singapore (Dec '96) Geneva (May '98) Seattle-USA (Dec '99) Doha Qatar (Nov 2001) etc. The Quad countries (USA, EU, Canada, Japan) with their share of 80% of the global trade, till recent times used to dominate the decision making of WTO; presently the core group includes US, Brazil, EU, India, China, Japan, and Australia.

Impact of WTO on India

Protectionism is not just about raising tariff on imports; it is any government action that distorts the global production and allocation of goods, services and capital to favour domestic producers, thereby reducing overall efficiency. For example government pressure on multinational banks to bend domestically, or to withdraw liquidity from foreign branches is protectionism.

In terms of money at stake, US is proving to be the most protectionist. Although these measures comply with the rules of the WTO, they discriminate against foreign companies, workers, and investors. India has more to lose than gain in a protectionist world

- a) **Impact of import of Second Hand Cars in India:** The Govt. of India allowed the import of second hand cars in India. This policy has seriously hit Indian automobile industry. Mr Rahul Bajaj described this as “anti national and anti India Act”
- b) **Import of Chinese Goods:** In recent years, Chinese goods are flooding the Indian markets. Dr B.R. Sabade is of the view, “It is extremely difficult to make a case about dumping of Chinese goods. Government can impose a preliminary duty, introduce a trigger price mechanism or declare China as a non market economy”.
- c) **Impact of WTO on SSI Units:** WTO agreements do not discriminate on the basis of size of industries. In the WTO regime, reservations may have to be withdrawn, preferential purchase and other support measures may not be available and thus SSI have to compete not only with the large units within the country but also with cheap imported products. Consequently a very large number of SSI units are

becoming sick or have closed down. Not only that, that entry of MNC's in ordinary consumer goods like ice-cream, food processing, mineral water etc is also affecting the SSI sector.

Gains for India

The Commerce and Industry minister who represented India at the Doha WTO Conference succeeded in sending a strong message that:

- a) India can no longer be ridden roughed over by the developed countries, more especially US and European Union
- b) Biggest gain was that WTO chairman declared that negotiation on Singapore issues- investment, competition, labour standards and environment would be held only after an "explicit consensus" was reached at the Fifth Ministerial. Such a consensus may not be easy to emerge keeping in view the reservations expressed by the developing nations at the Doha conference.
- c) Another major gain was that instead of opening discussion on new issues, it was agreed under pressure from India and other developing countries that it would be more advisable to undertake an exercise on a more complete implementation of Uruguay Round recommendations.
- d) The anti dumping laws of the US were another painful thorn in the flesh of countries like India in respect of steel and other allied items of manufacture. This was taken up strongly by India and other member countries. The pressure built on US was so strong that the US was forced to promise a toning down of its policies and legislation pertaining to anti dumping laws.

Now that the WTO has appointed a 9-member committee to which the key issue of TRIPS has been referred to, it is hoped that WTO will find a structural change in its functioning and decision making.

India's Response

India has a strong interest in a successful conclusion of the Doha Round and should aim at the negotiations ending at a high level of ambition even if the impasse may be prolonged to accomplish such an outcome. India should not be deterred by the fear that the trend toward regional arrangements would strengthen and trade conflicts would intensify. The geopolitical dynamic which drives regional arrangements will remain unaltered as it is. There is no doubt a distinct possibility of increased trade disputes especially in agriculture after the demise of the Peace Clause, but India should not be daunted as the major subsidising countries are likely to face disputes and trade fiction could eventually prove to be a tonic for the trading system if it helps to create a sense of urgency among the major players and a political will to effect deep reforms in agriculture by the time they return to the negotiating table.

India and other countries will now have to adapt to a harsher world, one that increasingly believes in bilateral and regional trade agreements. While not protectionist, such agreements allows ample scope for domestic lobbies to get away with what they want.

In wake of global crises and growing protectionism, the WTO has stressed upon the members of the need for the following:

- a) Trade should be kept opened and protectionist measures should be avoided. The WTO has asked G-20 countries to strongly support the WTO monitoring mechanism of trade and trade related measures.
- b) Try and keep trade open by concluding the Doha round, the most ambitious trade deal ever.
- c) It has been stressing the Aid for Trade agenda. It will enable the poorest countries to invest and improve

Prospects

Presently, the jobs from the US to India cover a range of professional skills. In addition to IT services, it has expanded to sophisticated IT tasks such as web applications development, XML, software design, In addition, IT enabled business services, accounting, human resources, the new entrant is clinical research by drug companies.

Rough estimates indicate that in recent years 4 lac to 5 lac IT jobs were moved out from the US. Over the next decade, expectations are that about 3.3 million American jobs in business services alone will be sent outside. So the demand for out sourcing work in India will continue to grow as long as it is cost effective and provided a high quality of service is maintained.

Lessons for India

First, although sustaining in an open world economy will be difficult, India should do its bit to help. Openness to trade has helped in many ways, including in the recent crises, *Second*, recognising the instability of certain types of capital inflows, India would be well advised to be choosy; a clear endorsement of capital account management. *Third*, capital flow instability justifies substantial reserve holdings. *Fourth*, there is wisdom in containing large domestic asset and credit bubbles. *Fifth*, India needs much more “fiscal room for manoeuvre”, hence currently high deficits and the debt ratios need to be reduced soon...*Finally*, “Expect the unexpected”. So “flexibility is essential in both the economy and policy making”.

Reverting to the high growth trajectory at the earliest remains the key policy challenge in the near to medium-term. The sustained expansionary fiscal and monetary policies stances, however, entail the risk of aiding inflationary pressures in the near-term and constraining the growth process in the medium term. Timely exit from the current policy stance, thus would be critical, given the emerging signs of inflationary pressures. Credible action plan on fiscal consolidation, with an emphasis on the quality of fiscal adjustment driven by rationalisation of expenditure and efficiency of public services would be necessary to revert to the high growth trajectory.

Conclusion

A Survey of the globalisation policies followed in India reveals that the promised benefits of globalisation and International trade in the form of sharp increase in GDP, exports, foreign trade, investments, reduction in poverty, deceleration of unemployment could not be realised by India during regime of WTO and International trade. Globalisation has adversely affected Indian industry it has enabled developed countries to push their exports to India at a faster rate, but did not facilitate the process of access to international markets; small scale industries has suffered due to policy of dumping practised by developed countries, more especially in consumer goods. The most distressing part of the story is double standards practised by the developed countries which manifest in the form of unfair agreement on textiles; a policy marked by a bias in favour of developed countries as against the poor farmers in India. Developed countries brought forth spurious environmental and social issues to prevent the exports from India of such commodities in which the country possessed comparative advantage. Mr VS Vyas(2002) rightly points out: “The international agreements, particularly under World Trade Organisation (WTO) have not helped the developing countries as was professed at the time of the establishment of WTO”. All these factors have resulted in an erosion of faith in globalisation as the new “Mantra” for stimulating development in India. Further, it may be pointed out that though developed countries have agreed to reduce subsidies, yet when the issue is probed in detail, it comes out very clearly that the developed countries have been successful in creating an illusion, without conceding anything substantial. The Framework Agreement leaves several vital issues for negotiations. By creating FIPs, the developed countries have been able to break the resistance of two most powerful advocates of the interests of developing countries, thereby weakening the G-20 camp. In the light of all these developments, there is no cause for jubilation over the achievement of WTO Framework Agreement at Geneva.

The main attributes needed for international trade are pragmatism and open-mindedness. Nothing is sacrosanct and permanent. One should approach each and every issue without any preconceived notion or set of rules. Experience can only give some signals; it cannot give solutions for all problems. A great Statesman of our Country, Rajaji, said that consistency is never a virtue, be it in politics or economics. One can perhaps add ‘International trade’ also to it.

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