

RESEARCH PAPER NO. 1760

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July 2002

RESEARCH PAPER SERIES

STANFORD
GRADUATE SCHOOL OF BUSINESS



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Second Draft - July 2002

Abstract: This paper examines the position of India in the world trading system. It considers three separate questions: Firstly, how integrated is India in world trade? Secondly, what gains could India reap from further trade liberalization? Thirdly, what are the best means to achieve greater trade openness? The paper argues that while India's trade barriers have fallen since external sector reforms started in the early 1990s, they remain high relative to most developing countries, in particular China. As a result, the volume and structure of trade in India have experienced a slower evolution away from quasi-autarkic patterns than China's. A survey of existing estimates of the effect of trade openness on economic growth and the quality of policy and governance suggests that India would have much to gain from further integration into the world trading system. Finally, the paper assesses the scope for liberalization through unilateral, regional or multilateral means. The latter is both the most politically feasible path for further liberalization, and the most likely to deliver significant gains from trade. The extent to which India can shape upcoming multilateral negotiations, however, is unclear.

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1. Introduction

In recent decades, many developing countries have embarked on programs of external economic liberalization. Figure 1 shows that, in 1960, 15.6% of the countries in the world, representing 19% of its population, were “open”, in the sense defined by Sachs and Warner (1995).² In 2000, a total of 73% of the countries in the world were open to international trade, according to the same criteria. However, these countries represented only 47% of the world’s population. The main reason for this discrepancy is that, as of the year 2000, the world’s two largest countries, China and India, remained essentially closed to trade.³ In this, they shared the condition of such countries as Algeria, Gabon, Haiti, Iran, Iraq, Myanmar, Nigeria, Somalia and Syria, among others.

These high barriers to trade remain despite recent efforts by India and China to liberalize their trade regime. These external sector reforms were begun in the mid-1970s for China, and in the aftermath of the 1991 balance of payments crisis for India. As we will argue, they resulted in significant reductions in trading barriers, and in the concurrent rise in the volume of trade in both countries. They can also be credited with significant improvements in living standards. Yet, as a variety of indicators of openness show, much remains to be accomplished to integrate almost two and a half billion people to the world trading system. This is especially true for India, since according to many measures of economic integration, its trade regime remains much more protectionist than China’s. Part of the difference in standards of living between these two countries can be ascribed to this basic difference in policy.

In this paper, I will examine the current state of India’s trade integration. I will argue that, while recent reductions in policy barriers have gone some way towards increasing the extent of cross-

² Sachs and Warner (1995) classified countries as being closed if one of the following criteria is satisfied: the average level of tariffs is greater than 40%, the coverage rate of non tariff barriers exceeds 40%, the black market premium is greater than 20%, there is a state monopoly on major exports, or the country’s economic system is socialist. While these criteria may seem arbitrary, the statement that many more countries have chosen to open their trade regimes in recent decades can hardly be disputed, and the Sachs and Warner classification provides the advantage of a clearly defined and comparable metric of openness. Using the same criteria, Wacziarg and Welch (2002) have recently extended the Sachs and Warner classification in space, to transition economies of Eastern Europe and the former Soviet Union, and in time, to the year 2000. Figure 1 is based on both sources.

borders flows of goods and services between India and the rest of the world, India's trade regime remains highly restrictive. In particular, India remains much more closed than the best available comparison country, China. As I will detail below, according to many measures of trade policy and trade volumes, China is twice as open as India. In terms of per capita income evaluated at purchasing power parity, China is also almost twice as rich.⁴

The natural question that follows this description of India's current trade policy is: How open should India become? Large countries already have a diversified domestic production base and a sizeable domestic market. As a result, they tend to be more closed to trade than smaller countries, in terms of both trade policy and trade volumes.⁵ This may explain why India remained closed for so long, but carries little implication for how open it should now seek to become. To answer this question, I will survey the likely effects of greater liberalization on Indian economic growth and other economic outcomes.

Having argued that greater openness to trade is a desirable goal of Indian economic policy, I will ask by which means this goal can be best achieved. In principle, liberalization can take several forms: unilateral, regional or multilateral. The political feasibility of each of these differs, and the likely gains from trade from various types of liberalization also differ. In the case of India, the potential scope for and likely effects of regional trading agreements do not make them an appealing possibility, despite recent calls for an expansion and deepening of South Asian regional agreements. Unilateral liberalization, while desirable to bring the average levels of policy-induced trade barriers in line with most other developing countries, especially in Asia, is confronted to a host of domestic political impediments, which I will review. This leaves multilateral liberalization, the most promising avenue for further liberalization. Unfortunately, like many developing countries, India is not likely to carry much weight in upcoming WTO negotiations, in part because its protectionist record does not give it much standing to argue for market access. Since, in multilateral talks, obtaining concessions from trading partners is often a precondition

³ The reasons for this differ between the two. In the case of China, the country was classified as closed in 2000, according to the Sachs and Warner criteria, because of its black market premium and its socialist economic regime. In the case of India, the classification as closed is due to the level of tariff and nontariff barriers as of 2000.

⁴ According to the World Bank, in 2000 China's per capita income at purchasing power parity was \$3,920, while India's was \$2,340.

⁵ For more on this point, see Alesina and Wacziarg (1998), Wacziarg (2001) and Spolaore and Wacziarg (2002).

for agreeing to greater openness, especially with respect to obtaining domestic support for liberalization, the scope for great strides in liberalization through upcoming WTO negotiations appears limited *a priori*.

To summarize, this paper is organized as follows. Section 2 asks: How integrated is India to the world economy? Section 3 will address: What are the potential gains to India from greater trade openness? Finally, section 4 seeks an answer to: What are the best means for India to achieve a higher level of commitment to trade openness?

2. How integrated in India to the world economy?

Since the early 1990s, India has progressively reduced policy impediments to trade in goods and services. The early impetus for these reforms came from IMF sponsored adjustment in the wake of the June 1991 balance of payments crisis, and was sustained in the form of tariff reductions throughout the first half of the 1990s, before slowing down significantly in the second half. The reduction in policy barriers led to a significant expansion of the volume of trade, even in relation to GDP. Below, I review the dynamic evolution of India trade volume, trade structure and trade policy, focusing in particular on a comparison with China's.⁶ Before doing so, several remarks are in order.

Firstly, it is clear that there are many ways to define openness – either by policy measures (tariff and nontariff barriers), by computing rates of effective protection or simply by the ratio of imports plus exports to GDP. Moreover, these variables can be expressed either in levels or in time changes. Implementing protectionist policies can involve “creative” non-formal barriers, such as phytosanitary measures, export marketing boards or small scale reservations, all of which are used and abused in India. In principle, exchange rate policy can also have a bearing on trade barriers. For example, as is well known, if exporters have to purchase some foreign inputs using foreign currency obtained on the black market, but remit their foreign exchange receipts from

⁶ Excellent discussions of similar issues can also be found in Srinivasan (2001) and Srinivasan and Tendulkar (2001), although the treatment of India's trade policy there does not focus on a comparison with China.

exports to the government at the official exchange rate, a system of dual exchange rates can act as a trade restriction.⁷

Secondly, there are strong interactions between trade policy and other domestic policies, so that trade liberalization should not be viewed in isolation from domestic reforms. For example, liberalizing trade without removing regulations that limit the flexibility of domestic labor markets may preclude the realization of gains from comparative advantage, which are mediated by sectoral change and require labor flexibility. Similarly, small scale reservations, which reserve production of certain products such as pickles, bread and cashewnuts to the small scale sector, interfere in obvious ways with India's imports.

Thirdly, a comparison with China is useful because both countries are of comparable sizes and both have a history of inward-looking trade policies. The comparison is also interesting because, according to many observers, since 1975 China has managed to achieve unprecedented rates of per capita income growth through gradual liberalization, so that India can benefit from China's experience with trade liberalization. However, the reader should be cautioned that the comparison is not without its problems. China's selective liberalization amounted to a release from a command economy, while India's reforms occur in the context of a controlled economy. For this reason, it is not clear that China's growth rates can be sustained. Moreover, China's trade is characterized by a high fraction of reexports, in particular via Hong Kong, so that trade volume measures may not capture China's true level of openness. Despite these drawbacks, as we argue below a careful comparison of India's trade policy regime with China's yields useful policy lessons.

A. Trade policy reforms: 1991-2002

Tariffs. Figure 2 displays the evolution of average unweighted tariff rates for India, China, and an unweighted average of 129 developing countries, using data from the WTO and UNCTAD. The data show that the reduction in average tariffs is a general phenomenon. In India, the biggest

⁷ However, complete discussions of India's non-formal trade policy measures and exchange rate regime would require separate treatments and are therefore beyond the scope of this article. For an excellent discussion of India's exchange rate regime, see Acharya (2002).

reduction occurred in the immediate aftermath of the 1991 balance of payments crisis, and that the trend towards lower average tariffs was reversed in 1998. Indian tariffs have increased slightly since then, as a result of the conversion of nontariff barriers to tariff barriers, in line with Title XI of GATT. Figure 2 also shows that India's average tariff in 1999, at 32.2%, remained higher than either China's (16.8% in 1998) and the average of other developing countries (11.3% in 1999). As stated by Srinivasan (2001), as of 2001, "India has remained one of the most autarkic developing countries". In fact, looking at simple unweighted tariffs, it appears that India is twice as closed to trade as China.

Of course, a simple consideration of unweighted average tariffs is not enough to characterize India's trade policy. Table 1 displays average weighted and unweighted tariff rates for India and China, for various years since 1990. Once weighted by the share of imports, the difference in tariff rates as of 1999-2000 were similar to those for unweighted rates – 14.7% for China and 28.5% for India. The smallest difference was in primary products (18.8% versus 23.2%, respectively), with larger differences in manufactured products (13.7% versus 32.7% respectively). Perhaps more importantly than average levels, the standard deviation of tariffs captures the degree of distortiveness of the trade regime. It is well known that the rate of effective protection, which result from the fact that both a producer's output and inputs are covered by tariffs, is equal to the statutory tariff rate if the latter is uniform across inputs and outputs. Moving towards uniform tariffs therefore goes some way towards reducing peak rates of effective protection. Part of India's trade liberalization has consisted of a reduction in the dispersion of tariff rates. Table 1 shows that the standard deviation of tariff rates, computed using the tariff schedules at the 10 digit level (which is the level of disaggregation at which tariffs are set) has fallen from 39.4% in 1990 to 12.3% in 1999. The reduction in dispersion is even more pronounced for manufactured goods, and is comparable in magnitude to the reduction experienced in China. Arguably, further reductions in the dispersion of tariff rates, an often overlooked goal of trade reform, would go a long way towards eliminating distortions, and might be easier to achieve politically than reductions in average tariff rates.

Another way to assess the magnitude of tariffs, weighted by the volume of imports, is to examine the ratio of import tax revenues to total imports. This may provide a less accurate picture of the

state of current policy, since the figures do not refer to statutory rates. But they may provide another notion of the degree of openness of the trade regime, perhaps closer to the actually enforced average tariff rate. Figure 3 displays this data for India and, when available, for China, between 1974 and 1998. This data confirms and amplifies previous observations based on tariff rates: Firstly, in both countries the ratio has fallen over time, from 42.18% in 1990 to 21.05% in 1999 for India. Secondly, India's ratio of import duties to total imports is much greater than of China's (21.67% in 1998 versus 2.76% in China in 1998). The data for China are spotty and may be relatively unreliable compared to those from India, so we should not make too much of this huge difference. However, many Chinese imports are not covered by tariffs at all, which might also explain the small figure and suggests that the actual differences in tariff regimes based on statutory rates may be somewhat underestimated.

A more disaggregated picture of India's tariff policy can be gleaned from Table 2, although with data restricted to manufactured goods. The table shows the evolution of tariff rates since 1990, for the 28 sectors of manufacturing activity that make up the 3-digit classification. A similar picture emerges, with a reduction in average manufacturing tariffs from 87.04% in 1990 to 37.25% in 1999, and a reduction in their standard deviation (from 24.67% to 16.17%).⁸ In all years, however, China's corresponding figures are smaller, and India's average manufactured tariffs appeared slightly less than twice as large as China's in 1999. India's tariffs rates in 1999 ranged from 22.96% (Printing and Publishing) to 116.67% (Beverages).

A look at the more recent evolution of tariff rates in India since 1999 reveals a tendency for average tariffs to rise.⁹ Table 1 already showed a tendency for increases in average tariffs, both weighted and unweighted, between 1997 and 1999. This is particularly pronounced for primary products, but holds also for manufactured products (Tables 1 and 2). The same worrisome tendency has continued since 1999.¹⁰ As suggested above, this is to a large extent the result of the

⁸ The average tariffs are unweighted and computed over the 28 sectors of the 3-digit classification. Similarly, the standard deviation is computed over average tariffs within the 28 sectors, and might understate the true level of dispersion since there is considerable within 3-digit sector variation in tariffs.

⁹ Figure 2 and Tables 1 and 2 do not display recent figures for lack of internationally comparable data.

¹⁰ However, the Union Budget 2001-2002 announced an end to a special 10% surcharge on customs duties and a reduction in tariffs to "East Asian levels" within three years. See the 2002 Economic Survey of India, section 6.36. Whether the latter announcement will be implemented will largely be a function of domestic political developments, and is therefore uncertain.

conversion of quantitative restrictions (QRs) to tariff barriers, required as a result of GATT's Article XI. Higher tariffs substituting for phased-out QRs were possible in the context of high negotiated tariff bound rates under the Uruguay Round agreement, as suggested by Srinivasan (2001, p. 6).¹¹ The 2002 Economic Survey of India (section 6.36) describes with glee the various "trade defense measures" put in place to "provide adequate protection and a level playing field to domestic players vis-à-vis imports", as a result of phasing out QRs. These include concentrating the imports of several agricultural products in the hands of a "State Trading Enterprise", raising customs duties on selected agricultural products, more stringent enforcement of "sanitary" measures on such products, real time monitoring of import surges, and active antidumping actions. The bottom line is that the impetus for further reductions in tariffs has been halted since 1998, and even reversed, especially in the case of primary products.

Quantitative Restrictions. Other measures of trade policy restrictiveness include quantitative measures and other nontariff barriers. The data for these are less straightforward to interpret and to compare internationally than tariff rates. Typical measures of quantitative restrictions refer to their coverage rate, as a share of tariff lines or product categories, rather than to how binding these restrictions actually are. The phasing out of QRs has arguably been the single most successful area of trade liberalization in India in recent years. This may result from the fact that it came as a direct consequence of India's commitments under GATT agreements, chiefly the Uruguay Round. According to Srinivasan (2001), who cites data from Pursell (1996), "in the pre-reform period, the QR protected share was as high as 93% in total tradable GDP, and it had come down to 66% by May 1995". A less satisfactory but easier to compute measure for the coverage rate of nontariff barriers consists of the share of tariff lines that feature such restrictions. Data from the World Bank suggest that, in the period 1991-1993, the coverage rate of nontariff measures for India was 62.6%, and for China 11.3%, as a percentage of tariff lines.¹² According to

¹¹ According to the WTO's Trade Policy Review of India in April of 1998, under the Uruguay Round, "India has bound 67% of all its tariff lines, whereas prior to that only 6% of tariff lines were bound. The bindings range from 0 to 300% for agricultural products, from 0 to 40% for other products". Negotiated reductions in these bound rates have been slow to come since they were agreed to in 1990, providing the Indian government with considerable leeway to raise tariffs.

¹² These measures comprise all quantitative restrictions (prohibitions, quotas, non-automatic licensing, VERs and MFA), price control measures (minimum, reference or basic import price systems, price surveillance and voluntary export price restraints), additional customs formalities and other entry control measures, and local content requirements, but exclude para-tariff measures, automatic licensing and import surveillance, advance payment of duties and import deposits and anti-dumping and countervailing actions.

Lardy (2000), this coverage rate had fallen below 4% of all import tariff lines in China in 2000. Table 3 shows the evolution of such a measure since 1996 for India. The decline is quite spectacular, with the coverage rate falling to 12.96% in 2000 and 5.30% in 2001. Out of 10,149 tariff lines, 9,611 are free of QRs, 479 are “restricted” and only 59 are characterized by outright prohibitions.¹³

One ironic feature of the removal of remaining QRs on imports as of April 1, 2001, is that it does not seem to have led to a surge of imports. The Economic Survey of India (2002) goes through great lengths arguing that the effects of this removal were benign, in the sense that it did not affect the domestic industry. Surveying imports of “sensitive items” (including such strategic products as umbrellas, locks and toys), the survey shows that from April to December 2001, their imports increased by only 2.1%. This suggests either that the QRs were not binding, or that the increase in tariffs and other “defensive” measures to substitute for them were effective in protecting domestic producers. Either way, the gains from trade do not seem to have been realized, else a surge in imports would have been experienced. A trade economist should remind policymakers that the removal of trading restrictions *should* lead to import (and export) surges, as the economy adjusts to the market-driven pattern of comparative advantage. Barring this, liberalization achieves little, in good or bad. The political motives underlying the tone of the survey is perfectly understandable, but if its message is correct, the removal of QRs may not have achieved much, at least in the short-run.

Antidumping. The last item on the trade policy agenda concerns the use of anti-dumping measures, and the least that can be said here is that India has increasingly abused this unfortunate loophole in WTO rules. Table 4 shows the number of antidumping (AD) measures initiated by the top 15 initiators. India has slowly moved to near the top of the list, second only to the United States in 2000-2001 with 116 measures initiated. According to the WTO, India is actually *first* (or last, depending on how you view things) in terms of measures actually enacted, with 94 measures in place versus 65 for the United States in 2000-2001. In other words, India is the most active user of AD measures in the world.

¹³ Restrictions and prohibitions are allowed by the WTO “on the grounds of health, safety and moral conduct”, according to the 2002 Economic Survey of India, section 6.27.

In contrast, China has not initiated or enacted a single AD measure since 1995. It has, however, been the target of many (Table 5). In fact, roughly 20% of India's initiated and enacted AD measures were directed at China, by far India's main target. Perhaps as a result of the increase in India's use of AD, she has herself increasingly become the target of such measures, as shown in Table 5. The main initiators and enactors of AD measures directed against India between 1995 and 2001 were the European Union, South Africa and the United States, in that order.

Antidumping thus appears to be a prime policy substitute used by India to replace reduced tariffs and phased out quantitative restrictions. It is of course much more difficult to assess the actual level of protection afforded to the domestic economy by AD measures compared to other protectionist policies, but the substitution of this form of protectionism for the older ones is clear.

B. The volume of trade: a measure of actual integration

The gradual liberalization of India's trade regime has led to a significant increase in the volume of trade, especially in the first half of the 1990s. Figure 4 displays the ratio of imports plus exports to GDP for India, China and a population weighted average of 166 other countries in the world. Although they follow the general pattern of increasing trade volumes in relation to GDP, both China and India trade much less internationally than the average country. As we discuss below this is largely due to their large size. Comparing China and India is perhaps more meaningful. This comparison reveals that, although China remained more closed to trade than India over much of the period since 1950, it "took over" in the mid 1980s. Since then, China's trade ratio has tripled, while India's has less than doubled. As a result, on this metric, once again, China as of 1998 appears almost twice as open as India, despite its larger size. Moreover, the ratio of trade to GDP seems to have stagnated in India between 1995 and 1998.

A further comparison of the growth of imports and exports of merchandises separately can be obtained from Table 6, which shows that the volumes of both imports and exports actually decreased in average annual rates in India in the 1980-1990 decade, while they rose at rates of 13.9% (for exports) and 15.8% (for imports) in China. The effects of liberalization on the trend

in export and import volumes is apparent since both picked up in India in the ensuing decade (1990-1998), although at a rate much slower than China's (the value of exports and imports also grew much faster in China in both decades).

C. The structure of trade

The evolution and characteristics of India's trade structure have been superbly dealt with elsewhere (see Srinivasan (2001) and Srinivasan and Tendulkar (2001)), so I will not dwell on them too long. However, a few points deserve to be made, in particular in comparison to China.

The Sectoral Structure of Trade. The first aspect of the structure of Indian trade concerns the main product categories imported and exported. Figures 5 and 6 display the 4 main exports and imports of India, from 1960 to 2000.¹⁴ The four main merchandise export categories consist of non-metallic mineral manufactures (i.e. gems, jewelry and related products), clothing, textile yarn fabrics and coffee, tea, cocoa and spices, which jointly account for almost 50% of goods exports. One important difference with China is that China exports, as a share of total exports, more machinery and equipment. China's four main exports are clothing and garments, yarn and textiles, electrical machinery and equipment, and petroleum and related products, but these categories accounted for only 31% of Chinese goods exports. In other words, Chinese exports are much more diversified than Indian exports. The structure of Chinese exports by products has also changed much more rapidly than India's, illustrating China's move "up the value-added ladder" (the evolution among the top four categories was characterized by a relative decline of textiles and clothing, and a concurrent rise of the share of electrical equipment) . In contrast Figure 5 illustrates the great stability of India's goods export structure since 1980. Since India in that period started out with a highly distorted trade regime, it is probable that the main adjustment in export structure that should be expected to accompany trade liberalization has not occurred yet.¹⁵

¹⁴ For an in-depth analysis of India's export performance in comparison with other fast-growing Asian countries, see Tendulkar (2000)

¹⁵ More generally, Seddon and Wacziarg (2001) document the stability of sectoral labor shares following episodes of trade liberalization in developing countries. The fact that economic structures, in the sense of sectoral composition, respond slowly to major changes in the trade regime in developing countries remains a puzzle for international economists. On the other hand, this fact should assuage fears of sectoral upheaval following liberalization.

Other features of Indian exports in relation to China's can be inferred from Table 7. Two notable features are that China exports more manufactured goods, as a share of total merchandise exports (88% of merchandise exports, versus 72% in India), and that India's service exports represent a greater share of total exports than in China (27.60% versus 10.23% of total exports in 1999). According to The Economist Intelligence Unit, (2001, p. 31), information technology (IT) products, "mainly software, account for 15% of India's total exports". The increase in the share of services in total exports, driven to a large extent by IT, has been quite spectacular since the early 1990s. The category "other" in Table 7, which comprises IT exports, rose from 22.7% of service exports in 1990 to 30.3% in 1999 (although software exports slowed down significantly as a result of the IT "meltdown" in the United States since 2000). It is eminently difficult to establish what products a country has a comparative advantage in, but there is a strong presumption, judging by the expansion of the IT sector in exports since the reforms began, that in the case of India, IT is one are of comparative advantage.

Turning to the main import categories, Figure 6 shows that the four main import categories - mineral fuels, basic manufactures, machines and transport equipment, and chemicals - account for over 90% of India's goods imports. The shares of these categories have remained surprisingly constant through time. This again contrasts with the less persistent shares of China's main imports - industrial machinery, textiles, electrical machinery, and petroleum & petroleum products - characterized by a decline of the first two and a relative increase of the last two over the last decade. Again, China's imports are more diversified, as the top four import categories account for less than 35% of imports. The persistence and concentration of India's trade structure by product category is another indicator of India's closedness, relative to China. One would expect changes in the structure of imports and exports, and greater diversification (especially of imports) if and when trade barriers are brought down from their still very high levels. This seems to be what China has experienced since the early to mid-1980s.

Main Trading Partners. Figures 7 and 8 present the breakdown of India's imports and exports (respectively) by main trading partners. The structure of imports by geographic source suggest a decline in the shares of OPEC, the EU and the United States over the last decade, an increase in the share of non-Asian developing countries as sources of imports (from 28.2% in 1990 to 54.7%

in 2000), as well as a growing share of East and South East Asian countries as a source of Indian imports. More interestingly perhaps, the structure of exports by destination zone has also changed, with marked increases in the shares of the United States (from 11.1% of exports in 1980 to 20.9% in 2000) and of Asia (from 13.4% of exports in 1980 to 21.4% in 2000). A very similar pattern was experienced by China, although the share of the EU and US in China's trade rose faster than in the case of India.

3. What are the potential gains to India from greater trade openness?

This analysis of the dynamics of trade openness in India and China begs an important question: how open should we expect large countries such as India and China to be? Some observers have suggested that large countries like India and China can “afford” to remain closed to trade, because they have sizeable internal markets and diversified output structures. It is true that larger countries, whether size is measured by population or by the size of the market, tend to be more closed to trade. A recent literature has explored the geographic and demographic determinants of trade openness, and one of the most robust predictors of the degree of trade openness turns out to be country size (see for instance Alesina and Wacziarg (1998), Wacziarg (2001) and Spolaore and Wacziarg (2002)). Moreover, according to empirical estimates based on a linear specification linking the trade to GDP ratio to the (log of) the size of the population and some geographic determinants of openness, both India and China were more open (over the period 1960-1989) than we should expect them to be on the basis of their size and geographic characteristics alone.¹⁶

The example of China shows that even a large country like India could become much more open. Indeed, the fact that a large size makes openness less crucial and protectionism more sustainable, while it may explain why India and to a lesser extent China have remained so closed for so long, does not preclude sizeable gains from trade for large countries, and has therefore little implica-

¹⁶ This is done by comparing the fitted values from these models for India and China to their actual level of openness. In typical regressions the predicted trade to GDP ratio for each country is on the order of 10 percentage points below the observed level of openness, but this is not surprising since India and China are in the upper tail of the size

tion for how open India *ought* to become. To assess this, a quantification of the potential gains from trade openness is necessary, and we will now turn to this topic.

A. Trade and Growth

Figure 9 shows a moving average of the annual growth rate of India's GDP at factor cost, over the period 1950 to 2001. The pace of growth over this period is characterized by roughly three phases: Firstly, from 1950 to 1975, the period of the "Hindu rate of growth", which was actually closer to 3.5% than to the often-cited 3%. Secondly, from the mid-seventies to 1991, when growth rose to an average of 4.8%. Thirdly, the post reform period, when growth averaged 6% per year. As we will see below, part of the acceleration in growth during the reform period can be credited to external liberalization. It is always worthwhile to remind the reader that an increase in average growth from 4.8% to 6% can have enormous welfare effects over the long-run due to compounding. Assuming an unchanged rate of population growth of 1.8%, and starting from the 2000 level of per capita income in PPP US dollars (\$2,340), a sustained growth rate of GDP of 4.8% means that, in 2030, per capita income will have risen to \$5,680, roughly the current level of income of Panama. A sustained growth rate of 6%, in contrast, implies a level of per capita income of \$8,040, roughly the current average income in the Russian Federation. If India manages to raise the average rate of growth of GDP to the level that China claims to have achieved over the 1990s (9.9%), per capita income in 2030 could reach \$24,210, approximately the current level of France! (this is admittedly a very far-fetched scenario).¹⁷

Within the reform period, it is interesting to note that the rate of growth was highest during the aftermath of the 1991 crisis, which was the most active period of reforms, the years 1994-1996 being arguably the period of fastest GDP growth ever experienced by India. As the reforms slowed down in the mid-1990s, growth also slowed, and was further affected after 1999 by the

distribution, and should therefore be expected to lie above the regressions line (given that openness is bounded below by zero).

¹⁷ The data on Chinese growth are heavily debated. There is, however, little doubt that China grew faster than India over the recent two decades. According to official statistics, since 1981 there has been only one year when China did not grow faster than India (1990). Over the entire 1981-2001 period China's average annual growth rate of GDP was (officially) 9.5%, while India's was 5.6%. The result of this is that China is, according to some PPP income estimates, almost twice as rich as India in per capita terms: \$3,920 in 2000, versus \$2,340, according to the World

slowdown in world growth. It is hard to infer causality from a single short time-series, and harder even to infer causality from a simple correlation, but this pattern is indicative of a relationship between trade and economic growth that a recent large and growing literature has documented perhaps more convincingly.

Table 8 presents estimates from some recent papers attempting to quantify the relationship between trade and economic growth. Most papers focus on the impact on growth of per capita GDP, but some, such as Edwards (1993), focus on TFP growth, and others on the level of per capita income (Frankel and Romer (1999)). Similarly, some papers evaluate the impact of difference in trade policy, others trade volumes. This literature therefore provides a good opportunity to examine the potential income gains that India could reap from further liberalization, based on a variety of indicators.¹⁸

Probably the most often cited investigation of the effect of outward orientation on growth is Sachs and Warner (1995). They construct an indicator of outward orientation for the 1980s, and include it in a growth specification controlling for other common determinants of per capita income growth. Their indicator takes a value of 1 if none of the following conditions is satisfied: the average level of tariffs is greater than 40%, the coverage rate of non tariff barriers exceeds 40%, the black market premium is greater than 20%, there is a state monopoly on major exports, or the country's economic system is socialist. As argued earlier, for India and China, this indicator takes on a value of 0 for the 1980s.¹⁹ The potential gains from switching to a value of 1, according to Sachs and Warner, is equal to a huge 2.45 percentage points of annual growth, after controlling for other common growth determinants. The change in trade policy under consideration is one that occurs from very high levels of protection, which may explain the size of the effect. Moreover, the indicator has recently come under attack for reflecting mostly the level of the black market premium on the exchange rate, which may proxy for poor macroeconomic management rather than trade openness (see for instance Rodríguez and Rodrik (2000)). For these

Bank. PPP comparable per capita income data for 1998 from the recent release of the Penn World Tables (version 6.0) suggest a smaller difference - \$3,203 for China, versus \$2,464 for India, in 1996 US dollars.

¹⁸ The papers cited in Table 8 are but part of a much wider literature arguing that trade openness is good for growth. For the sake of completeness, we should cite Dollar (1992), Ben-David (1993), Krueger (1998), Ades and Glaeser (1999), among many others.

reasons, an estimate of 2.45 percentage points of growth is probably a gross overestimation of the effect of changes in trade policy alone.

In a related paper (Wacziarg (2001)), I addressed the confusion that often arises between policy measures of openness, and the volume of trade. What we are really interested in is the effect of a change in trade policy. I constructed a measure of openness that captures the extent to which trade policy measures – namely tariff barriers, the coverage rate of non-tariff barriers, and an index of overall outward orientation – affect the observed volume of trade. I then used this policy component of trade volumes as a measure of policy openness in a growth regression. Obviously, trade volumes are increasing in the openness of trade policy. The estimated effect suggested that raising trade volumes by 10% *through changes in trade policy alone* could raise the annual rate of growth of an economy by roughly 0.7 percentage points (the estimates are based on instrumental variables estimation to correct for possible reverse causality between openness and growth). This estimate rose to 0.85 percentage points when the regressions were run on a sample of developing countries only, hinting that the potential gains from trade liberalization are larger for LDCs than industrial countries. Looking at India's trade to GDP ratio over the 1990s (Figure 4), we see that it rose from 17% to 25% between 1990 and 1998. Surely not all of it was due to trade policy liberalization, but the orders of magnitude suggest that, if my estimates are taken seriously, about half of the increase in growth in India in the 1990s compared to the 1980s can be attributed to increased trade openness.

Other papers in this tradition deliver a similar message. Frankel and Romer (1999) estimated the effects of changes in the volume of trade (measured by the trade to GDP ratio) on the *level* of per capita income, using an instrumental variables estimator to identify the direction of causality. Their estimate suggests that a 1 percentage point increase in the trade to GDP ratio is associated with an almost 2% increase in the level of per capita income. If we believe their estimate, the 8 percentage point increase in India's trade to GDP ratio between 1990 and 1998 might well be responsible for a 16 percentage point increase in the level of per capita GDP in India over this period (the total increase in per capita real GDP during this period, according to the Penn World

¹⁹ Horn and Wacziarg (2002) updated this indicator for the 1990s and found that both India and China remained closed as of 2000. For India, this was largely due to the high levels of tariffs and NTBs over the period.

Tables version 6.0, was 40%). Finally, Edwards (1993) looked at a variety of indicators of trade openness, and examined their impact separately on the rate of technological progress (TFP growth) in a cross-section of countries in the 1980s. For seven out of nine indicators, the estimated effect of openness was positive and statistically significant. Table 8 displays three of these estimates. For example, a 10 percentage points reduction in average tariffs is associated with a 0.45 percentage point increase in annual TFP growth.

A discussion of India's potential gains from greater openness would not be complete without a mention of a recent famous study that many interpret as casting doubts on this result, that of Rodríguez and Rodrik (2000). I do not view this paper as succeeding in overturning past results, however. In this paper, the authors examine the sensitivity of the estimated coefficients of the main studies in this literature (including all the ones mentioned above) to changes in specification, samples, and measures of openness. They conclude that the estimated effect of trade openness on growth is much more fragile than the literature would lead a naïve reader to believe.

My interpretation of these results is that they boil down to two main points: Firstly, it is *possible* to find econometric specifications that will make the effect of openness statistically indistinguishable from zero (they state that “we know of no credible evidence--at least for the post-1945 period--that suggests that trade restrictions are systematically associated with higher growth rates.”). This, of course, is true in any empirical application and is not very informative of the most “reasonable” estimates. The range of estimates reviewed above, in fact, reflects closely the consensus of the economics profession as it results from a multiplicity of empirical studies.

Secondly, protectionism is highly collinear with other “bad” policies, such as a high level of domestic price distortions, poor macroeconomic management and defective governance, so in a context where all these policies are measured with error it is econometrically difficult to tell apart which is truly a determinant of growth. This is part of the reason why the effects of protectionist policies is less robust than might be expected. The correlation between “bad policies” is indicative that part of the effect of openness on growth might occur indirectly, through its effect on domestic policy quality, a topic to which we now turn.

B. Trade, Inequality and Intersectoral Labor Movements

Growth, of course, is not the sole outcome of interest to policymakers. It is widely recognized that the impact of trade liberalization on average per capita growth might be outweighed by negative effects on income distribution and intersectoral (or intrasectoral) worker displacements. There is no convincing cross-country evidence suggesting that greater openness to trade is associated with greater income inequality in developing countries, although there is a controversial literature arguing that increased trade has led to greater wage dispersion in the United States. In fact, according to the Heckscher-Ohlin model of trade, greater openness in developing countries should lead to a *rise* in the wage of unskilled labor and a reduction in the relative rental to capital, because of a tendency towards international factor price equalization brought forth by openness. But leaving aside this interesting theoretical possibility (itself based on a model that has not received overwhelming empirical support, to say the least), as a matter of empirics there is scant evidence of any link between openness and inequality (this may be due in part to the poor quality of cross-country comparable data on income inequality).

Turning to intersectoral labor movements, it is widely recognized, again as a matter of theory, that a reduction in trade barriers should lead to a reallocation of labor to sectors with a comparative advantage. This reallocation is often faulted for creating costly social adjustment and persistent unemployment in the context of imperfect intersectoral labor mobility. However, in Seddon and Wacziarg (2001), we examined 25 recent episodes of trade liberalization in developing or transition economies, and in most of these countries found little evidence of sectoral upheaval, defined by increased cross-sectoral labor movements at a horizon of 5 to 8 years following liberalizations. This confirmed case study findings of developing countries trade reform, surveyed in our study. The explanations for these puzzling findings are several. Some developing countries have enacted domestic policies of industry subsidization that have partly undone the effects of external sector reform. Others had rigid labor markets that precluded adjustment, or entailed adjustment through other factors of production besides labor. In some cases, labor movements occurred within sectors, across firms, rather than across sectors, with correspondingly more benign effects on welfare. Finally, when it comes to developing countries, in the midst of rapid structural transformation, variations in trade openness likely account for a small portion of the vari-

ance in sectoral labor shares. Irrespective of the cause, our findings cast doubt on the most often cited source of the gains from trade, at least in the short to medium run: the classical sectoral reallocation allowing countries to reap the benefits of comparative advantage. In the short to medium run, the observed surge in growth resulting from liberalization probably finds its source elsewhere.

C. Incentives, Investment and Governance

As I have just argued, gains from comparative advantage are only one aspect of the overall gains from trade. Since specialization according to comparative advantage involves losers and winners, a strict focus on comparative advantage could lead to understate the political feasibility of reforms if the gains from trade also occur through other channels. One recent area of inquiry has focused on the effects of trade openness on incentives – to accumulate, innovate or improve economic policy. One often cited effect of liberalization is its procompetitive effects – by increasing the extent of the market, trade openness reduces the monopoly power of domestic producers, yielding incentive gains in the forms of lower markups and higher output volumes. Wacziarg (1997) demonstrated how these procompetitive effects could translate into dynamic gains from trade.

Theories that focus on procompetitive effects have received considerable empirical support from microeconomic studies of firm behavior. Harrison (1994), using plant-level data on Côte d’Ivoire, reports that ignoring the changes in market structure may lead to understating gains in productivity growth which resulted from the 1985 trade reform; in particular, this paper shows that liberalization reduced price-cost margins and excess profits. De Melo and Urata (1986) found similar results when looking at industry markups before and after the 1976 Chilean reform. Harris (1986), in the context of a CGE model for Canada, argued that “large welfare gains are explained in terms of scale economies and the procompetitive effects of import competition” resulting from a 50% reduction in trade barriers. Lastly, Levinsohn (1991) examines the size of markups for five Turkish manufacturing industries before and after liberalization, and observed that statistically significant reductions in markups occurred in four of the five industries.

In Wacziarg (2001), I attempted to quantify empirically the channels whereby trade affects growth. The main channel by far is through the rate of physical capital investment, accounting for over half of the estimated effect. This confirmed results from Levine and Renelt (1992), who could not reject the hypothesis that the only robust way the volume of trade affects growth is through its indirect effect on investment rates, and Baldwin and Seghezza (1996), who stressed trade-induced, investment-led growth as a general consequence of greater openness. Figure 10, which displays the time path of the gross savings rate in India since 1980, confirms a surge in domestic savings in the reform period. India as a case study therefore appears to conform to the more general findings of the cross-country literature.²⁰

Researchers have also explored the effect of increased trade openness on the quality of policy and governance. For instance, Ades and Di Tella (1999) showed that countries with greater import penetration tend to display smaller indices of corruption. Their argument is that openness to international markets increases the sanction imposed for poor governance, because businesses have an option to move to less corrupt countries. They state: “Using data on corruption from two different sources, we find that corruption is higher in countries where domestic firms are sheltered from foreign competition by natural or policy induced barriers to trade (...)”. Formerly, Mauro (1995) had shown the negative impact of poor governance, in particular corruption, on rates of per capita income growth.

Beyond its impact on physical capital investment and governance, greater openness also has direct effects of policy. In Wacziarg (2001), I examined the quality of macroeconomic policy as a possible channel linking openness to growth. I constructed an index of macroeconomic policy quality based on a country’s performance in terms of inflation, fiscal deficits and public debts, relative to other countries. The index ranged from 1.7 for the country with the worst macroeconomic management, to 8.5 for the country with the best quality of macroeconomic policy. A 10 percentage point increase in the trade to GDP ratio, attributable to more open trade policies only, was estimated to raise the index by a statistically significant 0.27 points. In turn, such an increase in the index led to an annual increase in growth of 0.13 percentage points (0.17 points in a sam-

²⁰ Again, the reader is cautioned that a single, short time series can only count as presumption rather than proof, and that a correlation does not imply causation.

ple of developing countries only). In other words, greater openness has the potential to raise growth significantly through its effect on the quality of macroeconomic management alone. The economic argument accounting for this effect is twofold. Firstly, the cost of sanctions from international markets for macro mismanagement, in the form of capital flight, is greater in more open economies, providing a better check on policymakers. Secondly, the imperative of domestic macroeconomic stability is greater when firms are engaged in trade in a volatile international context, raising the benefits of better macro management.

To conclude, the existing literature on trade and growth points to potentially large growth gains from further liberalization of India's trade regime. These gains are mediated by better incentives, higher rates of physical capital investment, better governance and better macroeconomic management. Finally, trade liberalization in developing countries does not seem to be associated with widening income disparities or with intersectoral upheaval, contrary to frequent claims from opponents of globalization.

4. What are the best means for India to achieve a higher level of commitment to trade openness?

The last question posed by this paper is: how can India best achieve greater integration to the world trading system? There are three basic, non-mutually exclusive options to consider: India could choose a path of *unilateral* liberalization, whereby trade barriers are brought down as a result of domestic conditions and domestic policy changes, without being negotiated with an outside party. This is essentially what occurred in the aftermath of the 1991 crisis, although the IMF and World Bank provided advice and impetus. India could also participate more actively in existing *regional* trading arrangements, in the context of the South Asian Association for Regional Cooperation (SAARC) or even of the Association of Southeast Asian Nations (ASEAN), or seek to form a new one, such as a "Bay of Bengal Community".²¹ Finally, India could actively seek market access in the context of the upcoming *multilateral* trade talks of the Doha Round, in ex-

²¹ See Baru (2001) for such a proposal.

change for barrier reductions on the basis of the most-favored nation principle. In what follows, I briefly consider the economic arguments for and the political feasibility of each of these options.

A. The Unilateral Option

Unilateral liberalization, characterized by further reductions in the average level of policy-induced barriers to trade, applying uniformly to all of India's trading partners (i.e. based on the most favored nation principle) and further reducing the cross-product variance of barriers, could in theory yield sizeable gains from trade through a reduction in pricing distortions and the other channels discussed above. As mentioned earlier, this was essentially the reform model followed in the aftermath of the 1991 crisis. However, as I argued in Section 1, the impetus for external sector reforms has largely stalled since the mid to late 1990s. There now appears to be no political consensus in favor of reforms.

Appendix 1 lists the views of the main parties in the 13th Lok Sabha on globalization, external reforms and the WTO, as expressed in their official manifestoes. The list includes all national parties, as well as six regional parties having obtained 10 or more seats in the house in the 1999 elections.²² The first striking aspect of this review of party platforms is that none seems to embrace unilateral liberalization outright. The closest we come to an explicit statement of the need for further external sector reforms is in the Indian National Congress's (INC) platform: "The objective of tariff policy will be to reach levels prevalent in South-East and East Asia in the next two to three years and global levels shortly thereafter". This would be an ambitious program of external liberalization given current levels of protection. However, the need to foster exports and to gain market access through multilateral negotiations features more prominently on the INC's platform. This is a general feature of other manifestoes as well. The liberalization of imports never features in these policy statements, and the closest we come to embracing greater openness is through statements of the need to expand exports and allow for "controlled" foreign investment and ownership. At the other extreme, we find such statements as the following, from the Communist Party of India (M), the third party in the Lok Sabha by number of seats: "The impe-

²² 471 parliamentary seats are covered by this summary out of a total of 543 seats in the Lok Sabha (i.e. almost 90% of the seats), the remaining 10% of the seats being highly fractionalized among generally minor regional parties or independents.

rialist driven globalization and the policies of liberalization adopted by the Indian ruling classes have heightened the imperialist penetration in all spheres of our country”

The Bharatiya Janata Party (BJP), the leading party in the government coalition, states that its “philosophy has been to propagate full internal liberalization and selective external liberalization”, in accordance with the principle of “Swadeshi”. This matches well widely held and probably correct views on the current government’s attitude to reforms, in that domestic reforms have proceeded faster than trade reforms over the last 5 years or so. The ambivalence of the BJP concerning external trade is also reflected in the policy statements of a related organization, the Rashtriya Swayamsevak Sangh (RSS). A recent resolution from this organization states that “the WTO is only to further the interests of the developed countries at the cost of the developing countries”, signaling its suspicious attitude towards greater openness to international trade. The BJP’s policy statements stress the need for encouraging export growth as an engine of growth, but does not mention further dismantling of import restrictions.

One needs to delve deeper into less publicized statements of the government’s policy intent to find less unenthusiastic endorsements of greater trade openness. For example, in a speech made on the occasion of the release of the 2002-2007 Exim policy, Mr. Murasoli Maran, Union Minister of Commerce & Industry (and a member of the ruling coalitions’ DMK party from Tamil Nadu) stated: “(...) We should wake up from the stupor of export fatalism of the earlier years, release ourselves from the feelings of export pessimism and apathy and employ international trade as an engine of growth. (...) There is a strong co-movement between exports and output growth in a liberalized trade environment. This lends support to the need for persisting with an open trade system. Anti-export bias - both in policies and mind-set - needs to be corrected.”²³ The new Exim policy itself is quite clear on the need for further encouragements for exports, but much less so on the need to further reduce barriers to imports (Appendix 2).

To conclude, while desirable, the extent to which unilateral liberalization can constitute a politically feasible option for further trade reform is very doubtful, barring another balance of payments crisis that could raise the urgency of reform. The domestic consensus runs against unilat-

²³ <http://dgftcom.nic.in/exim/2000/speech.htm>

eral barriers reductions, and the rhetoric of whatever pro-globalization political forces exist center on the need to expand exports. This signals clearly that gaining concessions from other trading partners in the form of market access is a political precondition to further reductions in trading barriers. Such concessions can be obtained only through bilateral, regional or multilateral agreements.

B. The Regional Option

The traditional academic view of regional agreements is that they are dominated by multilateral liberalization based on the most favored nation principle (MFN). In fact, it is well-known that regional (or, in the limit, bilateral) agreements can generate net welfare losses when the costs of trade diversion away from third parties, and towards trade between the new regional partners, outweigh the benefits of net trade creation that could result from regional liberalization. Whether trade diversion dominates trade creation for a given trading arrangement is an entirely empirical question, but it is also widely recognized that the regional agreements that are most likely to be politically feasible are also the ones that are most likely to be characterized by a lot of trade diversion. The reason is that domestic producers are less likely to oppose agreements that would lead simply to a substitution of source countries for imports (trade diversion), rather than agreements that would substitute foreign imports for their current domestic output (trade creation). In other words, multilateral agreements based on MFN are always preferable to regional agreements, and the status quo is generally preferable to politically feasible regional agreements.²⁴

This traditional view has recently been supplemented by a potentially more favorable view of regional trading agreements (RTAs) that originated in the literature on scale effects in international trade. If the gains from trade result from scale effects rather than specialization effects, then increasing the size of the market will always yield gains. If both specialization and scale are sources of gains from trade, then the extent of the benefits of scale need to be brought into the picture when empirically evaluating RTAs. A recent literature has shown that scale effects play an important role as determinants of country performance via a “size of the market” channel:

²⁴ Vamvakidis (1999) showed empirically that while “broad” liberalization had a positive and significant effect on subsequent economic growth in the post-World War II period in a panel of countries, countries grew *slower* and had *smaller* investment rates after becoming part of regional trading arrangements.

Ades and Glaeser (1999) and Alesina, Spolaore and Wacziarg (2000) have shown that, controlling for a variety of growth determinants: 1) larger countries (where size is measured for example by the log of total GDP) grow faster; 2) more open countries (where openness is measured by the ratio of imports plus exports to GDP) grow faster; and 3) larger countries tend to benefit less from openness than smaller ones (or, conversely, closed countries benefit more from size than open ones).

Taking these ideas further, Spolaore and Wacziarg (2002) have evaluated empirically the effect on 1960-1989 average annual growth rates of per capita income from removing all trade barriers between neighboring pairs of countries. The effects are ambiguous because larger countries tend to adopt trade regimes that are more closed vis-à-vis the rest of the world – hence the scale effect of merging is partly or completely outweighed by the trade reduction effect vis-à-vis third countries. Table 9 presents the results applied to India and its immediate neighbors (the calculations are not available for China due to lack of data). The table (column III) clearly shows that the effects of a complete removal of *bilateral* trade barriers between India and any one of her neighbors on annual growth in India between 1960 and 1989 would have been quite limited – at most an increase of 0.1 percentage points of annual growth for liberalization with Pakistan or Bangladesh. The reason is that all of these neighbors are relatively small in economic terms relative to India (this also explains why the effect of removing barriers with India would have been much larger in those countries – for example Pakistan would have gained 1.35 points of annual growth).²⁵

Even the effect of a removal of trade barriers with all these neighbors simultaneously would still only have been of the order of 0.24 points of annual growth for India. This would correspond to making the current South Asian Preferential Trading Agreement (SAPTA), a complete free trade zone (minus Bhutan and the Maldives) – a highly unrealistic prospect given the current political animosity between India and Pakistan. The bottom line is that India is sufficiently large and its immediate neighbors sufficiently small (in relative economic terms) for the scale argument in favor of a regional free trade zone to be not too compelling at least as far as South Asia is con-

²⁵ Column IV presents estimates of a removal of all barriers coupled with a complete political merger, whereby the resulting country shares a weighted average of all other growth determinants of the original two countries. See Spolaore and Wacziarg (2002) for further details on this relatively complex methodology.

cerned.²⁶ This implies that, for India, the potential for significant trade diversion in the context of an expanded South Asian preferential trading agreement should remain a first order concern.

This simple analysis shows the *desirability* of the regional option for India is doubtful relative to alternatives based on the MFN principle, but even if it were not, the *feasibility* of expanding existing agreements and their likely scope in terms of increasing India's level of openness would probably be limited. A rapid overview of the main regional agreements India is party to reveals their very modest achievements so far and their limited potential for the future.

The main RTA that India is part of is the South Asian Preferential Trading Agreement (SAPTA), signed in 1993 in the context of SAARC. This has led to three rounds of trade negotiations, involving preferential concessions to the seven SAARC members (India, Pakistan, Nepal, Bhutan, Bangladesh, Sri Lanka and the Maldives). The latest round was concluded in late 1998, and a fourth round is slated to start soon. The aim of SAARC is to transform SAPTA into a South Asian Free Trade Area (SAFTA), as stated in the declaration of the 11th SAARC summit in Kathmandu (January 6, 2002). This would represent a significant extension of current SAPTA concessions, which remain relatively limited in scope. However, progress towards drafting a SAFTA treaty has been slow, and calls to speed up the completion of such a free trade area have characterized every SAARC summit declaration since the 9th summit in 1997, without apparent effect so far. Current tensions between India and Pakistan may make SAFTA difficult to put in place in the near future, but irrespective of this such a regional free trade agreement would probably have little impact on India: according to India's Ministry of Commerce 2000-2001 report, exports to SAARC countries in 2000 accounted for only 3.74% of India's exports, and imports accounted for only 0.68% of India's imports.²⁷ Trade with SAARC countries following a more ambitious trading agreement would have to increase by a large amount indeed to represent a significant rise in India's overall level of trade openness.

²⁶ Things might be quite different if the preferential arrangement involved China, as has recently been proposed (see "New Asian Trade Bloc Mooted", Financial Times, February 7th, 2002). China has also recently (2001) joined the Bangkok agreement, making this the largest preferential trade arrangement in the world in terms of population covered. It is not, however, a very "deep" agreement in terms of the extent of trade concessions involved.

²⁷ <http://commin.nic.in/doc/annual/Comm.htm>

As a result of the slow progress of SAPTA/SAFTA, India has sought other bilateral or regional agreements, leading to a proliferation of initiatives and of partially overlapping but always very limited PTAs. For example, a free trade agreement (FTA) was signed with Sri Lanka in 1998 and came into force in 2000.²⁸ This is an FTA in name more than in actuality, however, as trade concessions are far from involving a complete removal of policy barriers between the two countries. And again, Sri Lanka is so small relative to India that this agreement cannot possibly yield significant gains to India (not so for Sri Lanka).

Other RTAs that India is currently part of include the Global System of Trade Preferences among Developing Countries (GSTP), the Bangkok Agreement (BA) and Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMST-EC). The GSTP, which came into force in 1989, is a PTA bringing together 41 developing countries, 28 of which (including India) had exchanged limited trading concessions as of the end of the second round of GSTP negotiations in 1998.²⁹ BIMST-EC is a more recent organization, created in 1997, and its trade component includes very limited sectoral initiatives for granting mutual trade concessions between its 5 member states.³⁰ Finally, the Bangkok Agreement is probably the most ambitious of these three regional schemes.³¹ Signed in 1975, it initially joined Bangladesh, India, South Korea, Laos and Sri Lanka in a system of preferential trade. A significant development was the accession of China to this group in 2001, coinciding with the launch of a third round of trade negotiations. The scope of the Agreement remains however limited. While the accession of China raises the proportion of India's trade affected by the agreement (in 1995, exports to BA countries accounted for only 2.2% of India's exports, and 2.4% of her imports), it is unclear whether the third round of negotiations will expand the range of products covered by concessions. As of 1990, India had granted concessions to BA members on only 188 lines on a 6-digit tariff schedule. In other words, the Agreement so far has been of very limited scope for India.

To conclude, the reach and scope of regional arrangements involving India remains very limited. The desirability of pursuing this option for further trade liberalization is questionable from an

²⁸ <http://www.indolankafta.org/agre.html>

²⁹ <http://www.g77.org/gstp/>

³⁰ <http://www.mfa.go.th/bimstec/index.html>

³¹ <http://www.unescap.org/itid/bkkagr.htm>

economic point of view, as the likely candidates for further RTAs would not represent a significant expansion of India's international markets. Despite these limitations, India seems to be actively pursuing the regional option. The reason for this is familiar: domestic political resistance to such arrangements is more subdued than resistance to MFN liberalization. Ironically, this also signals that these proposed arrangements would be characterized by much trade diversion, and therefore would not be economically desirable. No miracles should be expected from them.

C. The Multilateral Option

Economic theory states that the benefits of trade liberalization in terms of allocative efficiency are maximized if the reduction in trade barriers follows the most favored nation principle, whereby concessions extended to one trading partners are automatically extended to all others. Political theory tells us that liberalization is easier to achieve if it is characterized by reciprocity, i.e. if concessions are exchanged for greater market access. The interests of exporters that stand to benefit from barriers reduction can then be pitted more easily against those of domestic producers potentially hurt by imports. As a result of these ideas, multilateral liberalization is generally recognized as more economically desirable than its regional alternative and more politically feasible than its unilateral alternative. As described above, the rhetoric of exports as an engine of growth seems more prevalent in Indian political discourse than the rhetoric of barriers reduction as a way to improve allocative efficiency. This provides evidence that a reciprocal multilateral approach to liberalization would be more politically realistic than another episode of unilateral barriers reduction.

Our analysis in Section 2 revealed that China was a much more open economy than India. Ironically, until recently China was not part of the WTO and opened up to trade through unilateral liberalization, while India, a founding Contracting Party of GATT and a founding member of WTO, remained more closed. This difference can perhaps be traced to radically different political system – one, the Chinese, which could abstract more easily from responsiveness to protectionist lobbies, the other, India's democracy, more subject to the influence of concentrated interests, in both industry and agriculture, that stand to lose from liberalization.

Indeed, India's long history with multilateral institutions does not mean that agreements reached in the context of successive rounds of multilateral trade negotiations were binding constraints on India's trade policy. In fact, tariff bound rates negotiated by India during the Uruguay Round are uniformly higher than India's existing statutory tariff rates. They were, however, also generally lower than the base tariffs prevailing before the Round, but those were brought down as a result of unilateral liberalization in the early 1990s rather than as a direct result of multilateral trade talks.³² At any rate, the bound rates aren't binding. Unilaterally setting tariffs below very high negotiated GATT/WTO bound rates allowed India the flexibility of raising barriers in a discretionary fashion should political expediency so require. If successful, future concessions made by India in the context of the upcoming Doha Round will be characterized by bound rates that are lower than current statutory tariff rates.

Whether India will be able to gain greater market access, in particular to industrial countries' textile and agricultural markets, remains to be seen. The recent passage of the Farm Bill in the US Congress and its subsequent signing into law on May 13, 2002, by substantially raising US agricultural subsidies, is likely to lead to similar increases in Europe and other developed countries, and to have a deleterious effect on upcoming trade negotiations. The Doha Declaration of November 2001, in its section on agriculture, had called for "substantial improvements in market access for developing countries; reductions of, with a view to phasing out, all forms of export subsidies (...)". This goal, already ambitious at the time, is now much farther from reach. The US Farm Bill will make it politically very difficult for developing countries to agree to concessions of their own on other topics.

Despite this and other substantial obstacles to the success of the Doha Round, India has little choice but to actively engage in these negotiations, because it constitutes the best option for further opening up the Indian economy and reaping the benefits described in Section 3. Srinivasan (2001 and 2002) and Tendulkar and Srinivasan (2002) have admirably reviewed the salient issues confronting developing countries, and India in particular, at the upcoming multilateral negotiations of the Doha Round.³³ Creating a list of priorities on these issues and taking a leadership

³² Uruguay Round bound rates and preexisting base rates for India can be downloaded from: <http://commin.nic.in/doc/indsched.htm>

³³ It would be redundant to cover the same ground again here, except to make a few brief additional points.

role among developing countries in addressing them would give India some of the credibility it lacks to request market access from others. After all, India does not herself grant much market access to the world's great trading nations. Developing countries in general and India in particular should be prepared to concede significant reductions in their barriers in exchange for a softening of industrial countries' own barriers, in particular to agricultural imports. Both of these would benefit the developing world.

As suggested in Srinivasan (2001 and 2002), among the priorities on India's list of objectives for the Doha Round should be the following, in order of importance.³⁴

1). Obtaining greater market access, in particular in agriculture, but also in textiles and other manufactured goods. For example, India should closely monitor industrial countries' likely policy substitutes to the phasing out of MFA quotas by 2005, in order to guarantee that these quotas are not replaced by less visible domestic subsidies, anti-dumping or countervailing duties, etc. As suggested above, developing countries face an uphill battle on agriculture, and recent developments on this issue have the potential of endangering the new round of multilateral negotiations itself. Agricultural liberalization in industrial countries should be the prime goal of developing countries in these trade talks.

2). Avoiding agenda extensions to labor standards and the environment. An extension of the WTO mandate and multilateral negotiations to these issues has the potential to seriously affect India's economic development, mostly by slowing it down. As signaled in the Doha Declaration, a limited extension of the WTO mandate to environmental issues is probably unavoidable, but an extension to core labor standards seems more realistically avoidable. Any extension would be regrettable, as it would dilute the core mission of the WTO by creating expanded opportunities for political logrolling that could limit the extent of reductions in trade barriers.

3). Modifying the TRIPS agreement to better allow developing countries to utilize existing intellectual property, in particular in the pharmaceutical industry, for the purpose of reaching public

³⁴ Again, this is not an exhaustive list. See Srinivasan and Tendulkar (2002) and Srinivasan (2002) for a much more complete coverage of the main issues confronting India at the WTO.

health goals such as the fight against AIDS.³⁵ Among the priorities of developing countries, this may be one of the most short term/self-interested ones. The reason is that, with greater ease of cross-border movements of ideas and intellectual property, a mechanism for the global protection of intellectual property is essential for safeguarding the incentives to accumulate this knowledge. The short term gains of better public health (and other benefits from easier access to proprietary intellectual content) should be carefully weighted against the long term costs of reduced incentives to create this knowledge. One advantage of including TRIPS in the framework of the WTO is that disputes could be handled using the WTO's dispute resolution mechanism, a mechanism that does not exist in other international organizations such as the World Intellectual Property Organization. Criticism of this inclusion centers on the fact that TRIPS is not part of the WTO's core mission (Srinivasan, 2002), that a universal system of patents with a uniform duration of 20 years is not the optimal way to protect intellectual property, and that TRIPS rules are too constraining on developing countries, especially when it comes to pharmaceutical drugs. Whether optimal or not, withdrawing TRIPS from the WTO would not be a realistic objective. It is unclear whether seeking to weaken some of its provisions would, given the likely reluctance of industrialized countries.

India was initially reluctant to embrace a new round of trade negotiations. This reluctance stemmed from a perception that the Uruguay Round had been characterized by asymmetric concessions between the developing and the developed world. Asymmetric concessions may be better for developing countries than the status quo might have been, but leaving this aside, our analysis of the various options for trade liberalization has identified the multilateral option as both the most desirable and the least infeasible politically. The range of issues that the Doha Round will have to confront is nothing less than daunting, and the obstacles to agreement seem almost insurmountable, but this new round of trade talks constitutes a historic opportunity for India to further integrate herself into the world trading system.

³⁵ See Srinivasan and Tendulkar (2002) and Srinivasan (2002) for an in depth arguments against the inclusion of TRIPS into the WTO mandate.

5. Conclusion

India has experienced bouts of increased growth when it has opened up to trade, and weaker growth when liberalization efforts have wavered. There is still a fantastic reservoir of growth waiting to be tapped through increased trade liberalization. Yet India is so large that there is complacency and a feeling that India can go it alone. Interest groups that have a stake in the status quo effectively block efforts at liberalization. Prospects for unilateral liberalization are dim. Regionalism is fraught with problems. The main hope for greater openness is India's active participation in the multilateral trading system. A multilateral agreement that would bind India's barriers below their current levels would constitute an external force guaranteeing the credibility and durability of reforms. But in the game of international trade negotiations, India will have neither the credibility nor the commitment to free trade that will easily allow her to take a leadership role among LDCs in fostering greater openness on the part of industrial countries. Recent policy developments in the industrialized world, such as the US Farm Bill, the steel tariffs and the resulting retaliatory escalation that is occurring, seriously put in question the commitment of these countries to granting market access to LDCs. India's quest for greater openness therefore faces enormous obstacles.

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Appendix 1 – Main Parties’ Attitudes to Openness

A. National Parties

1. Bharatiya Janata Party (BJP)

1999 general elections results:

% of votes polled: 23.75%

Number of seats won: 182

From the 1999 Election Manifesto, <http://www.bjp.org/pomi.htm>

- We will continue with the reform process, give it a strong Swadeshi thrust to ensure that the national economy grows on the principle that India shall be ‘built by Indians’;
- Swadeshi is not reinventing the wheel. It means that we will facilitate the domestic industry to gain enough muscles to compete with the multinationals in the local and global markets. We want domestic companies to flourish and acquire a Trans National status. At the same time the country cannot do without FDI because besides capital stock it brings with it technology, new market practices and most importantly employment.

From the BJP website, “The Concept of Swadeshi” Sri Ashok Chowgule.

<http://www.bjp.org/pomi.htm>

1. The concept of SWADESHI can be best defined as one that keeps the interests of the country supreme. It was in this context that right from the time of the Jana Sangh the philosophy has been to propagate full internal liberalization and selective external liberalization.

RSS (*the political organization that is part of the BJP party and a broader Hindu religious and cultural movement*)

From the RSS Resolution, March 1999, <http://www.rss.org/march1999.htm>

- ...the WTO is only to further the interests of the developed countries at the cost of the developing countries.
- The A.B.P.S. (RSS administration) urges the Govt. to keep these aspects in mind while re-negotiating the provisions of the W.T.O. and bringing about appropriate amendments in them so as to create an egalitarian and exploitation-free system conducive to the holistic life-style of a world family in place of cut-throat competitive style of world market. The A.B.P.S. appeals to all political parties to rise above partisan considerations, evolve a consensus in the defense of sovereignty, and educate the people about the hazards of unevenly balanced W.T.O. functioning.

2. Indian National Congress (Congress, INC)

1999 general election results:

% of votes polled: 28.30%

Number of seats won: 114

From the party's 1999 Election Manifesto:

<http://congresssandesh.com/manifesto/1999/manifesto11.html#iti>

- All policy and procedural barriers to faster exports must be dismantled. Exports create employment and greatly assist in the diffusion of prosperity but high transaction costs and restrictive policies in areas like the small-scale sector are preventing India from increasing her exports and generating new employment. Government and industry will work closely together to help prepare a plan of action to cope with the new and emerging challenges in the international trading system
- India will continue to meet all her international treaty and multilateral agreement obligations in a responsible and time-bound manner and will continue to work to use the WTO to gain additional market access for products and services of interest to India. It will proactively participate in all existing and proposed global discussions with a view to influencing the agenda and enhancing its bargaining strength. It will work with other countries to push for faster dismantling of controls on trade in textiles and agriculture. The objective of tariff policy will be to reach levels prevalent in south-east and East Asia in the next two to three years and global levels shortly thereafter.
- India will continue to proactively encourage investment from foreign companies and overseas Indians.

3. Communist Party of India-Marxist (CPI-M)

1999 general election results:

% of votes polled: 5.40%

Number of seats won: 33

From the Party's Program adopted in 1964 and updated in 2000, <http://cpim.org/>

- The concentration and internationalization of finance capital has reached unprecedented heights in the current phase of capitalism. Globally mobile finance capital is assaulting the sovereignty of nations, seeking unimpeded access to their economies in pursuit of super profits. The imperialist order in the service of this speculative finance capital breaks down all barriers for its free flow and imposes the terms favorable to such capital in every part of the globe. The International Monetary Fund, the World Bank and the World Trade Organization are the instruments to perpetuate this unjust post-colonial global order. The new hegemony of speculative finance capital results in sluggish growth in the advanced capitalist countries. For the third world it spells a vicious cycle of intensified exploitation and growing debt. The

terms of trade, industrial and agricultural production, technology flows, and the services sector in the lesser-developed capitalist countries are all forced to dovetail the interests of imperialist capital

- The liberalization policies which followed the exhaustion of the State-sponsored capitalist development have led to the agricultural and rural development policies taking a dangerous and reactionary turn in the last decade of the twentieth century.... Under the WTO regime, all quantitative restrictions on the imports of agricultural commodities have been removed which seriously affects the livelihood of farmers.
- The imperialist driven globalization and the policies of liberalization adopted by the Indian ruling classes have heightened the imperialist penetration in all spheres of our country. The opening up of the economy to the multinational corporations and imperialist finance capital has been the basis for the penetration and influencing of all spheres of Indian society. The bureaucracy, the educational system, the media and the cultural spheres are being subjected to imperialist penetration.

From the party's website. " Press Statement, November 16, 2001." <http://cpim.org/>

- Despite some resistance put up by the Indian delegation and some other countries, the WTO ministerial level negotiations at Doha constitutes another setback for the developing countries.

4. Janata Dal (Secular and United) (JD(U) and JD(S))

1999 general elections:

% of votes polled: 4.01%

Number of seats won: 22

From the JD(U) 1998 Election Manifesto, <http://meadev.nic.in/elec98/manift/jd.htm>. I could not find a policy statement from Janata Dal (Secular). However, it is in the process of merging with Janata Dal (United).

- To ensure the continuance of economic liberalization but to keep into account the fact that markets are for the people, not vice versa
- To confine foreign direct investment to the infrastructure sector
- To adopt a balanced approach towards globalization to foster domestic industry
- To accord top priority to cottage and small scale industries, and allow certain items exclusively for the sector
- Full convertibility of the Rupee to be achieved by 2002

5. Bahujan Samaj Party (BSP)

1999 general election results:

% of votes polled: 4.16%

Number of seats won: 14

The BSP was established during the 1980s and is dedicated to representing strictly the Dalit class (formerly called untouchables) and its causes. Its website (<http://www.dalitstan.org/bahujan>) does not contain any information regarding its position on trade liberalization.

6. Communist Party of India (CPI)

1999 general election results:

% of votes polled: 1.48%

Number of seats won: 4

From the party's Political Resolution, adopted March 2002, (<http://www.cpoindia.org/documents.htm>)

- The Party must, along with other left and democratic parties, mass organizations, and other social action groups carry on the People's Movement against globalization and other policies of liberalization and privatization; it must fight for an alternative path of development;
- The Party must vigorously participate in the struggle to defend the people's livelihood, of workers, and employees, of farmers and agricultural workers, of people below the poverty line; against job loss and retrenchment; against the WTO dictates being implemented (in advance) by the government; against liquidation of the PDS; against price rise and new impositions in the Budget;

B. Regional Parties (more than 10 seats in Lok Sabha)

7. Telugu Desam (TDP)

1999 general election results:

% of votes polled: 3.65%

Number of seats won: 29

*From the party's 1999 Election Manifesto, <http://www.telugudesamparty.org/>
The Manifesto does not directly mention the party's position on trade or the WTO. The only related reference is the following:*

- Make efforts to utilize all the available resources in the state and improve productivity and employment opportunities, besides attracting investors for rapid industrialization

8. Samajwadi Party (SP)

1999 general election results:

% of votes polled: 3.76%

Number of seats won: 26

From the “Objectives” on the party’s website, <http://www.samajwadi-party.com>

- Party believes in Democratic Socialism and, opposes uncontrolled entry of multinational companies to India

9. Shivsena (SHS)

1999 general election results:

% of votes polled: 1.56%

Number of seats won: 15

From the party’s website: <http://www.shivsena.org/policy.htm>

Note that the party’s policies do not specifically address trade liberalization and the WTO.

- To develop a strong, upright and cultured youth, aware of responsibilities and duties towards the motherland and the society.
- To develop a strong youth force which shall be always willing to do any sacrifice for the Motherland.
- To develop a feeling that social service and not politics is the ultimate objective.
- To bring awareness among people to fight against antisocial and anti- national forces, corruption, maladministration and red-tapism.
- To remove depression from the mind of young generation and to blow-in confidence that they can fight against the evils of unemployment, illiteracy and poverty. To provide education and training in various fields of life.
- To abide by laws that protect national interests. To insist upon implementation of uniform Civil Code throughout the nation.
- To strengthen ties of brotherhood, to develop cohesion and harmony among people.

10. Dravida Munnetra Kazhagam (DMK)

1999 general election results:

% of votes polled: 1.73%

Number of seats won: 12

From the party’s 1999 Election Manifesto, <http://www.thedmk.org/histmain.html>.

- We are of the view that the economic policy to be pursued by us should consist of controlling the price-line, reducing the fiscal deficit, ensuring faster growth in industry and agriculture,

larger allocations for social sector and thereby creating educational institutions in large numbers, needed health facilities, employment and poverty-abolition. The D.M.K. welcomes the indication inscribed in the manifesto of the NDA to find suitable middle way between public and private sectors. It is not a question of capitalism or socialism or it is not a question of market or less State; our aim is to create a better society, where the citizens can demand and attain all sorts of public goods as and when required. Our ultimate aim is to ensure dignity for all.

11. All India Anna Dravida Munnetra Kazhagam (AIADMK)

1999 general election results:

% of votes polled: 1.93%

Number of seats won: 10

<http://www.aiadmkindia.org/em2001b.html#smallindustry> (the party's 2001 Election Manifesto: The Manifesto's comments regarding trade liberalization or the WTO are extremely limited.

- The party pledges....to achieve economic renaissance in the State (of Tamil Nadu) by introducing advanced state-of-the-art techniques in all spheres of activity,
- Steps will be taken for promoting a *Tamil N.R.I. Consortium*' comprising the entire Tamil community living all over the world, with the object of mobilizing foreign investments from developed countries and aid from the World bank for the economic development of Tamil Nadu.

12. BJD (Biju Janata Dal)

1999 general election results:

% of votes polled: 1.20%

Number of seats won: 10

I was unable to find any information on the view of this regional party (from Orissa) on openness.

Appendix 2: 2002-2007 Exim Policy: Overview (<http://dgft.delhi.nic.in/>)

“The principal objectives of this Policy are:

- (i) To facilitate sustained growth in exports to attain a share of at least 1% of global merchandise trade.
- (ii) To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.
- (iii) To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.
- (iv) To provide consumers with good quality goods and services at internationally competitive prices while at the same time creating a level playing field for the domestic producers.”

Table 1 - Mean Weighted and Unweighted Tariffs, India and China

	Year	Mean tariff (%)	Std. Deviation of Tariff rates (%)	Weighted mean tariff (%)
		All products		
China	1992	42.9	32.1	40.6
	1997	17.8	13.2	20.9
	2000	16.3	10.7	14.7
India	1990	81.8	39.4	83.0
	1997	30.0	14.0	27.7
	1999	32.5	12.3	28.5
		Primary products		
China	1992	36.2	26.2	22.3
	1997	17.8	18.2	19.9
	2000	16.5	n.a.	18.8
India	1990	74.1	38.4	49.5
	1997	25.7	22.6	22.6
	1999	30.9	n.a.	23.2
		Manufactured products		
China	1992	44.9	33.4	46.5
	1997	17.8	11.2	21.2
	2000	16.2	n.a.	13.7
India	1990	84.1	39.4	93.6
	1997	31.3	9.8	29.5
	1999	32.8	n.a.	32.7

Source: World Development Indicators (various years).

Table 2 - Sectoral Manufacturing Tariff Schedules – 3-Digit Level

ISIC Code	sector	1990	1992	1997	1999*
311	Food products	85.15	47.47	28.32	31.47
313	Beverages	190.71	181.90	124.76	116.67
314	Tobacco	100.00	65.00	40.00	40.00
321	Textiles	93.88	62.08	38.05	38.36
322	Wearing apparel, except footwear	99.84	64.98	39.88	39.92
323	Leather products	82.13	55.32	19.36	29.79
324	Footwear, except rubber or plastic	100.00	65.00	40.00	40.00
331	Wood products, except furniture	64.57	60.11	30.21	33.19
332	Furniture, except metal	100.00	65.00	40.00	40.00
341	Paper and products	90.48	58.45	23.47	31.94
342	Printing and publishing	59.26	24.07	20.74	22.96
351	Industrial chemicals	77.09	63.43	29.07	33.99
352	Other chemicals	82.75	58.90	31.60	35.30
353	Petroleum refineries	49.78	48.70	30.00	33.26
354	Miscellaneous petroleum and coal products	70.00	53.75	27.50	28.75
355	Rubber products	95.00	63.37	39.26	40.00
356	Plastic products	100.69	64.90	31.67	35.20
361	Pottery, china, earthenware	85.71	65.00	37.14	37.86
362	Glass and products	93.03	64.10	39.34	39.26
369	Other non-metallic mineral products	84.75	62.85	38.42	38.04
371	Iron and steel	84.55	64.77	28.55	33.97
372	Non-ferrous metals	73.93	58.28	26.25	30.82
381	Fabricated metal products	75.00	59.87	29.83	32.54
382	Machinery, except electrical	78.06	48.70	22.95	26.89
383	Machinery, electric	81.95	57.73	31.29	31.48
384	Transport equipment	62.76	52.72	31.12	35.61
385	Professional and scientific equipment	73.63	57.99	28.47	30.61
390	Other manufactured products	102.51	57.99	34.56	35.03
	India average	87.04	62.59	35.06	37.25
	India standard deviation	24.57	24.89	18.63	16.17
	China average	n.a	51.16	20.44	20.42
	China standard deviation	n.a	30.29	12.85	12.86

* China figure for 1998

Table 3. Nontariff Barriers Imposed on India's Imports, 1996 - 2001
(Number of tariff lines, 10 digit level*)

Type of NTB	1.4.1996	1.4.1997	1.4.1998	1.4.1999	1.4.2000	1.4.2001
Prohibited	59	59	59	59	59	59
Restricted	2,984	2,322	2,314	1,183	968	479
Canalized	127	129	129	37	34	-
SIL**	765	1,043	919	886	226	-
Free	6,161	6,649	6,781	8,055	8,854	9,611***
Covered (%)	38.98%	34.83%	33.53%	21.18%	12.69%	5.30%
Total	10,096	10,202	10,202	10,220	10,141	10,149

* As per Harmonized System of India Trade Classification (HS-ITC) classification of export & import.

** Special Import Licenses.

** Including 29 tariff lines shifted to State Trading.

Source: DGFT, Ministry of Commerce (Economic Survey of India, 2002)

Table 4. Antidumping – 15 top initiators, 1990-2001

1990 -1994		1995- 1999		2000-2001	
User	AD Measures Initiated	User	AD Measures Initiated	User	AD Measures Initiated
Australia	260	EU	186	United States	121
United States	219	United States	134	India	116
EU	183	India	132	Argentina	71
Mexico	139	South Africa	129	EU	60
Canada	99	Australia	101	Canada	46
Brazil	67	Argentina	96	Australia	38
Argentina	60	Brazil	68	Brazil	27
New Zealand	30	Canada	56	South Africa	27
Turkey	28	Rep. of Korea	41	Turkey	21
Poland	24	Mexico	37	Mexico	12
Rep.of Korea	19	Indonesia	34	New Zealand	11
South Africa	16	Venezuela	28	Colombia	9
India	15	New Zealand	24	Egypt	7
Colombia	14	Egypt	24	Indonesia	7
Austria	9	Peru	22	Taiwan	6
Other	72	other	122	Other	32
Total	1254	total	1234	Total	611

Source: WTO Rules Division database.

Table 5. Antidumping – 15 top affected parties, 1990-1999

1990-1994		1995-1999		2000-2001	
Affected parties	# AD measures	Affected parties	# AD measures	Affected parties	# AD measures
China	149	China	165	China.	90
United States	105	Rep. of Korea	98	Rep. of Korea	40
Rep. of Korea	73	United States	77	Taiwan	35
Brazil	65	Taiwan	61	Thailand	28
Japan	63	Japan	58	Indonesia	26
Taiwan	52	Germany	50	United States	25
Germany	49	Indonesia	48	India	22
Thailand	37	India	47	Brazil	21
India	35	Russia	45	Japan	21
France	35	Thailand	43	EU	17
UK	32	Brazil	42	Russia	17
Italy	27	Ukraine	27	South Africa	16
Russian Fed.	27	France	26	Malaysia	14
Indonesia	23	Spain	25	UK	14
Malaysia	22	Italy	23	Germany	13
Other	460	Other	377	Other	212
Total	1254	Total	1234	Total	611

Source: WTO.

Table 6 - Growth of merchandise trade, India and China

	1980–90	1990–98	1980–90	1990–98
	Export volume		Import volume	
China	13.9	10.7	15.8	9.4
India	-3.4	2.7	-2.8	5.4
	Export value		Import value	
China	12.9	15.8	13.6	13.5
India	7.3	10.4	4.3	10.3

(Average annual % growth)

Source: WDI.

Table 7 - Structure of Imports and Exports, India and China

		Exports		Imports	
		China	India	China	India
Merchandise	1990	91.53	79.59	92.84	79.91
	1999	89.17	72.40	84.39	72.18
Of which:					
Food	1990	13	16	9	3
	1999	6	17	4	9
Agricultural Raw Materials	1990	3	4	6	4
	1999	1	2	4	3
Fuels	1990	8	3	2	27
	1999	2	0	5	20
Ores and Metals	1990	2	5	3	8
	1999	2	2	5	6
Manufactures	1990	72	71	80	51
	1999	88	76	80	54
Commercial Services	1990	8.47	20.41	7.16	20.09
	1999	10.83	27.60	15.61	27.82
Of which:					
Transport	1990	47.1	20.8	78.9	57.5
	1999	10.2	13.5	25.8	40.6
Travel	1990	30.2	33.8	11.4	6.6
	1999	59.5	21.6	35.4	11.7
Other	1990	22.7	45.4	9.7	35.9
	1999	30.3	64.9	38.8	47.7

Source: World Development Indicators, 2001.

Table 8 - Trade and Growth: Estimates from Recent Contributions to the Empirical Literature

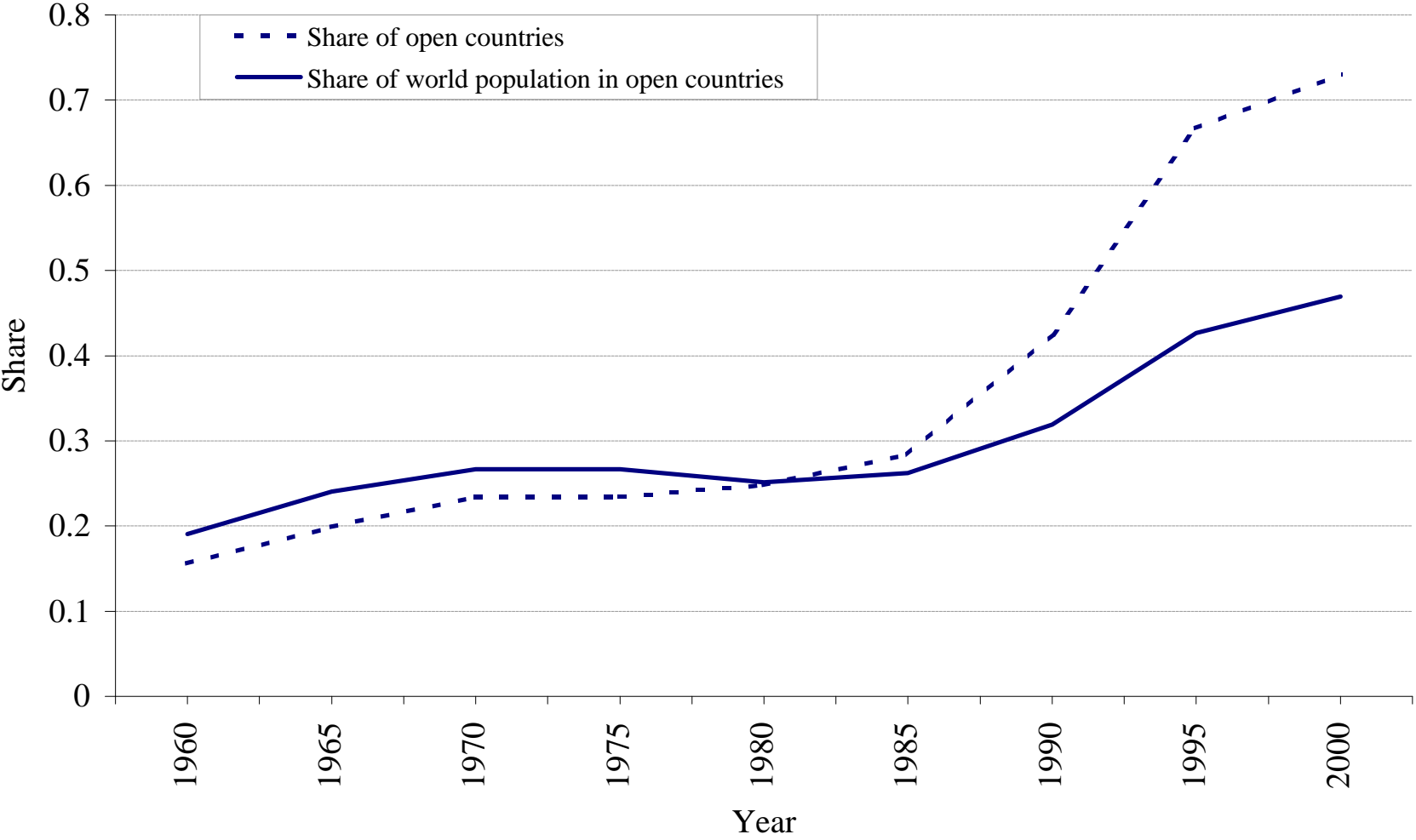
Study	Effect on	Effect of	Estimated effect
Sachs and Warner (1995)	Growth of per capita GDP (% points)	Openness dummy variable	2.45
Wacziarg (2001)	Growth of per capita GDP-LDCs and industrial (% points)	Trade policy component of trade to GDP ratio	0.071
	Growth of per capita GDP-LDCs only (% points)	Trade policy component of trade to GDP ratio	0.085
Frankel and Romer (1999)	Per capita GDP level (% increase)	Trade to GDP ratio	1.97
Edwards (1993)	Growth of TFP (% points)	Tariffs (%) – 1980s	-0.045
	Growth of TFP (% points)	Quantitative Restrictions (%) (coverage rate) – 1980s	-0.005
	Growth of TFP (% points)	Black Market Premium (%) – 1980s	-0.022

Table 9 – Country-Specific Merger Estimates 1960-1989.

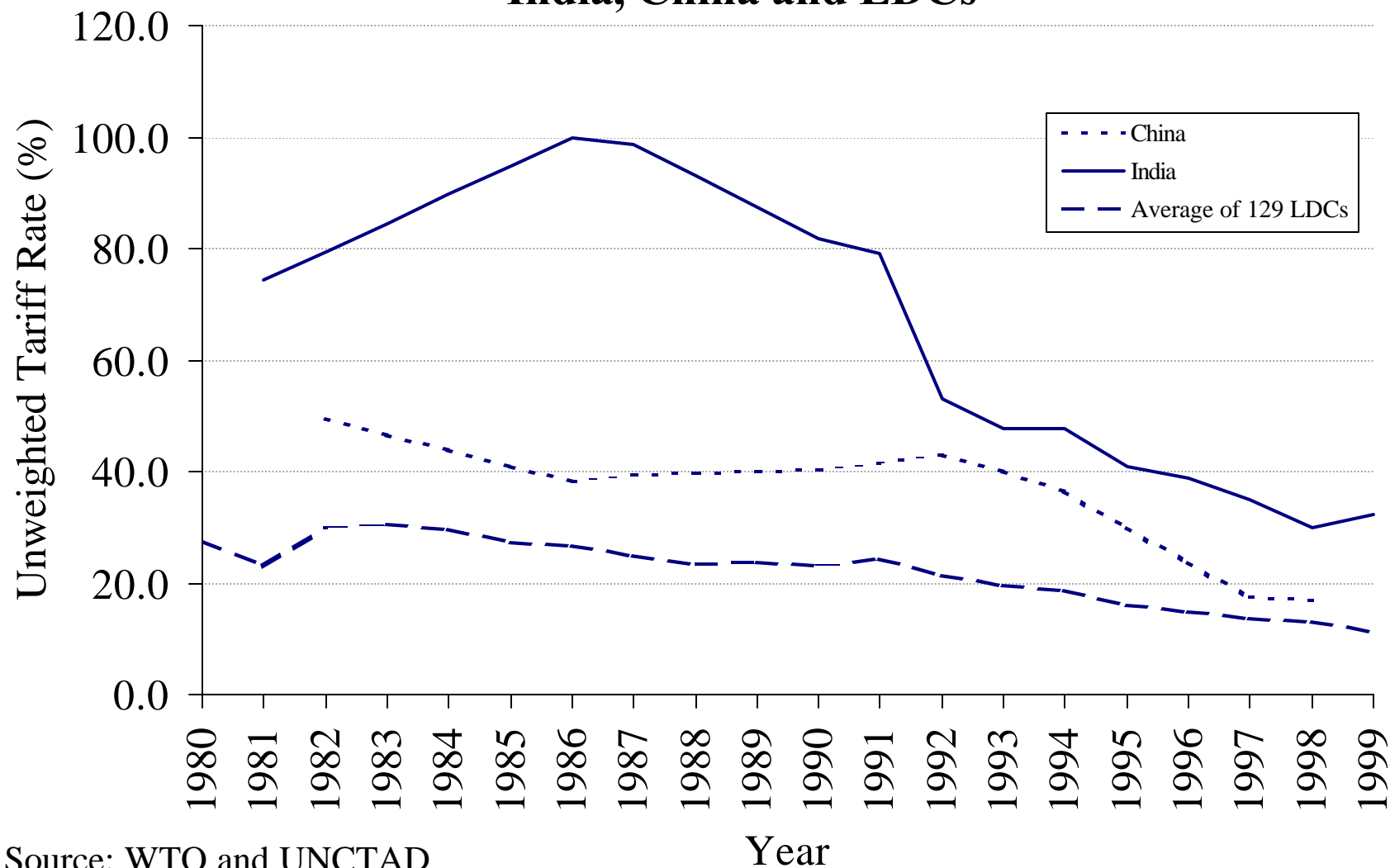
I	II	III	IV
Benefit to:	From merging with:	Change in growth (trade merger)	Change in growth (political merger)
India	Bangladesh	0.107	-0.049
	Nepal	0.031	-0.004
	Pakistan	0.101	0.148
	Sri Lanka	0.032	0.028
Bangladesh	India	1.048	2.566
Nepal	India	1.535	3.526
Pakistan	India	1.354	1.190
Sri Lanka	India	1.180	1.565

Source: Spolaore and Wacziarg (2002)

Figure 1 - Openness in the World (Sachs and Warner Criteria) - 141 countries.

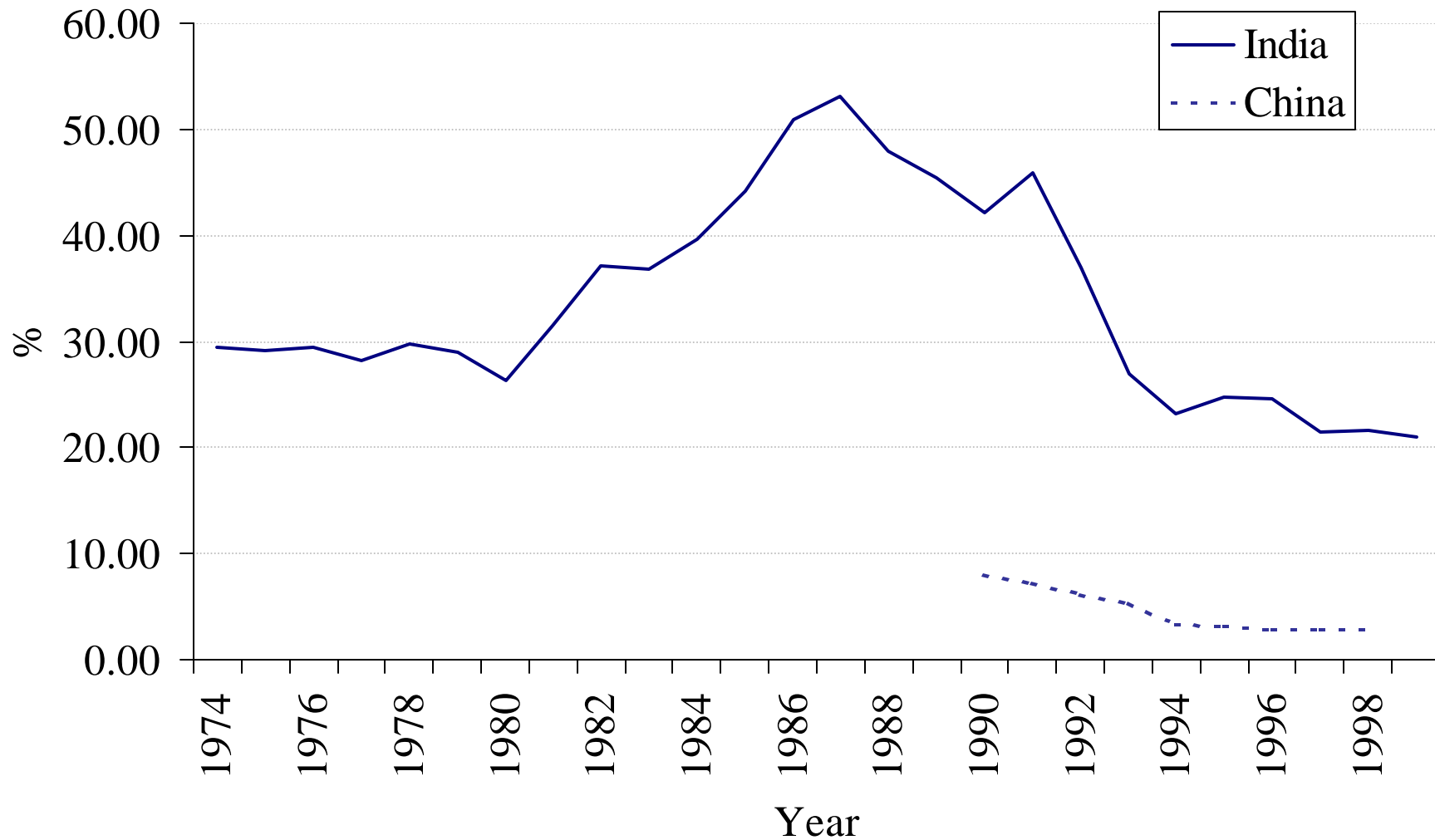


**Figure 2 - Trends in Average Unweighted Tariff Rates,
India, China and LDCs**



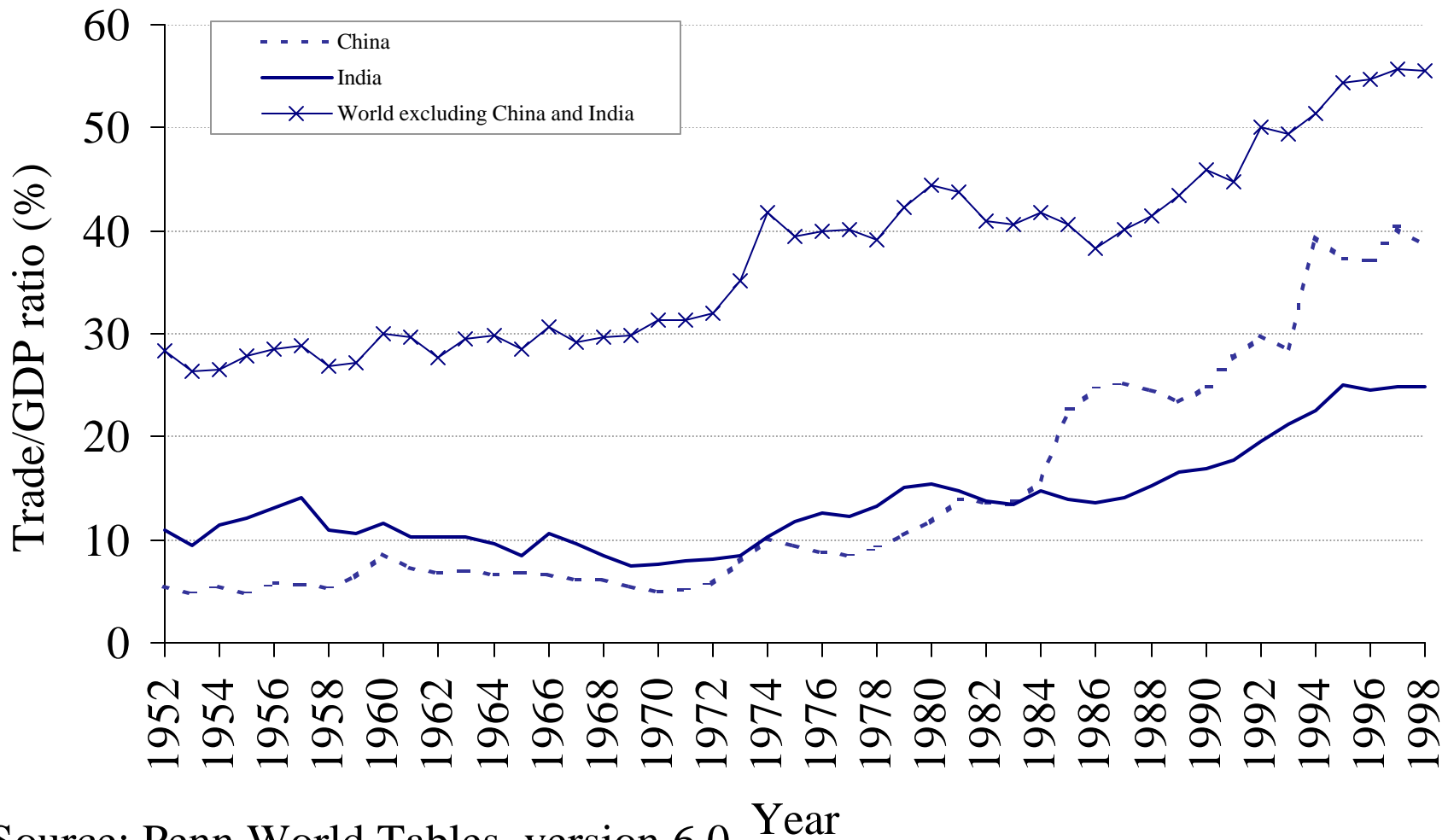
Source: WTO and UNCTAD

Figure 3 - Import Tax Receipts as a Share of Total Imports, India and China, 1974-1998.



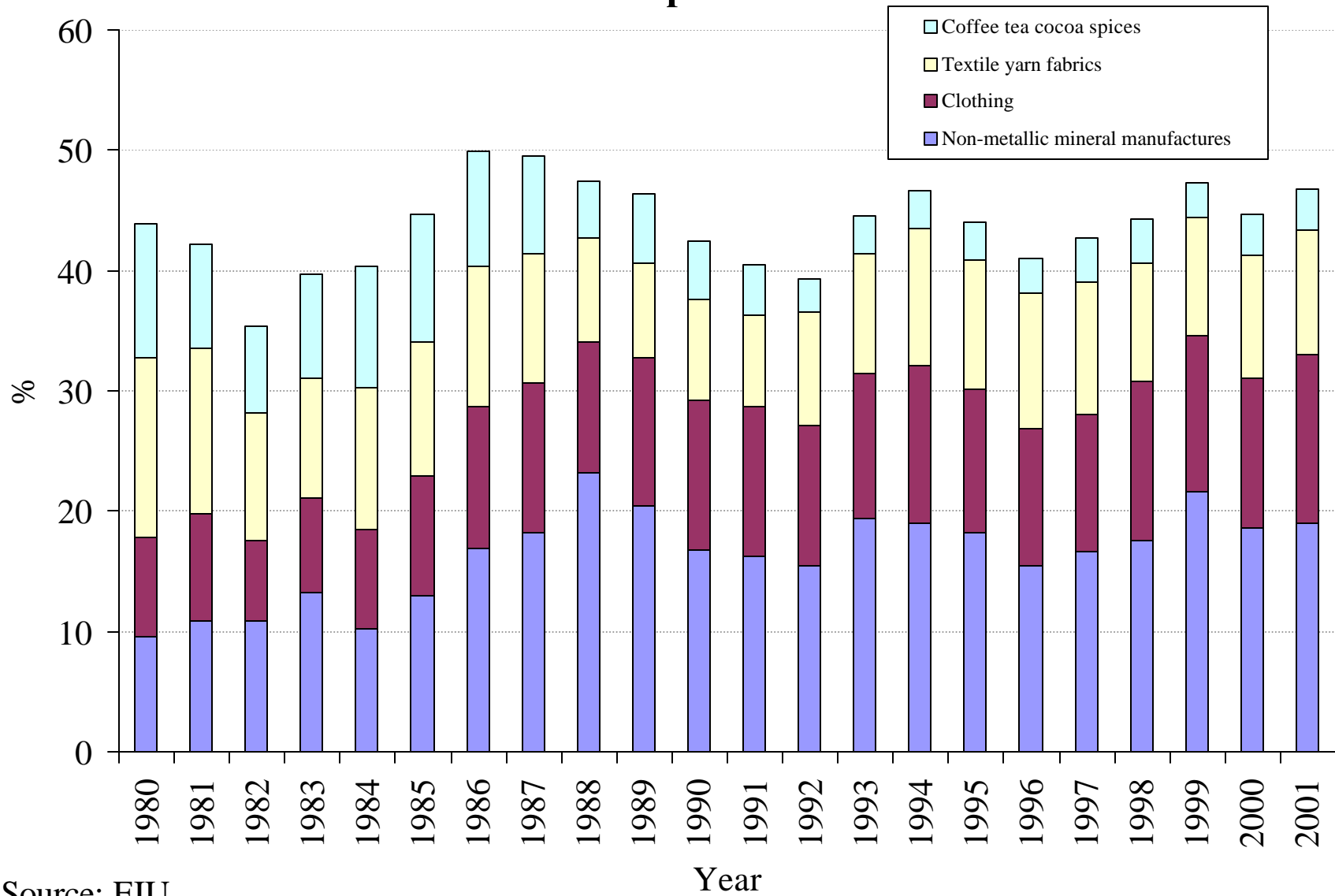
Source: World Development Indicators (2002)

**Figure 4 - Ratio of Imports plus Exports to GDP,
1952-1998, India, China and Rest of the World**



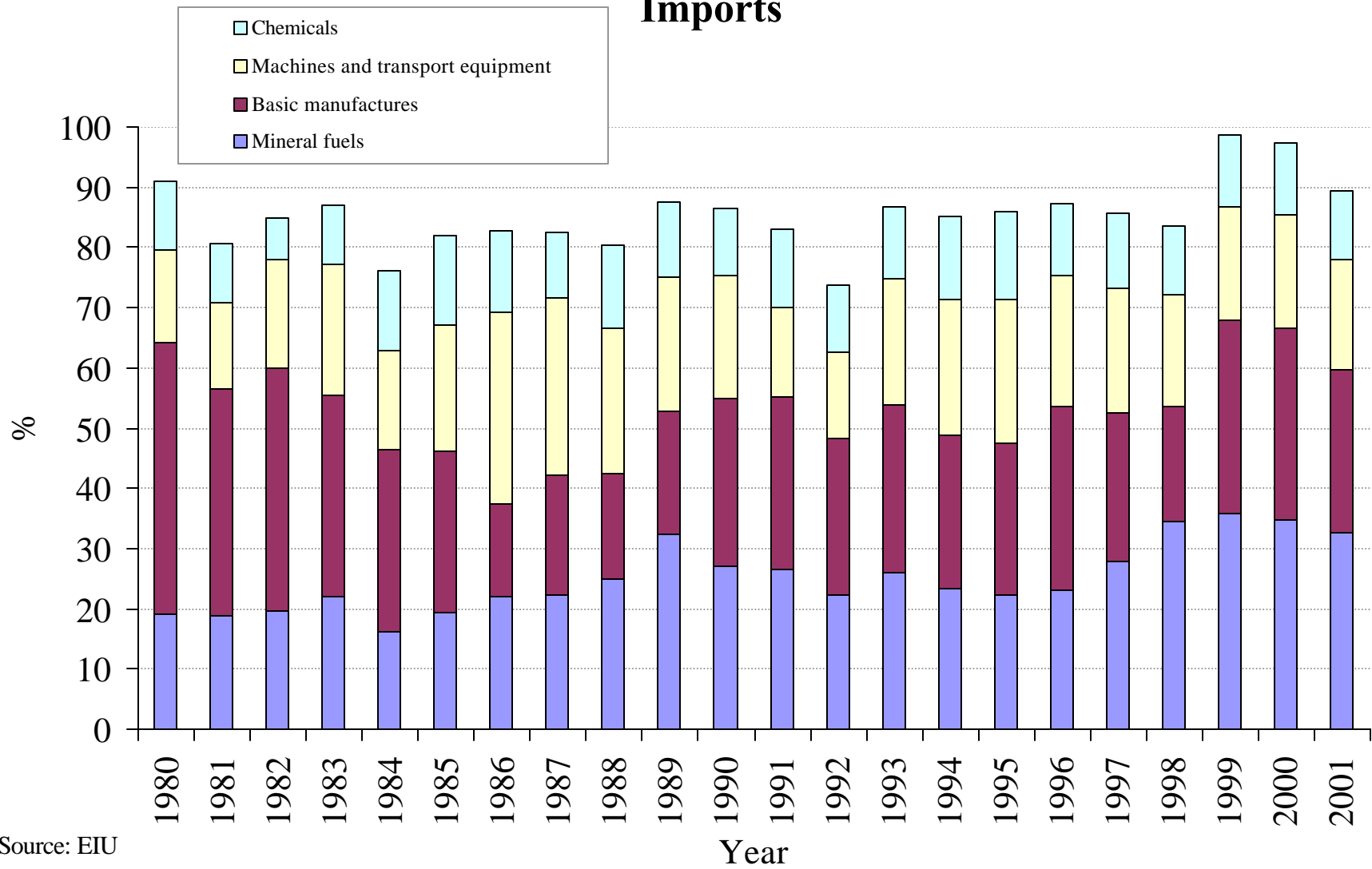
Source: Penn World Tables, version 6.0

Figure 5 - Four Main Exports of India, % of Total FOB Exports



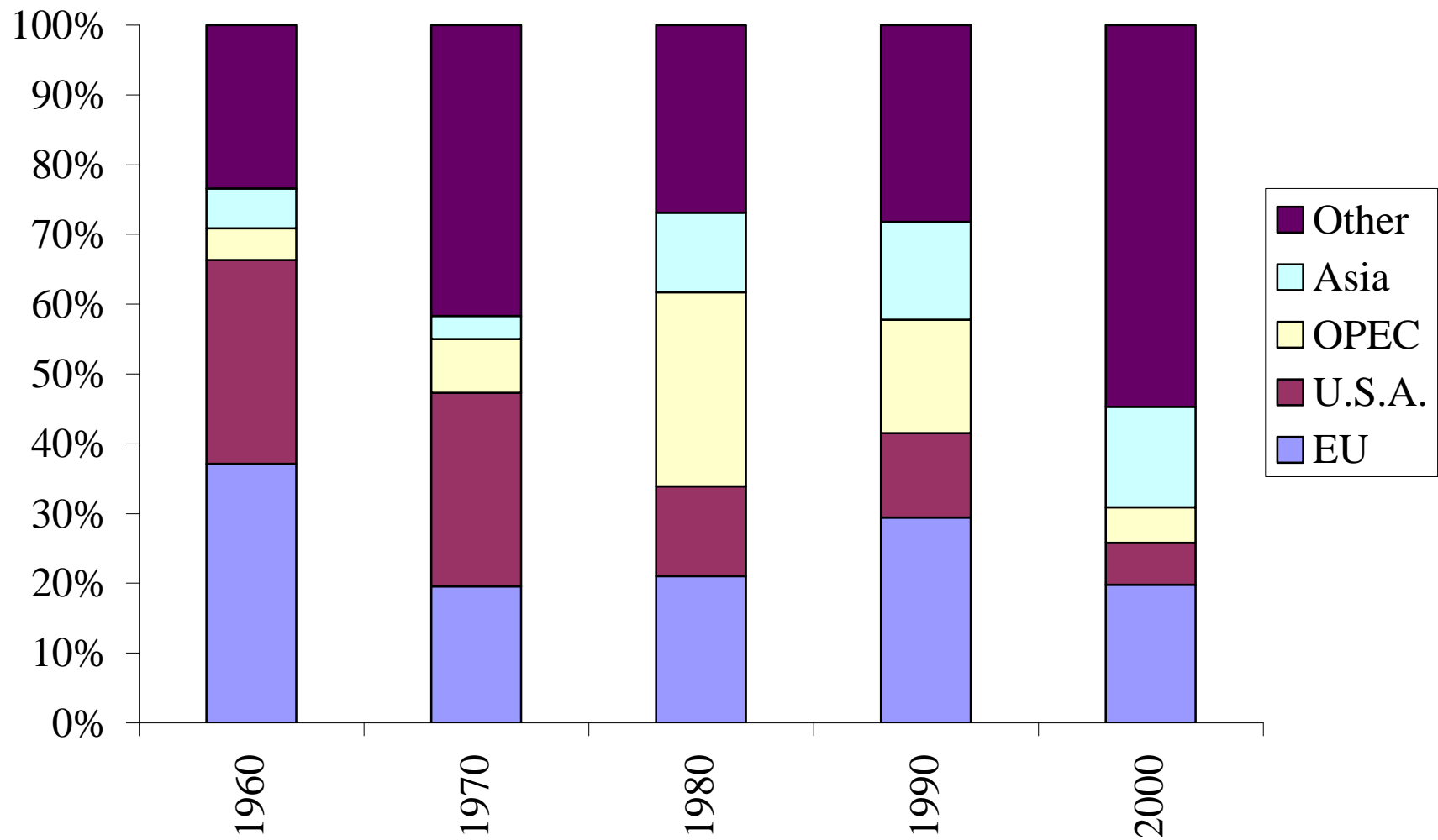
Source: EIU

Figure 6 - Four Main Imports of India, % of CIF Total Imports



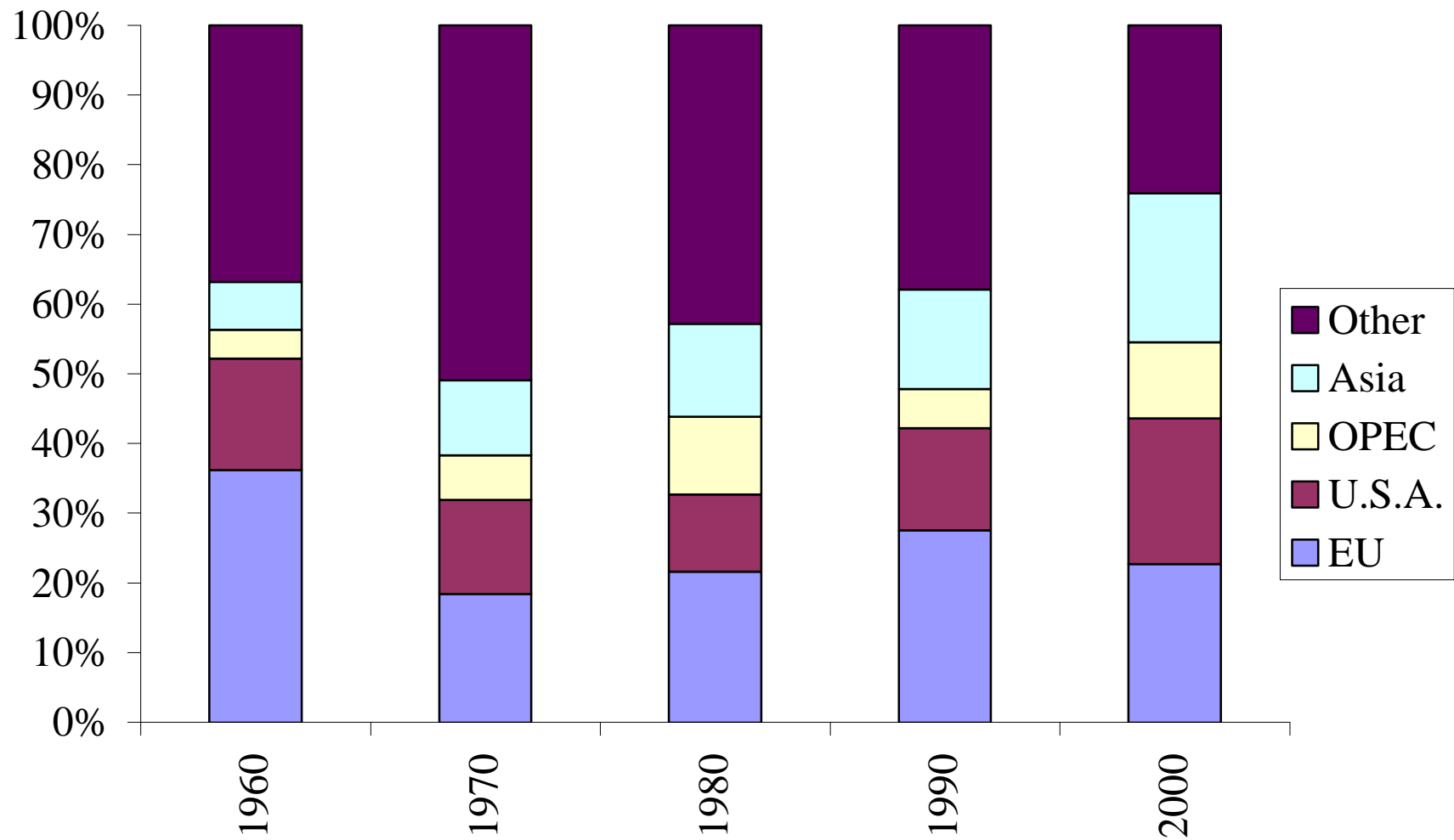
Source: EIU

Figure 7 - Direction of Trade - Imports to India



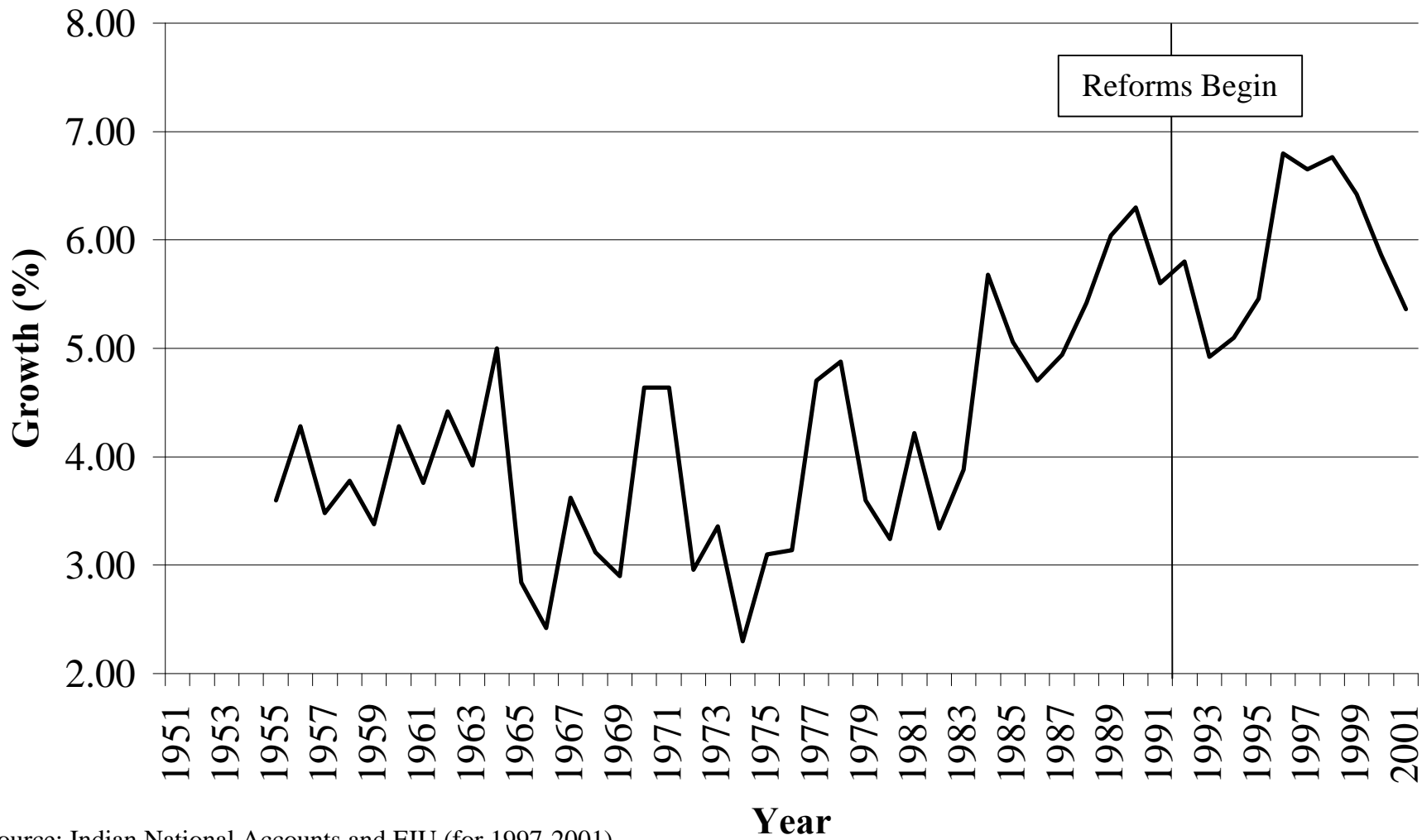
Source: Ministry of Finance, India

Figure 8 - Direction of Trade - Exports from India



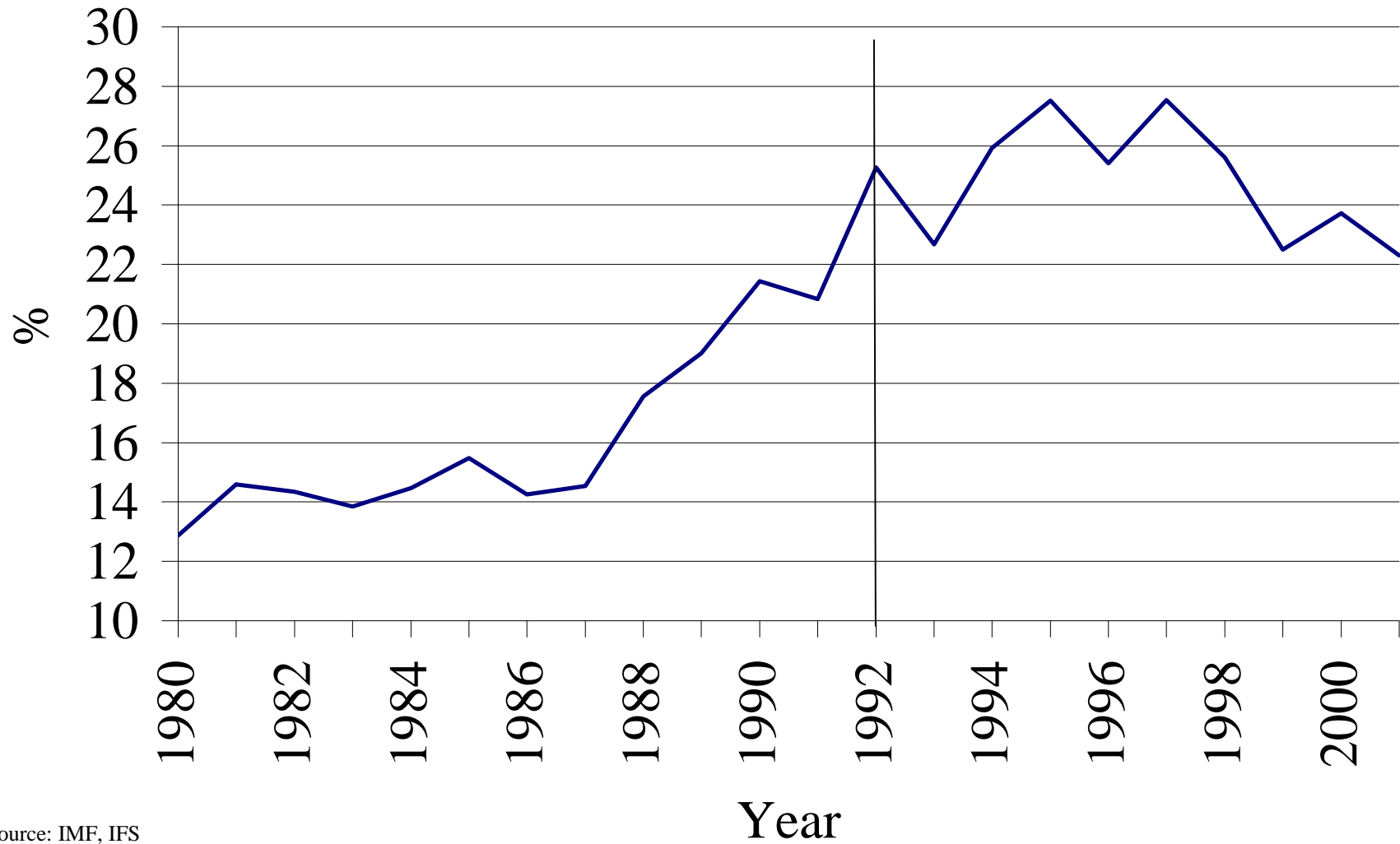
Source: Ministry of Finance, India

Figure 9 - Growth of India's GDP at Factor Cost, 5-year moving average



Source: Indian National Accounts and EIU (for 1997-2001)

**Figure 10 - Gross Domestic Savings Rate in India,
1980-2001**



Source: IMF, IFS