

Nurturing Trade for Better Indian Economy

AUTHOR

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Trade has a vital role to play in helping developing countries to boost their economic growth and to generate the resources necessary for reducing poverty. In the 1950s and 1960s, protectionist policies in developing countries – promoting industrialization by restricting imports of manufactures – were often associated with quite rapid growth. Getting a predevelopment position across this wide range of trade issues is of enormous importance in securing a fairer deal for poor countries from international trade and in a future multilateral Trade Round. The Government continues to push for the bilateral free trade agreements to be consistent with our wider development goals. However, many products are excluded from the scheme, and it is difficult and complex to use.

1. INTRODUCTION

A key element of globalization has been the reduction in barriers to trade. Over the last 50 years, tariff and non-tariff barriers have been reduced substantially, including through a series of multilateral trade rounds. Although significant restrictions remain, these reductions have created real development opportunities. Trade has a vital role to play in helping developing countries to boost their economic growth and to generate the resources necessary for reducing poverty. In the 1950s and 1960s, protectionist policies in developing countries – promoting industrialization by restricting imports of manufactures – were often associated with quite rapid growth. But the gains were unequally distributed, with the poor often being hurt by the discrimination against agriculture. And these policies eventually hit limits of market size and loss of contact with advances in world technology. This is one of the reasons why, in the last few decades, there has been a marked trend towards greater trade openness. And this has been associated with faster economic growth in the countries concerned (figure). The broad conclusions of this review can be summarized in the following points:

- On average, the poor benefit from increased trade openness in the same proportion as richer households. But, because this is an average, there are cases where poor people gain from trade less than proportionately and cases in which they gain more than proportionately. For policy-makers the key challenge is to reduce the former and increase the latter.
- Reduction of a country's own trade barriers tends to bring real benefits to its consumers, including poor consumers.

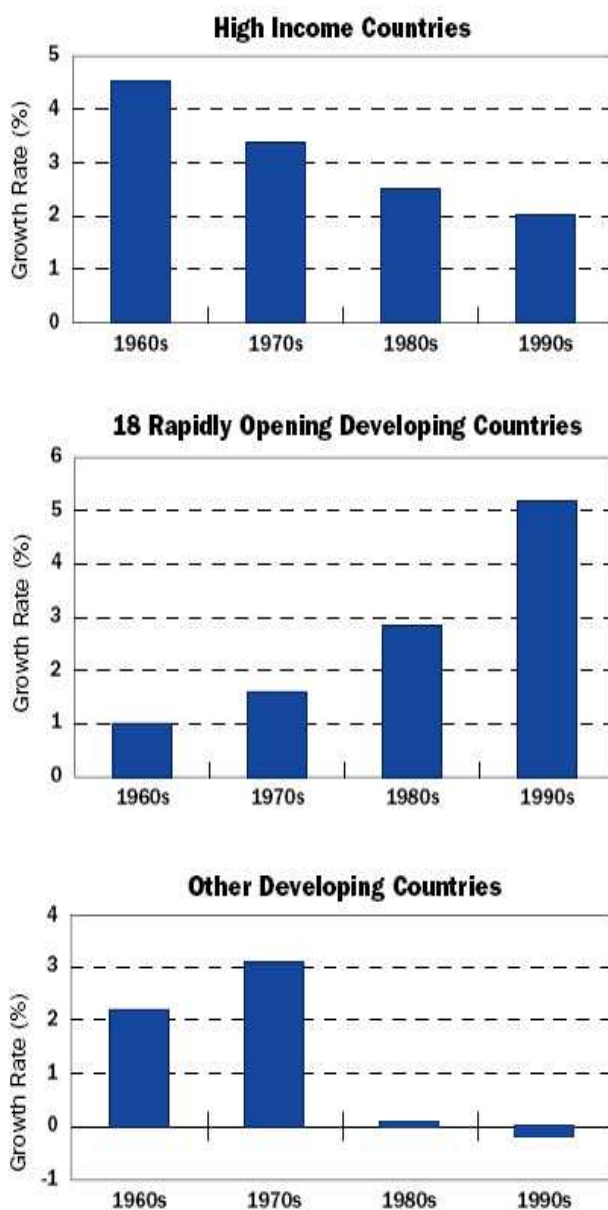
• While the effects of trade reform tend to be positive, especially in the medium and long term, it can have significant adverse effects on particular groups, especially in the short term.

The Indian Government should support:

• Support an open and rules-based international trading system, and work to promote equitable trade rules and an effective voice for developing countries.

The relationship between trade and growth

Average per capita GDP growth rates per decade.



Source: Dollar & Kraay (forthcoming), Trade, Growth & Poverty

• Support continuing reductions in barriers to trade, both in developed and undeveloping countries, and work to improve the capacity of developing.

2. RESEARCH METHOD

The research design will be descriptive in nature. The method of data collection will be mainly based on secondary data. However, an effort will be made to collect primary data by taking information from competent persons off and on.

3. OTHER DEVELOPING COUNTRIES

The relationship between trade and growth

• these potential adverse effects will inform the process of trade opening – in terms of sequencing, speed and accompanying policies. They should certainly encourage governments to invest in education and skills to equip people to take advantage of new employment opportunities, and to provide adequate safety nets to protect the poor during the process of change.

• trade openness, especially import liberalization, generally has beneficial effects on productivity, the adoption and use of technology, and investment – and this is an important channel through which trade openness stimulates economic growth.

• The extent to which trade openness contributes to poverty reduction depends on broader economic and social circumstances and policies. So trade openness is a necessary but not sufficient condition for poverty reduction. And trade policy needs to be situated within the wider development context.

4. REALIZING EXPORT POTENTIAL

The fastest growing developing countries in recent decades have been those which promoted exports. It is in these countries – mainly east Asian – that poverty has fallen most rapidly. There is still great scope for expansion of trade by poor countries. In 1998, the total exports of south Asia's 1.3 billion people were roughly equal to those of Thailand's 60 million people, and the total exports of sub-Saharan Africa's 600 million were scarcely more than those of Malaysia's 20 million. Not all developing countries will go down the same path as east Asia, which has a comparative advantage in manufactured exports because it is densely

populated. With little land per person, there is less scope for primary exports than for labour-intensive production of industrial exports.

South Asia too is densely populated and has good prospects for growth of manufactured exports, which could create many millions of jobs for people with just a basic education. The same could apply to some densely populated countries in Africa. But for countries where land is abundant relative to labour, including most of those in Africa and Latin America, the best export prospects over the next few decades are in natural-resource-based products. World demand for primary products will grow, partly because of rapid economic growth in land-scarce Asia. For developing countries to gain from this, however, developed countries must end the large subsidies to their farmers, which currently distort world prices and deter private investment in agriculture in poor countries. In some primary sectors, moreover, processing is discouraged by higher tariffs on processed products in developed countries. These should be reduced. To increase their primary exports, developing countries also need help to modernize their agriculture and make it more competitive. For instance, research enabled Malaysia to do well in commodities such as palm oil and cocoa, in which Africa fell behind technically. Primary-exporting countries need help, too, to design effective ways of managing the risks of fluctuations in world commodity prices, since attempts to stabilize prices at the international level have proved unsustainable.

Diversification of primary exports can also reduce risk. Non-traditional agricultural items such as out of season fruits and vegetables are particularly promising: demand in developed countries is growing fast and imports are less restricted. Growing them – on their land or as workers on large farms – generates new income opportunities for poor people in rural areas. Washing, cutting, packaging and labeling can add value and provide more jobs. To diversify their primary exports, however, countries again need access to technical expertise, as well as good transport links. Costa Rica is an example of a country that successfully diversified its primary

exports. Initially heavily reliant on a few staples such as bananas, coffee and beef, it now sells a remarkable range of non-traditional agricultural items to the US market. This was helped by universal basic education, which made Costa Rica's farmers and workers more adaptable, as well as by specialized research and training in relevant sectors. Educating its people.

5. GLOBALISATION, JOBS AND WOMEN

The expansion of world trade has brought employment dividends for women. Women's employment has grown at a faster pace than men's in the last 20 years. In 1978, for example, Bangladesh had only four garment factories. By 1995, it had 2,400, employing 1.2 million workers, 90 per cent of them women. These are significant gains for women, but many challenges remain. Studies of women garment workers in south Asia show that almost half of them hand over their wages to their husband, or another male member of the household. And many women have to cope with a 'double day', combining paid work with an undiminished burden of household work and child care. Furthermore, women's wages are consistently lower than men's. Poor information flows, combined with low levels of literacy and limited skills development and training, act as barriers to women's economic advancement. Without more investment in female education, women could become locked into low-skilled, low paid and insecure work. But with more investment, and with access to credit and other assets, women can gain real advantages from the opening up of world trade. Creating a fairer international trading system and reforming the WTO Support for open trade is not to be confused with unregulated trade. On the contrary, if open trade is to work for the world's poor we need effective multilateral trade rules made by an institution in which developing countries are properly represented, and an institution capable of enforcing them, for poor countries and rich countries alike. This is precisely what the World Trade Organization (WTO) is and represents. The WTO is a membership-based organization which takes decisions on the basis of consensus.

Developing countries are a majority of its 140 members. A further 30 developing and transition countries have applied to join. It is true that the WTO still bears the heavy imprint of the much smaller group of mainly northern countries that have dominated negotiations since the founding of the General Agreement on Tariffs and Trade (GATT). And it is true that the WTO should be more transparent and open and its rules easier to understand. But it is essential that we retain, strengthen and reform the WTO and the rules-based system, and ensure that it works for poor countries. The alternative is a situation in which the rich and powerful dominate the rest, or where the richer economies make bilateral trade deals between themselves and exclude the poorest. We will also urge the WTO to commit itself, with the rest of the international community, to achieving the International Development Targets. This would send a powerful signal of its commitment to poverty reduction and acknowledge that trade is a means to an end, not an end in itself.

There are substantial inequities in the existing international trading system. Developed countries have long preached the virtues of openness: but practice lags behind the rhetoric. Despite progress over the last 50 years, developed countries maintain significant tariff and non-tariff barriers against the exports of developing countries. These barriers are most damaging in areas of key importance to developing countries, such as agriculture, textiles and clothing, while the use and threat of 'trade defense' instruments (e.g. anti-dumping) creates further obstacles¹⁵. Total developing country gains from a 50 per cent cut in tariffs, by both developed and developing countries, would be in the order of \$150 billion – around three times aid flows.

The use of subsidies, especially in the agriculture and fisheries sectors, often encourages unsustainable production in developed countries too. While the failure of the WTO Ministerial Conference at Seattle in 1999 was a serious setback – from which lessons should be learned – it would be a great mistake if the world community were to give up on a future multilateral trade round. The world's

poorest countries have much to gain from a broad-based multilateral trade round, and would be badly hit by a retreat into trade protectionism. Two lessons in particular stand out from Seattle. First, developed countries must give greater weight to the needs of developing countries whose agreement will be needed if another Round is to be launched. Second, developing countries, which now make up a majority of WTO members, could make significant gains from a new Round if they can exert their influence more effectively. The India will continue to press for a pro-development negotiating position in a new Trade Round, which includes substantial cuts in high tariffs and in trade distorting subsidies, particularly for those sectors of most importance to developing countries. This could make it genuinely a 'Development Round'.

This means giving high priority to the multilateral liberalization of agriculture, addressing both quotas and tariffs, and opening service sectors to competition. Both of these areas are part of the built-in agenda under the Uruguay Round. We also think that a new Round should be broad enough to handle other issues where there are important potential benefits to developing countries, including industrial tariffs – particularly textiles and clothing, rules on anti-dumping, government procurement and trade facilitation (streamlining of customs procedures). We think it should include investment and competition too. It should also clarify the relationship between trade and multilateral environment agreements. The WTO can help poor countries to challenge discriminatory practices on the part of stronger trading partners. While there is room for improvement, there is now a functioning system for settling disputes between countries, which developing countries can and do use.

The India Government was instrumental in getting international agreement to the establishment of an Advisory Centre on WTO Law. This will help poor countries to bring cases under the Dispute Settlement Procedures of the WTO, and to exercise their rights, on more equal terms, within the rules-based system. Some developing countries face genuine difficulties in implementing commitments

made under the Uruguay Round Agreement. Where developing countries are committed to implementation but face these difficulties, we will support flexibility on deadlines and well-targeted technical assistance to assist with necessary reforms. We also support detailed discussions on possible changes to agreements to accommodate developing country concerns, as currently being taken forward under the WTO Implementation Review Mechanism.

In a new Round, the India and our partners will support an approach that recognizes more explicitly that WTO members are at different stages of development. To help countries manage their commitments we will press for special and differential provisions to be real and binding, and for any new WTO rules to reflect countries' implementation capacity. In the longer term, the WTO needs to consider a more workable set of country categories to take better into account different levels of development. To create a fairer multilateral trading system, an urgent priority must be to strengthen the capacity of developing countries to participate effectively in the WTO and the international trading system. 23 least-developed country members of the WTO have no representation in Geneva, where there can be more than 40 meetings a week across a diverse range of subjects.

We will work with developing countries and other development agencies to help build trade policy capacity in both national capitals and in Geneva. This is essential if poorer countries are to protect and promote their interests more effectively in a new Trade Round.

6. PROMOTING A PRO-DEVELOPMENT SAARC, ASEAN POLICY ON TRADE

India negotiates on behalf of all SAARC members in multilateral and bilateral trade negotiations. This includes bilateral free trade agreements between countries or groups of countries. Getting a predevelopment position across this wide range of trade issues is of enormous importance in securing a fairer deal for poor countries from international trade and in a future

multilateral Trade Round. The Government continues to push for the bilateral free trade agreements to be consistent with our wider development goals. However, many products are excluded from the scheme, and it is difficult and complex to use. We will press for removal or further reduction of tariffs, a simplification of product categories, the elimination of sector graduation, and less onerous regulations on rules of origin for imports. In consultation with business and developing country partners, we will work to make the scheme more accessible and user-friendly to exporters and importers. Recently the Commission put forward a proposal to allow all exports from least developed countries (LDCs) into the EU duty free, except arms. This is an important initiative and should help build confidence in a New Trade Round and also to increase economic activity in LDCs. We recognize that this will create adjustment challenges for some of the non-least developed countries in the ACP group, and we will work to ensure provision of sustainable assistance to help them in the adjustment process. The EU's Common Agricultural Policy is a barrier to the access of developing countries to our markets. The United Nations Conference on Trade and Development (UNCTAD) has estimated that the agricultural policies of OECD countries – even after the Uruguay Round reforms – cost developing countries \$20 billion per year. Developing countries are concerned that anti-dumping and anti subsidy measures are supplanting tariffs as a new form of protectionism. The Indian Government believes that anti-dumping and anti-subsidy cases should be considered on the basis of the economic evidence. We will oppose any attempt to use these measures as a form of covert protectionism. We will also maintain our position that quota protection for textiles and clothing, which must be eliminated by the agreed should not be replaced by new forms of protection.

Helping poor people to trade:

Reducing policy barriers – in developing countries themselves, as well as in developed countries – is important, but not enough to guarantee expansion of trade. We therefore also need to help remove other

barriers that prevent poor people from engaging in trade, or from increasing production in response to new market opportunities. Transport costs are often a particular obstacle to trade. In Indian ports, average ship turn-around time in 1993 was four to ten days, compared with six to eight hours in Singapore. On average across countries, a halving of transport costs is estimated almost to double the volume of trade. Within countries, too, high transport costs exclude poor people from trade. For example, many villages in central

Poverty is related to remoteness India still lack all-weather roads, which prevents them from trading regularly with other nearby villages and towns, let alone with other countries. And across the world, poverty rates tend to be higher in more remote regions (figure). Better transport and communications links within countries, as well as between them, are essential to spread the gains from increases in trade – with improvements in rural roads a particular priority. To lower transport costs requires investment in ports and airports, roads and railways. In many developing countries, it also requires improved maintenance and management of existing transport infrastructure. In both respects, greater involvement of the private sector, in partnership with governments, is crucial.

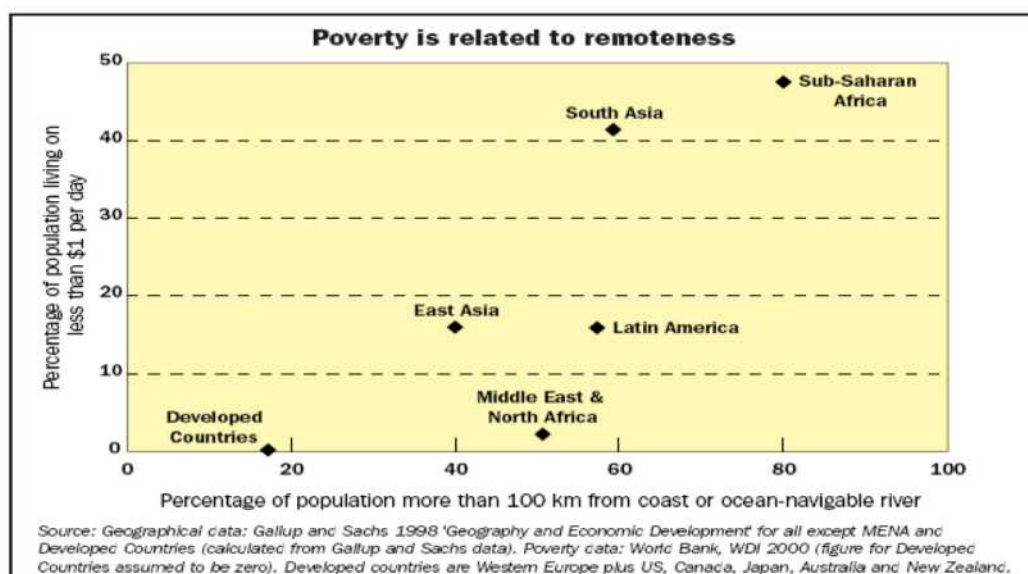
The same point applies to other infrastructure which developing countries will need to improve if they are to reap the benefits of

globalization, such as water, energy supply and telecommunications. A particular problem for the private sector is raising the long-term loans needed to invest in infrastructure projects. In response to this, the Indian Government has been instrumental in the formation of the multi-donor funded Public-Private Infrastructure Advisory Facility to help developing countries to improve the environment for private investment in infrastructure.

Making trade and non-trade standards serve development:

It is reasonable that consumers are pressing for more information on products and tighter safety and hygiene standards. And it is right that consumers should be concerned about the processes by which products are made – in terms of both labour standards and the environment. It is this interest which has led to the rapid growth of the ethical trading and consumer movements, particularly in developed countries.

However, developing country exporters find the proliferation of regulations and standards hard to comply with. And they fear that ‘process standards’ on the way products are made (such as on labour, the environment or animal welfare) will lock their products out of developed country markets. A balance needs to be struck which provides adequate information and quality to consumers but which enables developing countries to export and grow their way out of poverty. The Indian Government is



committed to the promotion of core labour standards worldwide, and we strongly endorse the efforts of the ILO to extend the enforcement of core labour standards in all countries. But imposing trade sanctions on poor countries that do not fully comply with all labour standards would punish countries for their poverty, and hurt the poorest most.

The Government is committed to promoting social, health and environmental standards and to maintaining a fair and open multilateral trading system. We also take seriously developing countries' concerns about the potential for the misuse of environmental measures for protectionist purposes. We believe that trade agreements and multilateral environment agreements should be mutually supportive and have equal status. Through multilateral negotiations, we will press for clarification of the relationship between WTO and multilateral environmental agreement rules. We will also press for clarification in the WTO of how trade rules affect product labeling, including eco-labeling. We are working through the WTO to reduce all forms of trade distorting subsidies, and will consider what further action may be needed in order to phase out environmentally damaging subsidies in particular. We support the undertaking of sustainability impact assessments of trade policy changes and will help developing countries to integrate environmental management into their export strategies.

Strengthening the international system:

- Support open and competitive processes for the selection of the top management of international institutions.
- Work to strengthen the development efforts of the G8, the OECD and the Commonwealth, and for G8 and OECD decisions to take greater account of developing country interests.
- Support the development of international and national statistical capacity, so that we can measure progress against the International Development Targets.
- Work to enhance and improve the effectiveness the UN's role in conflict prevention.
- Bring forward legislation to ratify the Rome Statute of the International Criminal Court and encourage other countries to do so.

- Work with civil society to strengthen the capacity of poor people to hold governments and international institutions to account for progress on poverty reduction.
- Build on our successful programme of Development Policy Forums with a further round focused on globalization and poverty in the new Parliament.
- Publish an account of progress towards the International Development Targets, which could form the basis for regular parliamentary debates.

7. RECOMMENDATIONS

Key Policy Commitments

The challenge of globalization:

- Work with others to manage globalization so that poverty is systematically reduced and the International Development Targets achieved.
- Promote economic growth that is equitable and environmentally sustainable.

Promote effective governments & efficient markets:

- Help developing countries build the effective government systems needed to reform their economic management, make markets work for poor people, and meet the challenge of globalization.
- Work to reduce corruption, and ensure respect for human rights and a greater voice for poor people.
- Work with others to reduce violent conflict, including through tighter control over the arms trade.

Investing in people, sharing skills & Knowledge:

- Promote better health and education for poor people, and harness the new information and communications technologies to share skills and knowledge with developing countries.
- Help focus more of the India and global research effort on the needs of the poor, and make intellectual property regimes work better for poor people.

Harnessing private finance:

- Work with developing countries to put in place policies that will attract private financial flows and minimize the risk of capital flight.
- Work to strengthen the global financial system to manage the risks associated with the scale, speed and volatility of global financial flows, including

through use of 'road maps' to guide countries on opening of their capital accounts.

- Encourage international co-operation on investment, competition and tax that promotes the interests of developing countries.
- Encourage corporate social responsibility by national and transnational companies, and more investment by them in developing countries.

Capturing gains from trade:

- Support an open and rules-based international trading system, and work to promote equitable trade rules and an effective voice for developing countries.
- Support continuing reductions in barriers to trade, both in developed and developing countries, and work to improve the capacity of developing countries to take advantage of new trade opportunities.

Tackling global environmental problems:

- Work to reduce the contribution made by developed countries to global environmental degradation.
- Work with developing countries to ensure that their poverty reduction strategies reflect the need to manage environmental resources sustainably, and strengthen their capacity to participate in international negotiations.

Using development assistance more effectively:

- Work to increase the proportion of global development assistance spent in poor countries, help to improve its effectiveness and to reduce the burdens placed on recipient countries, end India tied aid and work for multilateral untying.
- Introduce a new Development Bill to replace the outdated Overseas Development and Co-operation Act, to consolidate our poverty focused approach to development.
- Provide faster and more substantial debt relief for heavily indebted poor countries that are committed to poverty reduction.

Strengthening the international system:

- Work with others to build a stronger, more open and accountable international system, in which poor people and countries have a more effective voice.

8. MEETING OUR OWN RESPONSIBILITIES

Globalization is creating new challenges for the management of the global environment. Existing patterns of production and consumption are placing enormous strains on the global eco-system, and rapid population growth is adding to these pressures. Well-managed, globalization can help to address these challenges – by promoting greater development, increasing the resources and information available for improved environmental management, and by helping to spread cleaner technology. The sustainable management of the planet is a clear example of a global public good. The survival of the species depends upon a healthy global environment. The ozone layer screens out ultraviolet rays. Eco-systems help purify air and water resources, and convert waste. And the earth's biodiversity provides a store of medicines and food products, maintaining genetic variety that reduces vulnerability to diseases. But we are degrading the global environment that provides these life-sustaining services for us. Developed and developing countries have a common interest therefore in specific policies and competent institutions to help ensure that the management of globalization is environmentally sustainable and that it does not produce irrevocable damage to fragile environmental resources. Our shared goal must be to meet the economic needs of the present without compromising the ability of the planet to provide for the needs of future generations. That requires a new focus on equity. The poor contribute least to environmental problems, yet are the most vulnerable to their ill effects. They are forced to live in the most degraded and ecologically fragile areas. And they are least able to cope with harmful impacts that affect their health and livelihoods, such as water scarcity, indoor air pollution, and lack of sanitation, eroded land and the loss of living species. Environmental degradation also leaves the poor more vulnerable to natural disasters. In its 1998 annual report, the Red Cross estimated that for the first time the number of refugees from natural disasters exceeded those displaced as a result of war.

9. CONCLUSION

The Indian Government should do the following things:

- Urge the WTO to commit itself with the rest of the international community to achieving the International Development Targets.
- Work to make the next multilateral Trade Round a 'Development Round' – that brings real development benefits to developing countries, across a wide range of issues.
- Work in the WTO and other international bodies to identify and remove subsidies which harm poor producers and provide perverse economic incentives resulting in the unsustainable use of natural resources.
- Work to improve the access of developing countries to all markets, including duty and quota-free access to all markets for all least developed countries, the removal of quotas on textiles and clothing by the agreed deadline of 2005, tighter application of the rules controlling anti-dumping measures, and continuing liberalization of preferential trade arrangements.
- Push for significant reform, leading to the reduction as soon as possible of domestic and export subsidies on agricultural products, as well as tariff and non-tariff barriers to imports from developing countries.
- Work within the WTO to ensure much greater account is taken of developing country circumstances in rule-making.
- Press for trade policy – and complementary economic, social and political policies – to be built into developing countries' poverty reduction strategies.
- Work with others to strengthen the capacity of developing countries to participate in international negotiations and to take advantage of new trading opportunities, including through improved infrastructure and transport links.
- Maintain our opposition to the use of trade sanctions to enforce core labour standards, and oppose any protectionist misuse of environmental standards.

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