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International Trade Problems and India : A Case Study

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Abstract

The liberalisation of international trade in services will put them at an even greater disadvantage in terms of their government's sovereignty and of developing their domestic service industries. However, just as there are vastly different levels of development among Third World countries, especially in India there are also differing views on the costs and the magnitude of these costs of freeing-up the trade in services. For instance, India had led a number of developing countries in opposing the inclusion of discussions on the trade in services in the Uruguay Round. Broadly speaking, both developed and developing countries benefit from a liberalisation of trade in services in terms of efficiency and competitiveness. The industrial countries would accrue large trade benefits from more liberal trade in services, since services constitute a large portion of their total exports. The paper emphasises on modern international trade, began with the industrial revolution and the decline of mercantilism. As the industrialised nations, became richer due to their control over manufacturing commodities and trade, they began demanding and producing more sophisticated and expensive products. They found that the only feasible sources of the goods they wanted were from other countries, and were also the only countries rich enough to buy the new manufactured goods they were producing. Thus, India has had a major challenge in the changing composition of imports and exports when effects of independent India's economic polices started becoming clear.

1. INTRODUCTION

Many developing countries fear that the liberalisation of international trade in services will put them at an even greater disadvantage in terms of their government's sovereignty and of developing their domestic service industries. However, just as there are vastly different levels of development among Third World countries, especially in India there are also differing views on the costs and the magnitude of these costs of freeing-up the trade in services. For instance, India had led a number of developing countries in opposing the inclusion of discussions on the trade in services in the Uruguay Round. Yet Hong Kong and Singapore are less adamant on this issue and to some extent invite the talks.

Broadly speaking, both developed and developing countries benefit from a liberalisation of trade in services in terms of efficiency and competitiveness. The industrial countries would accrue large trade benefits from more liberal trade in services, since services constitute a large portion of their total exports.

India has not been endowed by nature with the same productive facilities. There are differences in climatic conditions, natural resources, labour and capital.

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Due to these differences, the country finds its advantageous to specialize in the production of some specific commodities. Such specialization would not be economically practicable, but for the possibility of exchange of surplus production through international business. It take place when buyers find foreign markets cheaper to buy and sellers find them more profitable to market their products. Thus, a more effective use of the world's resources is made possible through international trade.

2. FACTORS CONFRONTED TO INTERNATIONAL TRADE

There are many important factors designing the overseas trade, such as the amount and type of resources within a county, distribution of purchasing power, and influences of political factors. In fact, in the present day global trading system, it is politics that dominates the system. The distortions in the pattern of trade are created and maintained by the governments of different nations for reasons for differing domestic policies.

The pros and cons of trade are perceived by people and governments differently in different circumstances. In order to understand the global trading system, it is significant to know who trades with whom, what and why, and how it has changed over a period of time.

Modern international trade, began with the industrial revolution and the decline of mercantilism. As the industrialised nations, became richer due to their control over manufacturing commodities and trade, they began demanding and producing more sophisticated and expensive products. They found that the only feasible sources of the goods they wanted were from other countries, and were also the only countries rich enough to buy the new manufactured goods they were producing. Thus, India has had a major challenge in the changing composition of imports and exports when effects of independent India are economic police started becoming clear.

3. INDIA AND GATT

India has been the coordinator of the developing countries in GATT for several years. After seven years of negotiations, the Uruguay Round of multilateral talks were conducted on 15th December, 1993. The Comprehensive agreement has been reached between the US and the EC on the GATT negotiations make the success of the Round and all delegations were approved.

The Uruguay Round tried to liberalise world trade in goods and services. Any process of liberalization helps the efficient and hurts the inefficient. Consumers gain as part of any liberalization. But, India as an efficient producer of goods and services, such as in areas like textile, garments, agriculture, pharma, software, etc., then, if production is more and efficient and improvement in technological, infrastructural aspects, it will gain a lot from GATT.

4. THE NEW GLOBAL TRADING SYSTEM

Although imprecisely defined, economic globalization has almost become a catch phrase at the end of the twentieth century, and for good reason. Globalization is a multifaceted phenomenon. It covers a range of trends in economic, finance, technology, business, and international relations, which may be mutually reinforcing but which have diverse origins. As conventionally understood, international trade and capital flows are central to the globalization process. Although capital flows are important in their own right, trade in goods and services has captured a great deal of attention. Along with rapid technological developments – especially in information and communication technologies, telecommunications, and transport – international trade has been a significant driving force behind globalization. Trade has contributed to the enormous benefits that have flowed from mutual interdependence among nations and from integration of the global economy.

The objective of this is to introduce the World Trade Organization (WTO) and recent transformations in the global trading system. Over the last half-century a great deal of liberalization has taken place in both developing and industrial economies, albeit the process moved at an uneven pace. This analyzes its welfare effects – including effects on poverty – over different countries and country groups. Despite its salutary economic effects, trade liberalization and the opening up of economies have always been an onerous process. We analyze here the how and why of this seeming irrationality. Employment-related decisions make this process of opening up even more difficult to handle for the policy makers. In addition, not all developing economies benefit from liberalization. These sections coalesce to present a cohesive scenario of the current challenges in front of the global trading system.

The WTO is a vitally important, if not indispensable, multilateral body in a globalized economy. It was established as the successor to the General Agreement on Tariffs and Trade (GATT). It is correct to say that the WTO is nothing but the mutated GATT, although its political and legal base is broader than that of the GATT. It is one of the younger and smaller international organizations. The WTO, according to Sampson (2000), is a set of agreements that create legally binding rights and obligations for all members. The schedules of tariffs and other limitations and restrictions on imports of goods and services attached to the respective agreements create similar legally binding rights and obligations for the members. These schedules bind the degree of openness of domestic markets. The agreements and schedules are negotiated mutually and agreed to by all WTO members. The WTO is an intergovernmental forum where delegations from member countries meet to discuss and negotiate a number of trade-related matters. It is essentially a member-driven organization. For instance, in the Trade Policy Review Body (TPRB) established under the aegis of the WTO governments periodically review the trade policies of other members. They analyze and discuss recent developments in the multilateral trading system. WTO members also negotiate to liberalize trade and to change the rules when they consider it necessary. This, however, is done within the context of formal multilateral "rounds" of negotiations (Sampson, 2000).

The Marrakesh Agreement, formally adopted in April 1994, contained the obligations of WTO members. It comprises twenty-nine individual legal texts and twenty-eight additional ministerial declarations, decisions, and understandings that spell out further obligations and commitments, together with approximately 26,000 pages of computer printouts detailing each member's schedule of tariff concessions and schedule of services commitments. The Ministerial Conference is the all-important body, which meets every two years to decide on strategic issues. Thus the authority to create, interprets, and enforces rules lies in the hands of the member governments. The Marrakesh Agreement, in its Article IV, gave the Ministerial Conference complete "authority to take decisions on all matters under any of the multilateral trade agreements" (GATT,1994). Unlike the Bretton Woods twins, the Director General of the WTO has little power. He can neither formulate policies nor comment on the policies of the member governments. As the Ministerial Council meets only infrequently, the General Council exercises its functions. The latter also comprises the full membership of the WTO.

The basic philosophy of the WTO, enshrined in Article I of the Articles of Agreement, is non-discrimination. Member governments agree not to discriminate against the trade in goods and services of other members, either between supplying countries or between domestic and foreign suppliers of the same goods and services. Although WTO obligations are legally binding, they do not rule out the possibility of members agreeing to forgo their rights by undertaking obligations in other agreements that provide for measures that would otherwise violate WTO rules (Sampson, 2000).

The new, post-Uruguay Round global trading system has been built upon the old. Consequently, it is similar to the old one as well as different from it. Over the past half-century there have been eight rounds of multilateral trade negotiations (MTNs) under the aegis of the GATT. The WTO has inherited, and it embodies, half a century of MTN-related knowledge and expertise of the GATT, which established a substantial body of trading regulations. However, WTO obligations apply to larger share of global commerce than did those of the GATT. The most significant difference between the GATT and the WTO is the so-called

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"single undertaking", which implies that members must accept all the obligations of the GATT and its corollary agreements negotiated in the Tokyo and Uruguay Rounds (Schott, 1996).

In the past when developing countries received benefits from the GATT system and codes without reciprocity or having to undertake new obligations in return for the benefits, they have been asked under the new system to terminate their "free ride" and abide by all the codes of conduct of the WTO. Consequently, the level of obligations for many developing economies has been raised substantially. The level of obligations *per se* for the members of the WTO is higher than what it was for the contracting parties of the GATT. That being said, for the large trading economies – both industrial and developing – the level of obligations under the single undertaking has not led to additional commitments. The new WTO system has only drawn down the special provisions for the developing economies. During the Uruguay Round negotiations, fuller integration of developing economies into the global trading system was being repeatedly emphasized. The single undertaking helps meet this objective.

Various provisions of the dispute settlement mechanism (DSM) under the GATT have been consolidated by the WTO into a unified dispute mechanism. The new mechanism avoids several weaknesses of the GATT regime in this respect. The new DSM is more effective than its predecessor. It can function more efficiently and has eliminated long delays in the panel proceedings. Under the new DSM disputants cannot block the consensus needed to approve panel findings. Binding procedures for timely compliance with the panel ruling have been established, which could not be done under the GATT regime. It should, however, be noted that, if all else fails, retaliation is still possible.

Membership of the WTO is much larger than that of the GATT. The GATT had twenty-three signatories when it came into effect in January 1948, and eighty-four signatories at the beginning of the Tokyo Round in 1973. More than 110 countries signed the Uruguay Round accords in Marrakesh in April 1994, including several countries that had observer status in the GATT. Thus the developing economies are much more heavily represented in WTO than they ever were in the GATT. As of March 2001, the WTO had 140 members, with an additional twenty-eight in the process of accession. The two institutions have different structure. For instance, the GATT was an accord or had provisional application; the legal status of the WTO is that of an international treaty. Therefore, countries could be "contracting parties" to the agreement, not "members". Unlike the GATT, the WTO is a membership organization. The new institutional structure of the WTO provides greater legal coherence among its wide-ranging rights and obligations, which partly explains heightened non-governmental organization (NGO) interest in WTO. It has also established a permanent forum for consultations and negotiations. As noted earlier the Trade Policy Review Mechanism (TPRM), which provides regular monitoring of trade policies of the member economies, has a high degree of utility for the developing economies. During the GATT regime, meetings of the Trade Ministers were called on an *ad hoc* basis and were few and far between. The WTO has a mandate of biennial Ministerials, which provides political leaders with an opportunity to periodically review the work of the WTO and provide direction to it.

5. SPASMODIC TRENDS IN TRADE LIBERALIZATION

The proportion of goods and services produced in the global economy and traded internationally progressively went on expanding, International trade now encompasses a much larger share of commodities than it did at the beginning of the twentieth century. Their share has risen from 20 per cent in the late nineteenth century to more than 40 per cent at the end of the twentieth. Likewise, trade in services has swelled from insignificance to nearly one-third of total global trade. Against the background of a general decline in direct trade restrictions, market openness has increased significantly over the preceding half-century. The present volume of global merchandise trade is sixteen times what it was in 1950; it has almost tripled as a share of global GDP. Trade in service transactions has also grown at a rapid pace, becoming one of the fastest growing components of world trade since the early 1980s.

Four trends can be clearly identified in the global trading system during the last half-century: uneven liberalization of markets for trade in goods in both developing and industrial economies (excluding agriculture), increasing differentiation of treatment for different levels of developing countries, a growing number of regional trading agreements (RTAs) among both developing and industrial economies, and the expanding scope and strength of trade regulations. Trade liberalization has been an ongoing feature of global economic activity over the past half-century. A notable amount of unilateral trade liberalization has also taken place, especially in the East Asian economies. It also occurred in the US, where the majority of quantitative restrictions (QRs) were dismantled without any quid pro quo from trading partners. The benefits of trade liberalization have been intensively studied and are well documented. What is important now is the distribution of the gains rather than their aggregate scale.

At the dawn of the twenty-first century, however, the global trading system finds itself at a crossroads. The reason is that free trade has rarely been a popular cause. The brief history of the international trading system presents numerous glaring examples of this. Several compromises had to be made in the creation of the GATT. During the 1960s and the early 1970s, industrial economies increasingly adopted trade liberalization. The GATT provided them with a framework for a co-ordinate multilateral liberalization of trade. Successive GATT rounds of MTNs helped in reducing tariffs. In contrast, developing economies over this period shunned liberalization and pursued inward-looking strategies. In their endeavors to modernize their economies, they adopted "infant industry" support of nascent industries, as well as "import substitution" for the development of domestic industry. As a part of this inward-looking strategy, tariffs, quotas, and exchange payment restrictions in many developing countries were increased. Generally, domestic political opposition blocks liberalization moves. Entrenched interests fight hard, and frequently with prolonged success, to maintain their protected positions.

Although GATT's success during the early 1960s was well admired, by the early 1970s it was moribund. The Tokyo Round of multilateral trade negotiations, launched by the large trading economies in 1973 with the intention of achieving substantial tariff cuts, was erratic and protracted. In the mid-1980s leading trade experts thought that the GATT was "in a state of breakdown". The Uruguay Round of MTNs, which was launched in September 1986, seemed doomed to failure as the European Union (EU) and the United States found themselves locked in a politically complex struggle over agricultural pricing and subsidies. It did collapse and had to be pulled back to its feet by the extraordinary perseverance and diplomatic skills of Arthur Dunkel, the erstwhile Director General of the GATT. International trade continues to be an important area of policy debate for both developing and industrial economies.

Developing economies were not able to ignore liberalization for very long. Theoretical and empirical evidence gradually mounted on the costs of protection to develop intellectual support for trade liberalization. The high cost of import substitution as well as the benefits of outward-oriented development strategies, emphasizing the development of competitive export sectors, was demonstrated by the success of the rapidly growing economies of East Asia. This became increasingly visible and debatable in the 1980s. Soon, rapid growth in output and trade and efficient industrialization came to be associated with a liberal regime. The benefits from liberal and outward-oriented strategies were clearly determined to outweigh the costs of protection. During the 1980s, the accumulated evidence became so large that its weight began to be felt on policy making in many developing countries.

Trade in service transactions became the new area of trade liberalization. Industrial economies, the US in particular, took increasing interest in opening up global trade in services. However, there was widespread skepticism concerning the political feasibility of a reduction in

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the protectionist bias that characterized most countries' policies towards services. Besides, protectionist practices in the area of services were often entangled with pervasive webs of domestic regulations that affected service industries around the globe. Owing to these difficulties, trade in services was not included in various GATT rounds. Until the Uruguay Round services were not seriously considered for inclusion in a round of MTNs. Discussions and information exchanges between the contracting parties of the GATT in this regard were highly informal. However, exports of commercial services have expanded rapidly. Their value was US$62.9 billion in 1970, US$362.8 billion in 1980, and US$751.6 billion in 1990. The value of commercial services traded soared to US$1,340 billion (UN, 1993; WTO, 2000e). Between 1970 and 1980, exports of commercial services grew by 18.5 per cent; between 1980 and 1990, their growth rate decelerated to 7.7 per cent. The value of commercial services almost doubled between 1990 and 1999. The growth rate accelerated to 78.4 per cent for this period.

By creating the General Agreement on Trade in Services (GATS) the Uruguay Round brought services into the fold of multilateral trading system. Since the launching of the Uruguay Round, numerous developing economies initiated liberalization movements that covered their commercial services industries as well. This trend was a natural extension of a broader reform movement focusing on trade in goods. By the early 1990s, developing economies were liberalizing their service transactions faster that the industrial ones (UN, 1993). As the statistics in the preceding paragraph testify, the global expansion of export of services during the 1990s was much faster than ever in the past. This was in spite of a contraction (of 1.5 per cent) in trade in merchandise in 1998. As a group, industrial countries are the larger traders in commercial services. This does not imply that developing economies do not have a significant stake in the performance of international trade in services. Over the last three decades, developing countries as a group have recorded faster growth of trade in commercial services than the industrial economies. Among the developing economies, the dynamic East Asian economies have been posting the most rapid expansion in trade in services. However, the degree of liberalization in services in absolute terms has been relatively meager, with many GATS schedules involving simple standstill commitments. However, in practice liberalization has gone a good deal further than the commitments. It is widely agreed that there is still considerable scope for liberalization in service sectors.

Debate on trade-related aspects of intellectual property rights (TRIPs) started in the Tokyo Round (1973-79), but this discussion had a narrow focus on the issue of counterfeit trading. It broadened during the Uruguay Round and became a major, if contentious, topic of negotiation. The consequential Agreement on Trade Related Aspects of Intellectual Property Rights, including trade in counterfeit goods, turned out to be the most comprehensive international agreement on intellectual property rights ever negotiated. TRIPs, GATS, and trade-related investment measures (TRIMs) were named the "new" issues.

Against all odds, eventually, the Uruguay Round did succeed. Shakespeare would have called it a "barful strife". In all, twenty-eight substantive agreements were completed during the Uruguay Round. Some of its achievements were, beyond any shadow of doubt, remarkable. For instance, trade discipline was extended to intellectual property rights and trade related investment measures, a more complete procedure for dispute resolution was created, and a schedule for dismantling the Multifiber Arrangement (MFA) was agreed. Another important new issue covered in the Uruguay Round was agricultural trade, which was not covered by the trade liberalization measures of the Tokyo Round. The Uruguay Round agreement revealed the high levels of protection and began a process of negotiation to reduce them.

The WTO, as noted above, was established as the successor to the GATT, and GATS was established to extend multilateral regulatory discipline to trade in service transactions. Establishment of these two was an institutional achievement of major dimension. WTO and GATS suit the contemporary international trading environment much more than their predecessor GATT. All the Uruguay Round accords are now up and running, although TRIPs and TRIMs are two exceptions. A lot of debate on their implementation is still raging. In most cases, liberalization commitments are being fulfilled while in come progress is lethargic. The requisite domestic programs and practices have been notified to the WTO, and the new trading rules have been or are being implemented through changes in national commercial laws. In 1995, the members of the Quadrilateral Group, or the so-called Quad, namely Canada, the EU (of fifteen), Japan, and the US, launched a post-Uruguay Round initiative to eliminate tariff barriers in the information technology sector, which included computers, semiconductors, telecommunications equipment, and software. The Quad members also tried to align technology-related policies as part of a broader global information infrastructure strategy. During the First WTO Ministerial Conference in Singapore in November 1996, agreement was reached to eliminate these tariff barriers by the year 2000. Three sectoral agreements were completed during the post-Uruguay Round period. They were on information technology (1997), telecommunications (1998), and financial services (1999).

Will the momentum of global trade liberalization be maintained in the new century? The answer to this query is crucial for the global economic growth, *a fortiori* for the economic prospects of developing economies. There is a backlash against trade liberalization and globalization. Seattle was one example of this backlash. There is little likelihood that the global economy will succumb to the recent backlash against trade reforms. However, if the apprehension is realized, both developing and industrial economies will squander substantial opportunities for growth. Consequently, global integration will suffer.

6. GLOBAL TRADING ENVIRONMENT IN FUTURE

Another sign of confidence in the global trading system was that GATT members constantly had recourse to the dispute settlement mechanism. Up to the end of 2000, over 200 complaints had been lodged by a broad cross section of GATT members, developing and industrial, small and large. Members' commitments open the channels of commerce, which stay open out of respect for the global trade regulations. The recent emerging market crises have demonstrated that he global trading system can prevent protectionist solutions of domestic crises. The crises economies and the global economy recovered much more quickly than had been anticipated. One of the reasons behind such rapid recovery was that these WTO members kept their markets open, notwithstanding a crisis situation. Owing to the implementation of the recommendations of the Uruguay Round and new GATS initiatives in the liberalization of services and information technology, those markets were more open than ever before.

Hence, 2020 agreement should be in introducing more competition to a sector which was once the preserve of government – owned companies. The Internet is also central to the emergence of the new economy on a global basis. It makes the development of success in 2020 and to advent to the possibility of reaching a consensus on a broad negotiating agenda for the forthcoming global trading issues.

7. CONCLUSION

The discipline of International Business has had an enduring debate on trade liberalization and openness. The great scholars like Smith extolled the virtues of trade liberalization, privatization and universalisation. It is easy to see the three essential sources of economic growth, namely, growth in inputs, improvements in efficiency of allocation, and innovation. Being open to trade and investment contributes to each of the sources of growth. While the potential benefits of the perspective of growth and global welfare have been obvious for a long time, appreciation of their potential in full measure has been slow in coming. And the government's approach to the negotiations too did not suggest that it had a viable strategy to deal with a world economic order in which alliances of developing and developed countries are rapidly losing the dependencies and self-sufficiency.

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