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India's Foreign Trade with China Since Economic Reforms in India

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Abstract

The comparison of the key features of trade integration processes and the economic outcomes in China and India reveals that while much has already been achieved in both these economies, the Chinese reforms, especially with respect to manufacturing trade, have gone further and that this is likely one of the key determinants of better economic performance of China. Still, China's integration process so far remains characterized by a certain duality. On the one hand the opening up of trade and FDI in manufactured goods has spurred the emergence of a largely private sector. On the other hand the high level of public ownership and important regulatory barriers continue to dominate the services sectors. India has gone a long way in reducing its tariffs on non-agricultural products as well as selected non-tariff barriers but moderate protection still persists which likely adds to the hurdles faced by the Indian manufacturing sector. India has revealed a comparative advantage in certain segments of the services sector but its services trade policy is still very restrictive, even as compared to China. More generally the extent of liberalisation achieved so far in India and the outcomes it brought about suggest that the remaining goods and services trade barriers are just but one item on the list of reforms that India needs to tackle in order to promote trade-led expansion of more labour-intensive activities.

India has gone a long way in reducing its tariffs on non-agricultural products as well as certain non-tariff barriers but moderate protection still persists which likely adds to the costs of intermediate inputs and, thus, to the hurdles faced by the Indian manufacturing sector. India has revealed a comparative advantage in certain segments of the services sector but its services trade policy is still very restrictive, even as compared to China. The extent of liberalisation achieved so far and the outcomes it brought about suggest that the remaining goods and services trade barriers are just one item on the list of reforms that India needs to tackle in order to promote trade-led expansion of labour-intensive activities.

1. INTRODUCTION

The main objective of the Indian International Trade Policy has been to protect its market from foreign competition. Up until the 1980s, India was not interested in exporting its goods and services abroad and not ready to open its economy to foreign investments. The aim of its economic policy was to ensure the country's independent development (the swadeshi principle). At the end of the 1980s, India was one of the most closed economies in the world. Its bilateral trade policy, heavily skewed toward the former communist countries, was full of grand statements about technology transfer, mutually advantageous relations and partnership for development – to very little purpose. The idea of a Free Trade Zone was abhorrent. Therefore, India was left out of the Asian economic boom. With the Soviet Union's collapse and the first Gulf War, as well as the implementation of the International Monetary Fund's 1991 Structural Adjustment Program, India launched a new policy of privatization, deregulation and globalization of its economy, and a multifaceted trade policy.

India was a founding member of the General Agreement on Tariffs and Trade (GATT) in 1947 and of the World Trade Organization (WTO) in 1995, and so has actively participated in the different rounds of negotiations. In many ways, it is still influenced by its policy of non-alignment, since most favoured nation (MFN) and the non discrimination-based GATT

principles accord with India's desire to be treated as an equal by more powerful trading partners, while defending the situation of developing countries. In the multilateral field, and during successive rounds of negotiations in Geneva was an active player, as one of the few Third World-level founding members of GATT) it was mainly interested in promoting – with some success – the idea of a Special and Differential Treatment (SDT), allowing developing countries to exempt themselves from the central commitments made by developed countries. Furthermore, India was not interested in regional policy and did nothing to join any of the various regional groupings that were starting to emerge.

Finally, India needs to make its regional relationships more formal and comprehensive, as they are not traditionally part of New Delhi's foreign policy.

2. INDIA'S TRADE REFORMS

India's liberalizing policy, as well as significant structural and trade reforms have clearly paid off, since Indian economic performances are distinctly impressive these days. Since the liberalization process began in 1991, India's real Gross Domestic Product (GDP) has grown at an average annual rate of approximately 6% and, despite the recent increase in international petroleum prices, GDP growth for 2006/07 was 9%. Services continue to be the largest contributor to GDP (over 54% in 2005/06), while the share of manufacturing has remained relatively stable, at around 16% of GDP, and agriculture's share has declined to around 18.3% of GDP in 2006. These good economic results are due to important unilateral reforms aimed at opening up Indian economy and trade.

Trading performance, especially in exports, depends on an economy's openness to competition on the world market. With this in mind, India has launched important structural reforms to liberalize its market and attract Foreign Direct Investments (FDI), which are the main drivers of economic growth, especially in developing countries.

An important feature of liberalized markets is the adoption of a competition policy, hence in this case the 2002 Competition Act. This legislation is comparable to modern economics-based legislation and contains provisions relating to anti-competitive agreements, mergers, and abuse of dominant positions. Nevertheless, the law's enforcement has been delayed. The FDI regime has also been liberalized although it remains restricted in some sectors, where permission is still required. Foreign investment is still not permitted at all in a few sensitive sectors. Until 2003/2004, India's record in attracting investment was disappointing, with FDI accounting for only 1% of GDP in 2002. Since that time, however, investments have taken off, rising from a value of US$ 6.2 billion in 2001-2001 to 23 billion in 2006-2007. Inward FDI has been particularly important in Information Technology (IT), not only in IT-enabled services and business process outsourcing, but also in the electronics and electrical equipment sector. Recently, FDI liberalization has been made easier by the abolition of the industrial licensing regime. Nevertheless, Indian industrial policy keeps certain strategic industries in the public sector, such as atomic energy, railways, and substances listed by the Department of Atomic Energy; it has also maintained licensing obligations in six strategic industries, among them public health, safety, and environmental considerations, and continues to protect small-scale industries (326 in 2007) against foreign and local investors.

Lack of infrastructure, particularly in transport and electricity, is one of the main obstacles to trade and FDI development. One method of improving this situation has been to encourage private and foreign investments through public-private partnerships and relaxation of FDI restrictions. The electricity industry has been reformed, but structural reforms are still needed to improve efficiency, reduce loss, and to provide electricity to the 43% of the population which cannot yet access it. Even if private and foreign investment are now fully permitted, this particular industry remains relatively unattractive to private infrastructure investors because the cost of producing and transmitting electricity remains much higher than the sale price. In addition, while there is a clear policy of communications improvement, scale, quality, road maintenance and upkeep remain critical, especially for highways, which constitute 2% of the network but carry

40% of the traffic. In addition, as for electricity, private and foreign investments are now allowed in this sector. Apart from the roads, other major communications networks in India include the railways and ports (around 95% of India's trade in goods is sea-borne). In these fields too, the Indian government has introduced policies favoring deregulation, encouragement of public-private partnerships and relaxation of foreign investment regulations in some sub-sectors, but improvement is very slow. As far as air transport is concerned, India adheres to the "open skies" principle, having signed numerous bilateral agreements on transport. The critical challenge in this sector is once again infrastructure. Modernization, in particular through joint ventures and private participation, has been very slow and is, at the moment, very much behind schedule.

Objectives of the study

1. To promote commerce, investment, industrial collaboration, technology transfer, joint ventures, international exhibitions.
2. To find out opportunities to business leaders for direct interaction with policy makers and implementers to share ideas for building confidence for sustainable business relationships.
3. To expanding cooperation on international stage.
4. To give a healthy direction to Foreign Trade between India and China.
5. To analyze the impact of imports by China on Indian economy.
6. To achieve faster growth of foreign trade with China.
7. To find out the future prospects for investment links between India and China.
8. To find out the magnitude of international trade between India and China.
9. To analyze the impact of import on India economy.
10. To identify the constraint that was limited the expansion of India's export to China.

India and China are two of the oldest and still extant civilizations. For Europeans, they were legendary seats of immense wealth and wisdom right up to the eighteenth century. Somewhere between the mid-eighteenth century and early nineteenth centuries, both these countries became, in the European eyes, bywords for stagnant, archaic, weak nations. For China, this happened between the adulation of Voltaire and the cooler judgment of Montesquieu; in India's case, it was the contrast between Sir William Jones's desire to learn things Indian and James Mill's dismissal of Indian history as nothing but darkness.

Both India and China had highly restrictive trade regimes until the late 1970s. Both employed a variety of overlapping restrictions, some of which were either redundant or mutually canceling. Both began to open to international trade in the late 1970s in modest ways but China moved faster. Liberalization in India received some impetus in the second half of the 1980s under the then Prime Minister Rajiv Gandhi, especially through de-licensing of many imports, introduction and expansion of export incentives that partially offset the anti-trade bias of the regime, and a significant depreciation of the exchange rate. But India's liberalization became systematic only with the launch of the major reform package of 1991. In the 1990s and beyond, India undertook considerable liberalization of not just merchandise trade but also services trade and direct foreign investment.

As for China, it initially focused on liberalization through decentralization of trading rights to the provincial and city administrations and multiplication of the so-called "foreign trade companies". It also relied heavily on the creation of Special Economic Zones and Open Cities that were allowed more liberal economic environment than available elsewhere in the country. Subsequently, in the 1990s, China came to focus more directly on the liberalization of the conventional instruments such as licensing and tariffs. By the time it was granted entry into the WTO at the Doha Ministerial Conference in 2001, China already had a relatively liberal regime in the area of industrial goods trade, at least by the developing country standards. And with its WTO entry conditions now

nearly fully implemented, its merchandise trade regime is one of the most open among the large developing countries including India.

The WTO entry conditions have also led to considerable liberalization of services trade in China. Doors to virtually all services sectors—distribution, construction, banking, insurance, telecommunications and professional services—have been opened wider on account of the obligations China was required to undertake by other WTO members. Nevertheless, while in some specific areas such as the distribution sector China may be more open; India is overall more open than China in services trade. From a political economy standpoint, whereas China's opening of services has been externally driven as a part of the WTO negotiations, it is unilateral liberalization by India that has opened its services market. This means that prospects for further opening in services may well be better in India than China.

Both India and China have reaped handsome returns to opening up. Because China had better complementary conditions for the expansion of manufacturing than India, it has been more successful than the latter in exploiting its huge comparative advantage in labor-intensive products. Indeed, as just noted, the growth of the Chinese labor-intensive manufactures exports has been spectacular. India too has been successful in expanding its exports but its quasi-spectacular success has been so far limited to the software industry. In manufacturing, to-date, the labor-intensive industry in India has produced only modest success. The same comment applies to direct foreign investment (DFI): to-date: DFI flows into India have been modest when compared to China. On portfolio investment, which is more volatile in the short run, India has done better.

China has simultaneously pursued export-led and domestic demand-led growth to place the economy on a high growth trajectory in a sustainable manner. The investment-led domestic demand and the export sector have been the drivers of growth for the Chinese economy. The experiences of developing countries suggest that both export-led growth and domestic demand-driven growth have positive as well as negative effects on economic growth; and neither of these appears to be appropriate to be pursued in isolation. In recent years, the contributions of both the strategies to overall GDP growth in China follow the behaviour pattern of the global business cycle, thus, it insulated high growth momentum in these countries from the adverse effects of exogenous shocks. Simultaneous pursuance of both these strategies of domestic demand and export-led growth can ensure consistently high growth irrespective of the nature of the global business cycle.

The growth performance of the Chinese economy was adversely affected during these two phases of the global business cycle, and the contribution of domestic demand and the export sector to GDP growth followed a definite pattern during these two phases. The contribution of domestic demand to growth was significantly high during recession and declined considerably during the period of economic boom. A reversed trend is apparent for the export sector in its contribution to growth. Decline in the contribution of a growth factor is compensated by another growth-inducing factor in one episode of the business cycle, leading to restoration of the overall growth rate of Chinese economy maintained at a high level.

During the last few years, India's competitiveness has suffered from a sharp appreciation of Indian rupee vis-à-vis the dollar.

3. CHINA'S TRADE POLICY

China's international trade has experienced rapid expansion together with its dramatic economic growth which has made the country target the world as its market. The stable political system, vast natural resources and abundant skilled labor in China have made it a modern global factory. Discussions of the role that international trade plays in promoting economic growth and productivity in particular, have been ongoing since several decades ago.

Due to liberalization and globalization, a country's economy has become much more closely associated with external factors such as openness. It helps policymakers map out appropriate policies by

determining the source of productivity growth with respect to international trade.

Since the initiation of economic reforms and the adoption of the open door policy, international trade and China's economy have experienced dramatic growth. China's integration into the global economy has largely contributed to its sustained economic growth. Some of the industries with comparative advantages began to acquire a high level of specialization, and China has achieved a high growth rate of GDP, as well as an enormous inflow of hard currency and increase in employment. Additionally, China's participation in international trade has also contributed to improvement in productivity of domestic industries and advancement of technology. On one hand, large imports of machinery goods in the early 1990s had an immediate impact on productivity through the application of technology embodied in them. On the other hand, the level of science and technology in China increased dramatically due to the effect of "learning by doing." Therefore, research on how international trade contributed to China's economic growth can serve as a distinguishing case study demonstrating how a latecomer catches up with forerunners by increasing its participation on the global stage.

Some of the unprecedented development in the Chinese trade sectors and trade policy also had various effects on the nation's economic growth. Targeting the global market, China has successfully converted itself from an inward-oriented country which was protected by various trade policies to an outward-oriented one with an open market. The transition from a closed economy to an open one accompanied with it various experiences. From the perspective of trade policy, China underwent a number of evolution periods, such as dependence on the Soviet Union, absolute isolation, and opening doors to the world. WTO accession, which represents a new milestone in China's trade evolution, enabled China to participate in the world trade under the global framework by improving the multilateral trade system.

Before 1978 China's planned economic strategy and inward-oriented policy resulted in the subordinate status of international trade in the national economy. China had only minimal trade with the outside world, exporting just surplus raw materials and simple manufactured goods to cover payments for imported goods, including strategic minerals and other necessities not available in the domestic market.

The planned economy and import substitution policy optimized China's export structure by encouraging the growth of domestic industry during the initial period. A number of national industries were established to foster economic growth. However, due to lack of competition, the optimization of resource allocation could not be achieved, and the Chinese trade sectors could not enjoy the dynamic benefits from international trade such as competition effects, efficiency effects and technology improvement effects.

It is well known that China has pursued unparalleled trade liberalization since 1978. Since then, China has gained tremendous benefits from its integration into the global trade system. The political line and open-door economic strategy determined by the Third Plenary Session of the Party's 11th Central Committee initiated a new phase in China's economic relations with foreign countries. With the establishment of the socialist marketing economy and the transition of the Chinese economy and society, great changes have taken place in the country. China's opening has moved step by step

from coastal cities to inland ones. Sustained development of the national economy and the increase of the average income present a great need for international trade which makes an increasingly significant contribution to economic growth.

From the perspective of the import regime, China was devoted to reducing trade barriers and enhancing its openness to the world. At the beginning of the 1980s, tariffs on many products were set to block the flood of foreign products into the Chinese Market. The Chinese government canceled its import substitution list in the 1980s to encourage the market mechanism to achieve effective resource allocation with less intervention from the government. The initial tariff was set at the high rate of 56% in 1982. In the following two decades, China launched a massive tariff cut by

at least ten times, reducing the average tariff rate to 15% in 2001 and 9.8% in 2008. In the meantime, a broad array of non-tariff barriers such as licenses and quotas were reduced massively. The export quota was reduced from 227 (in 1992) to 66 (in 2001) and the import quota from 53 (in 1992) to 33 (in 2001) respectively.

After easing many of the pervasive and various import and export restrictions in the 1980s, the value of imports exceeded that of exports as a result of fostering the domestic manufacturing industry by importing capital goods. A large part of these imports, which covered mainly energy, raw materials, machinery, electronics, light and textile industries, came from Japan, the United States and the former West Germany. During 1989-1992, the demand for imports fell below that for exports. The imports were mainly focused on energy, oil and petrochemicals. Thanks to the broad liberalization of the policies taken by Deng Xiaoping during the 1992 Southern China Trip, a great number of foreign investors set up joint ventures and imported leading technology to China. Foreign direct investment in China played an important role in capital accumulation, as well as in the transfer of management skills and technology.

In addition, China has made an all-out effort to raise the level of science and technology by implementing various international trade policies. The Ministry of Science and Technology of China and the former Ministry of Foreign Trade and Economic Cooperation of China proposed the strategy of "Trade Vitalization through Science and Technology" in 1999, which contributed to the increase of high-tech trade and the application of high technology to upgrade domestic industries. At this stage, the strategy of "Trade Vitalization through Science and Technology" increased in importance from a ministerial program to a national strategy gradually. Through the common efforts made by the government and all sectors of society, the work of "Trade Vitalization through Science and Technology" made remarkable achievements. The government support for high-tech exports and the establishment of a favorable environment for high-tech industries enabled China to achieve rapid development of technology.

After 15 years of endeavor, China formally became the 143rd member of the World Trade Organization (WTO) at the 4th WTO Ministerial Meeting held in Doha, capital of Qatar on December 11, 2001. Entering the WTO was a strategic decision made by the Chinese government in the era of economic globalization. With its huge political influence, a giant economy and its status as a top global trader, China's accession to the WTO will help to strengthen and improve the multilateral trading system, promote world economic and trade development, and establish a new, open and just international economic order. Furthermore, WTO accession has largely contributed to reducing the technological gap between China and developed countries as it provided domestic industries with increasing access to foreign equipments and leading technology.

4. CONSTRAINTS TO INDIA'S EXPORTS TO CHINA

In general, tariffs in China are lower than those in India particularly, for India's major export items such as ores, pharmaceutical products, plastics, manmade staple fibers, and iron and steel. The non-tariff barriers and informal restrictions are of greater concern. Such restrictions in China on imports of goods and services apply to imports from India as well. Indian industry and business organisations have identified similar constraints in promoting their exports to China, for example: customs procedures, standards, certification and regulatory practices, and quantitative restrictions.

It was noted while examining the customs procedures that even after the issuance of valuation regulations in accordance with WTO Customs Valuation Agreement, many customs officials continue to use the minimum or reference price rather than the actual transaction price for valuation of goods. The same product may be subject to a case-by-case determination of customs value depending on the port of entry and often the decision regarding duty on the products becomes subject to negotiations between traders and customs officials. Re-exporters are allowed to import raw material only through a specified port. If they operate through other ports, they have to follow extremely difficult procedures to avail of duty free

clearance of cargo. This problem is especially serious for Indian traders because of the limited transport links between India and China, which do not allow free choice of ports for landing.

Rules and regulations pertaining to standards and certification as applied to imports are different from those applied to domestic goods and these are frequently changed, the details of which are not easily available in a published form in the English language. The implementation of these regulations is different at different levels of government, with very little coordination between national and sub-national levels. Exemption procedures for import of replacement parts or imports of parts for assembly and re-export are burdensome and costly as the application is to be submitted in person and requires knowledge of the local language. Certification remains difficult, time consuming and a costly process for many commodities of interest to Indian exporters. In many cases, foreign companies' products can only be tested at certain laboratories, and results from other competent authorities are unacceptable. For drugs and pharmaceuticals, the registration fee is very high and it takes a very long time to complete the registration process. Regarding sanitary and phytosanitary measures (SPS), it was noted that the certification requirements for some products, such as seeds, seafood products and fruits and vegetables, exceed what is necessary (as defined by international standards) to protect consumer health and often difficult to meet. In cases of trade disputes, the international system of arbitration for trade disputes is not recognised. It was also mentioned that quantitative restrictions like quota and licensing continue to be practiced by China particularly in certain categories of foodstuffs. Though such trade barriers are tough in China, India can yet explore the opportunity of a large trade potential in China in diversified sectors. Considering the trade opportunities in China and India's competitiveness in several lines of exports, the present trend of trade imbalances may be settled without limiting the size of bilateral trade.

5. INDIA'S EXPORT POTENTIAL IN CHINA

India has been maintaining a high export growth to China since 2004, but this has been adversely affected by the recent episode of global recession. Growth of imports in most of the important export markets of India became either negligible or negative since September 2008. This trend is slowly turning around in recent months. China is one among the important market destinations in which India's export potential has been inadequately realised on account of the recent global turmoil. India's large trade potential is yet to be tapped in diversified sectors of the Chinese market ranging from primary and labour intensive to various levels of technology-intensive products.

China recently became India's largest trading partner, and its exports have increased so sharply that it is inflicting an unsustainable trade deficit on India which has achieved a moderate bilateral export growth only so far. For reversing the problem of trade imbalances without interrupting the present flow of bilateral trade, sharp focus on the growth of India's exports may be emphasised for the balanced growth of the domestic external sector. For addressing trade imbalances, India should substantially improve its presence in the Chinese export market. In this context, an attempt has been made to estimate India's export potential in China at a disaggregated product level based on the export competitiveness of India.

6. ENGAGEMENT OF CHINA AND INDIA IN GLOBAL VALUE CHAIN

Global trade has been growing faster than global production during the last few decades. In global trade the segment which is surging faster than rest of the trade has been the Global Value Chain (GVC). Empirical evidences show that three sectors such as textiles & apparel, electronics and auto components are expanding rapidly and their share in the global export has been increasing significantly in recent years. In the context of regional analysis, some studies indicate that the prospects of welfare gain from the regional value chain (RVC) have been much larger than that from other modalities of regional trade liberalisation including FTA.

7. INDIA'S BILATERAL EXPORTS

India's export to China is highly concentrated, limiting to four sectors with a contribution of 86.5 per

cent of India's total bilateral exports in 2010. The mining sector forms the largest bilateral exporting sector of India, constituting 40.4 per cent of the total bilateral exports in 2010, but its sectoral share is declining in total bilateral exports. Other important sectors of India's bilateral exports are base metals, textiles and chemicals where export performances are significant during the period 2004-10. As most of the important sectors contributing to export are primary and resource-based sectors, exports of these products may not be sustainable in the long-run as demand for imports in these sectors are receding. Medium and high technology products dominate the Chinese export basket and they are rising fast. Products of global value chain in manufactures are becoming important for Chinese global imports. Considering the changing demand pattern of imports in China, India needs to diversify its exports and to introduce its in new products, having global competitiveness, in order to access the Chinese market.

8. INDIA'S BILATERAL IMPORTS

Rising bilateral trade imbalance may be attributed to the changing composition of India's imports from China during the last decade. India's bilateral imports are mostly concentrated in the manufacturing sector, comprising three dominant sub-sectors including chemicals, machinery and mechanical appliances and base metals, contributing around 76.5 per cent of bilateral imports in 2010. India's imports of machinery & mechanical appliances and chemicals are the two most important sectors where the growth rates in these sectors have been significant during the period 2006-10. However, medium and high technology intensive products remain important for India's imports.

9. TRADE POLICY REFORMS

India started its comprehensive trade policy reforms much later than did China, therefore, the tariff regime in China was much more liberal than India. With the continued liberalisation, simple average tariff declined to 9.7 per cent for China whereas it came down to 12.4 per cent for India in 2009. Both countries differ significantly in terms of their sectoral coverage and depth of tariff protection. While agriculture is protected, the manufacturing sector is subject to unilateral liberalisation in both countries. However, the agricultural sector was more protected in India than in China. Simulation results in the study, using Computable General Equilibrium (CGE), indicate that aggressive agricultural liberalisation could have adversely affected the Indian economy by affecting overall welfare of the country. This is because of several factors including reduction of production in agriculture (and its allied sectors); declining purchasing power in the agrarian sector; aggravating trade imbalances; increasing agro-imports and consequently affecting food and livelihood security of people in the rural area, etc among others.

The situation is different in the manufacturing sector where India made robust liberalisation, leaving China behind in the manufacturing sector liberalisation. The simple average tariff rate in India was lower than China in the manufacturing sector in 2008 and 2009. This has been the outcome of tariff liberalization in substantially large number of sectors in the manufacturing sector. CGE results in the study indicate that complete trade liberalization in the manufacturing sector alone may allow terms of trade to diorite by 3 per cent. Radical liberalization in the manufacturing sector may adversely impact the overall welfare position of the country. Trade liberalisation unilaterally or on a reciprocal basis should be made gradual, and sequencing of sectoral liberalisation is required based on sensitivity of sectors. Time is not yet appropriate to move towards 'zero tariff' regime in the manufacturing sector. As India and China are almost at similar levels of tariff regimes, further tariff liberalisation may not be a critical negotiating point for India in order to secure better market access in China.

India's export regime continues to be complex. Export prohibitions and restrictions have remained unchanged since 2002. In order to reduce the anti-export bias inherent in import and indirect tax regime, a number of duty remission and exemption schemes have been in place to facilitate exports. The schemes are open to all exporters who use imported inputs. The scheme of tax holidays are offered to sectors such as electronics, farm products, services, export processing zones, export-oriented units and special economic zones.

India's recent foreign trade policy

modifications underline the importance of increasing exports and facilitate those imports which are required to stimulate the economy. The foreign trade policy is built around two major objectives. These are :

1. To double the percentage share of global merchandise trade within next five years, and
2. To act as an effective instrument of economic growth by giving a thrust to employment generation. The key strategies outlined to achieve this are:
   - Unshackling of controls and creating an environment of trust and transparency to unleash the capabilities of enterprises;
   - Neutralizing incidence of all levies and duties on inputs used in export of products;
   - Nurturing special focus areas which will generate additional employment opportunities, especially in semi-urban and rural areas;
   - Simplifying the procedures and bringing down transaction costs;
   - Facilitating technological and infrastructure up gradation of all sectors.
   - Promotion of "Brand India" goods; and
   - Emphasis on "focused market and product scheme".

This new EXIM policy is essentially a roadmap for developing international trade. However, this may be modified from time to time to meet the changing dynamics of foreign trade. The policy focuses on product lines such as agriculture, handicraft, gems and jewellery, and leather. The promotional measures for these products consist of exemptions from bank guarantee under EPCG scheme, duty free imports of capital goods under EPCG scheme, imports of inputs under the advance license scheme and duty free import entitlements up to a certain value and CVD exemptions on duty free imports. India's trade reform has been calibrated in order to make structural transformation less painful.

10. CONCLUSION

The pre-reform period did not see much of structural changes in the foreign trade particularly, the export sector. However, there have been some significant changes in import, specifically high imports of petroleum products and machinery and equipments. The post-reform period witness significant changes in the trend, pattern and structure of external trade. The ascertain that trade liberalization would help diversification of the structure of export sector and output in favour manufactured goods has not materialized. The change in the pattern of specialization in exports is more or less in conformity with changes in pattern of production.

The growth of services was more pronounced in GDP growth and is reflected in the increasing share of services in exports. The share of primary products has fallen in exports and that of petroleum products showed an increase. This very fact indicates that in near future India may emerge as an Asian "petroleum hub". Another notable aspect of India's recent export growth is the relative poor performance of the textile sector. This shows that India is not able to get full benefits from the removal of the MFA. India may its comparative advantage to other developing countries. In the post-reform period, imports grew at a faster rate than exports and leading to huge deficits in current account payments.

India's two policy instruments, namely price controls and reserving market segment for small-scale firms have had considerable, but widely varying impact on the composition of exports. It is often argued that relatively small share of labour- intensive manufactures in India's exports is partly due to reserving of market segments for small firms. The small firms in labour-intensive manufacturing sectors are neither innovative nor agents of industrial diversification. This relegated India to mass markets that require long production runs and goods of standard quality. As a result, the share of clothing in exports has remained relatively small. In spite of this relative abundant supply of low-skilled labour gives it a comparative advantage for the production of labour-intensive manufactures. Indian economy has not yet fully opened to international trade and FDI as compared to emerging Asian economies and China. It is characterized by a shallow integration with the world economy. This may be attributed to several factors. The belated opening up policy at least partially explains why India's foreign trade lags behind. The barriers to trade have remained relatively high,

besides, in the domestic economy, institutional obstacles (reservation policy) and structural factors (high energy costs and lack of infrastructure) have dampened the rise of competitive industries and attractiveness of FDI. Eventually, its geographic location does not provide dynamic regional environment and keeps away from strong regional integration process.

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