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4. The Poverty Impact of Doha: India

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Acronyms

| | |
|----------|---|
| ACP | Africa Caribbean Pacific |
| AD | Anti-Dumping |
| ADB | Asian Development Bank |
| AMS | Aggregate Measurement Support |
| AOA | Agreement on Agriculture |
| ASEAN | Association of South-East Asian States |
| ATC | Agreement on Textiles and Clothing |
| ATM | Automated Teller Machine |
| | |
| BBC | British Broadcasting Corporation |
| BCD | Basic Customs Duty |
| bn | Billion |
| BOP | Balance of Payments |
| BPO | Business Process Outsourcing |
| BRICS | Brazil, Russia, India, China |
| | |
| CAGR | Compound Annual Growth Rate |
| CGE | Computable General Equilibrium |
| CUTS | Consumer Unity and Trust Society |
| | |
| EPW | Economic and Political Weekly |
| EU | European Union |
| | |
| FAO | Food and Agriculture Organisation |
| FDI | Foreign Direct Investment |
| | |
| GATS | General Agreement on Trade in Services |
| GATT | General Agreement of Tariffs and Trade |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| GTAP | Global Trade Analysis Project |
| GVA | Gross Value Added |
| | |
| HIV/AIDS | Human Immuno-deficiency Virus/Acquired Immuno-Deficiency Syndrome |
| | |
| ICRA | Indian Credit Rating Agency |
| ICT | Information and Communication Technology |
| IFPRI | International Food Policy Research Institute |
| IGIDR | Indira Gandhi Institute of Development Research |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| ISCO | International Standard Classification of Occupations |
| IT | Information Technology |
| ITES | Information Technology-Enabled Services |
| | |
| mn | million |
| MDG | Millennium Development Goal |
| MFA | Multi-Fibre Arrangement |
| MFN | Most-Favoured Nation |

| | |
|--------|---|
| NAMA | Non-Agricultural Market Access |
| NCAER | National Centre for Advanced Economic Research |
| NHS | National Health Service |
| NSS | National Sample Survey |
| NSSO | National Sample Survey Organisation |
| ODI | Overseas Development Institute |
| OECD | Organisation for Economic Cooperation and Development |
| p.a. | per annum |
| p.c. | per capita |
| PC | Personal Computer |
| PDS | Public Distribution System |
| PTIC | Public Telephone Information Centre |
| PTY | Polyester Textured Yarn |
| RBI | Reserve Bank of India |
| RCA | Revealed Comparative Advantage |
| SAARC | South Asian Association for Regional Cooperation |
| SAD | Special Additional Duty |
| SAFTA | South Asia Free Trade Area |
| SDP | State Domestic Product |
| SPS | Sanitary and Phytosanitary |
| SSI | Small-Scale Industry |
| TMNP | Temporary Movement of Natural Persons |
| TRAI | Telecom Regulatory Authority of India |
| TRQ | Tariff Rate Quota |
| UAE | United Arab Emirates |
| UK | United Kingdom |
| UNCTAD | UN Commission on Trade and Development |
| UNDP | United Nations Development Programme |
| USITC | US International Trade Commission |
| USO | Universal Service Obligations |
| WHO | World Health Organisation |
| WTO | World Trade Organisation |
| WTTC | World Travel and Tourism Council |

4. The Poverty Impact of Doha: India

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4.1 Introduction

Trade liberalisation at the multilateral level is generally based on a Most Favoured Nation (MFN) basis, in which better market access is granted to all trading partners equally. The classical “gains from trade” argument asserts that such trade liberalization would help consumers to have access to more goods and services at lower prices, and producers to have more sources for their inputs and more markets for their products. The flip side of this argument is predicated on the view that imports can displace domestic industries and jobs, whereas exports can create domestic shortages and consequent impoverishment.

Theoretically, trade liberalisation results in productivity gains through increased competition, efficiency, innovation and acquisition of new technology. Trade policy works by inducing substitution effects in the production and consumption of goods and services through changes in prices. These effects, in turn, change the level and composition of exports and imports. In particular, the changing relative prices induced by trade reform cause a re-allocation of resources from less efficient to more efficient uses. Trade reform also expands the set of economic opportunities by enlarging market size and increasing the effects of knowledge spillovers. These are the key components of the effects of trade reform, which together induce growth of output and consequent poverty alleviation.

A third issue which is germane to developing countries is that tariff revenues form a sizeable part of government budgets. Thus reduction in tariffs can substantially reduce poverty alleviation expenditures such as education and infrastructure building. Conversely if reduction of tariffs generates much higher outputs, stimulates growth and increases indirect and direct tax revenues as well as results in generating larger trade volumes, then it might actually lead to an increase in the customs revenues.¹

Apart from these direct effects, there could be indirect poverty effects through trade liberalization. Trade leads to economic growth through multiplier effects: growth is a necessary condition for the reduction of poverty. It is however by no means necessarily sufficient. Hence, it may be useful to look at the relationship between trade liberalization and income inequality or income distribution. There are a number of models that suggest that trade could be growth-stimulating or growth-retarding. The outcome depends on whether the forces of dynamic comparative advantage push an economy towards long-run growth.² Rodrik and Rodriguez note that there is an ambiguous theoretical relationship (due to methodological problems) between trade barriers and growth rates.³

According to Alan Winters, openness and trade liberalization are important components of development policy. Open economies fare better in aggregate than closed ones; and there is

¹ Winters, A. (2000), ‘Trade Liberalisation and Poverty’, PRUS Working Paper No. 7, Poverty Research Unit, University of Sussex, Falmer, Brighton, UK. E-mail pru@sussex.ac.uk

² Srinivasan, T.N. (2001), ‘Trade, Development and Growth’, Princeton Essays in International Economics No.225, International Economics Department, Princeton University

³ Rodriguez, F. and Rodrik, D. (2000), ‘Trade Policy and Economic Growth: A Skeptic’s guide to the Cross-National Evidence’, in B. Bernanke and K. Rogoff (eds) NBER Macro Annual 2000, Cambridge, MA: NBER

no evidence that they experience worse poverty than closed ones do. Trade liberalization is found generally to increase economic opportunities for consumers and producers and to raise earnings for workers.

Theory notwithstanding, ultimately the link between trade liberalisation and poverty has to be vindicated empirically. There is extensive empirical literature discussing these linkages which provide evidence in either direction, leading to ambiguous outcomes at best. Jeffrey Sachs and Andrew Warner find that developing countries with open economies grew by 4.55% pa in the 1970s and 1980s, while those with closed economies grew by 0.7% pa. According to this study, open economies double in size in 16 years, whereas closed ones take a hundred years.⁴ A study by David Dollar and Aart Kraay of World Bank, using data for 80 countries over 4 decades, also reiterates the fact that openness boosts economic growth and that incomes of the poor rise one for one with overall growth.⁵ They classify countries into globalisers and non-globalisers (by reference to their performance in raising the trade share in GNP in 1977-79), and show that the former have shown higher growth rates. According to Bhagwati and Srinivasan, trade helps in poverty reduction in the developing countries. This is because a country going in for an export-promoting (as opposed to an import-substituting) strategy will have to maintain macroeconomic stability. This reduces inflation fluctuations (to which the poor are most vulnerable). Hence an outward oriented trade policy indirectly helps the poor. Empirically, they have found that no country in an autarky state has managed to sustain a high growth performance over a sustained period.

Cline has also compiled a table that shows the direct or implied long term elasticity of productivity with respect to the trade/GDP ratio in various studies. The striking feature here is that none of these estimates is negative. He feels that debate should be concentrated on the size of the positive influence of openness on growth, rather than about whether increased levels of trade relative to GDP have a positive effect on productivity and growth.

The simple average of the central value of the estimates given below is a long term elasticity of output on trade of 0.5. This shows that if a country's net exports as a proportion of GDP rise by 1%, the cumulative dynamic productivity effect over the long term (10-20 years) will be an increase in the level of per capita GDP by 0.5%.

| | Author(s) | Year | Findings | |
|--------------|-------------------|-------------|-----------------|---|
| Table | Levine and Revelt | 1992 | 0.14 | 1.1 Long-term (10-20 year horizon) elasticity of output per capita with respect to trade relative to GDP |
| | Frankel-Rose | 2000 | 0.33 | |
| | Alcala-Ciccone | 2001 | 1.44 | |
| | Dollar-Kraay | 2001 | 0.25 - 0.48 | |
| | Easterly | 2003 | 0.14 - 0.96 | |
| | Chaudri-Hakura | 2000 | 0.18 | |
| | World Bank GEP | 2002 | 0.8 | |
| | OECD | 2003 | 0.2 | |

Source: Cline; Chapter 5, "Trade Policy and Global Poverty"

⁴ Sachs, J.D., and Warner, A.M. (1997), 'Sources of Slow Growth in African Economies', in Journal of African Economies, Vol 6, No 3

⁵ Dollar, D., and Kraay, A. (2001), 'Trade, Growth and Poverty', Paper presented to the WIDER conference on 'Growth and Poverty'

Trade Policy and Global Poverty

Several studies have documented that trade liberalization could worsen inequality and therefore have negative effects on poverty.⁶ Some exercises in CGE modeling show relatively insignificant effects of trade liberalisation on poverty in India. Pradhan, 2002, shows that the influences of trade based liberalization actuated through reduction in tariffs and quotas, on both absolute and relative poverty are quite small.⁷ The perception of the critics of globalization however is that poverty and inequality are rising. This they feel is because in the short term as trade barriers fall, there is transitional unemployment and output loss. There are also distributional problems.

It is possible to ease these distributional problems with welfare benefits and job retraining. Effective interventions will be required to both protect the poor from the negative impacts arising out of trade liberalization and enabling them to take advantage of the opportunities arising. The full efficiency, output and associated welfare gains of trade reform tend to accrue in the long run. The substitution effects and the more efficient re-allocation and use of resources resulting from relative price changes take time to work themselves out. The time taken may vary by sector and across countries due to differences in the efficiency with which particular markets function and the extent to which supply responds may be binding.⁸ According to an UNCTAD study, to reduce adjustment costs and other risks, an obvious approach is to phase in adjustment so that capital is replaced at the rate of depreciation and labour is relocated or retrained over a manageable time frame.⁹

Along with the issue of inequality within the country, there is the issue of inequality between countries. According to The Human Development Report (1999) inequality between countries has been rising. It has stated that the income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 30 to 1 in 1960.

The major problem with both the theoretical and empirical literature is related to establishing causality. Frankel and Romer, 1999, try to establish causality between trade and growth. The authors have undertaken a cross-sectional study involving 100 countries during the period since 1960 and the general conclusion is that openness does have a statistically and economically significant effect on growth.¹⁰ To state that trade leads to growth is ipso facto correct but the effect of trade policies especially trade liberalization on growth is coloured by a host of factors such as macroeconomic environment, external environment, and a controlled experiment which neutralizes these factors is not possible fact that trade policy measures may not be related to growth.¹¹ Moreover, even if trade liberalization is linked to more rapid growth, it may not be an effective instrument for reducing poverty by itself as compared to direct poverty alleviation measures,

⁶ Rajan,R.S. (2002), 'Trade Liberalisation and Poverty: Revisiting the Age-Old Debate', School of Economics, University of Adelaide, Australia

⁷ Pradhan, B. (2002), 'Debating the Effects of Trade Liberalisation on Poverty: How Experiment Specificity determines the Conclusions', DFID project paper

⁸ Winters, A. (2000), op.cit

⁹ Cordoba, S.F., Laird, S and Vanzetti, D. (January 2004), 'Trick or Treat? Development Opportunities and Challenges in the WTO Negotiations on Industrial Tariffs'

¹⁰ Frankel, J., and Romer, D. (1999), 'Does Trade Cause Growth?' American Economic Review, 89

¹¹ World Bank, (2002), 'Globalisation, Growth and Poverty: Building an Inclusive World Economy', New York, Oxford University Press

Theory tells us that (Heckscher-Ohlin theorem) a country has a comparative advantage in a good if that good intensively uses the country's relatively abundant factor. Free trade will increase the relative price of that good and so by the Stolper-Samuelson theorem, increase the real return of the relatively abundant factor by an even greater percentage. Also, returns to the scarce factor will further diminish. Thus according to theory the poor will be the largest beneficiaries of trade liberalization. Thus theoretically trade liberalization should not only be pro-growth it should also be pro-poor. However, this model ignores the effects of complete specialization and intra-industry trade.¹² If one recognizes the possibility of different degrees of mobility of some or all factors over time, the income consequences of trade liberalization are further complicated. Empirical literature shows that income distribution has tended to remain stable over time within countries and there is as much tendency for it to worsen slightly as there is to improve it.¹³

According to most of the studies surveyed above, the full benefits from trade liberalization can be realized fully if the country has stable macroeconomic policies and institutional and infrastructural support i.e. their supply response capacity constraints are removed and the external market access barriers, particularly from developed countries, are removed. In assessing the link between trade liberalization and poverty it is also clear that the choice of poverty indicators matters. Outcomes may differ on the basis of income, consumption, health and education, as well as other dimensions of human well being. The link between trade liberalization and poverty has to be circumscribed by the initial conditions which relate to institutions, mobility of factors of production, existence of quotas or quota rents, the possibility and ease of replacing tariff revenues with other forms of taxation and several other such issues.¹⁴ An analysis of absolute and relative poverty is also important. McCulloch et al suggest that agriculture and services are key sectors for poverty alleviation and this report to a large extent confirms those findings.¹⁵

In devising a framework for analyzing the effects of trade reforms on poverty, Winters 2001¹⁶ offers a useful checklist to help policy makers appraise the impact of trade liberalisation on poverty:

1. Will the effects of changed border prices affect domestic prices?
2. Will trade reform destroy effective markets or create them and allow poor consumers to obtain new goods?
3. Is it likely to affect different household members differently?
4. What factors are used intensively in the most affected sectors? What will be the mix of wage and employment effects? Will wages exceed poverty levels?
5. Will the reforms affect government revenue strongly?
6. Will it lead to switching of activities and will this switch be riskier or particularly unequalizing?
7. Will reform be localized?

¹² Winters, A. (2001), 'Trade and Poverty: Is there a Connection?' in Trade, Income Disparity and Poverty, Lausanne; WTO

¹³ Rajan, R. (2002), 'Trade Liberalisation and Poverty in Asia: Issues and Policy Options' paper presented at the Fourth Asia Development Forum, co-sponsored by the Asian Development Bank, KDI, KIEP and the World Bank, Seoul

¹⁴ Round, J. and Whalley, J. (2003), 'Globalisation and Poverty: Implications of South Asian Experience for the Wider Debate'

¹⁵ McCulloch, Winters, and Cirera, (2001), 'Trade Liberalisation and Poverty: A Handbook', Centre for Economic Policy Research

¹⁶ Winters, A. (2001), op.cit

8. Will reform result in transitional unemployment which is concentrated on the poor?

4.2 Literature review on trade liberalization and poverty in India

Trade liberalization in India has consisted of tariff reductions, elimination of quotas, and also economic reforms. In 1991, devaluations were significant, as was the relaxation of exchange controls on both capital and current accounts, as well as removal of restrictions on FDI inflows. It is now generally agreed in the light of some mixed evidence that absolute poverty has declined in the 1990's, i.e. in terms of the headcount ratio. However, the figures of the Planning Commission and that of scholars differ because of the change in the way poverty was calculated between the 53rd (1994) and the 55th (2001) Round of the NSS survey. Some argue that poverty reduction in the pre reform period was faster than during the reform period.¹⁷

Box 2.1 : Different Views on Poverty Estimates

- Deaton (2003), working on his previous studies, “adjusts” the poverty data that uses the new methodology (55th round) to make them comparable with earlier estimates and finds that 30% of the fall in rural poverty is attributable to the change in survey design and only two thirds appears to be real.
- Some further question the reliability of this data as a means to measure poverty, as there is a gap between mean consumption from NSS data and aggregate private consumption as measured by national accounts. It is argued that the 55th round survey might have overstated consumption expenditures (for example, Sen, 2000; Bhalla 2000; Srinivasan, 2000) finds a higher rate of decline of poverty than the NSS data, assuming the under estimation to be distribution neutral.
- Sundaram and Tendulkar (2003) compare the 55th Round data with consumer expenditure data from 55th Round's employment-unemployment survey, which was canvassed on an independent and distinct samples of households within the same universe, as well as data from the thin sample rounds between the 50th and 55th Rounds. It shows that the size distributions of consumer expenditure in the 55th Round is comparable to the 50th Round subject to appropriate recalculation. They find that the total head count ratio (HCR) declined by over 8% between 1994 and 2000. HCR in the rural areas declined by 1.5% between 1994 and 2000, significantly higher than the decline of 0.9% between 1983 and 1994. The number of urban poor declined by 3.8 million over this period, compared to an increase of 7 million in the preceding period.
- Datt, Kozel and Ravallion (2002) apply an econometric model to the NSSO data, assuming that the key determinants of the rate of poverty reduction at state level are agricultural yields, growth of the non-farm sector (depending on the state's initial conditions), development spending and inflation. After allowing for state-specific growth elasticities of poverty, they predict that poverty declined but only to 34% in 1999-00. They also find that except for major differences in Bihar, Uttar Pradesh and Maharashtra, the rates of forecast and actual reduction agreed quite closely for 6 states and reasonably closely for others of the total 14 states studied. Their study suggests that a higher rate of growth in the 1990s has not been accompanied by similar declines in poverty as poverty reduction in the pre-reform period was faster.
- According to S P Gupta, between 1983 and 1990-91 when economic growth rate was about 5.6%, the poverty rate fell by 3.1% p.a. When between 1993/94 and 1997, the growth rate shot up to 6.9% p.a., the figure went up from 35 to 37%. A number of papers in a recent issue of a professional journal and at a conference on food security, too, have contested official figures and the claims of the protagonists of globalisation.
- In a detailed paper, Deepak Lal, Rakesh Mohan and I Natarajan suggest ways of reconciling the diverse findings on Indian poverty.

Sources: Deaton, A. (January 25, 2003), 'Adjusted Indian Poverty estimates for 1999-2000', *EPW*; Sen Abhijit (December 16, 2000), Estimates of Consumer expenditure and its distribution; statistical priorities after NSS 55th Round, *EPW*; Sundaram K and Tendulkar, Suresh D (January, 25, 2003), 'Poverty has declined in the 1990s: a resolution of comparability problems in NSS consumer expenditure data', *EPW*; Gupta, S P (December 30, 1999) 'Trickle Down Theory Revisited: The Role of Employment and Poverty', Lecture at the Annual Conference of Indian society of Labour Economics, Reported in 'Has Poverty Worsened with Reforms', The Hindu; (May 30-31, 2001) 'Anna Panchayat: A Public Hearing on Hunger, Food Rights and Food Security, Organised by Research Foundation for Science, Technology and Ecology', New Delhi; Lal, D. Mohan, R. and Natarajan, I. (March 24, 2001) 'Economic Reforms and Poverty Alleviation: A Tale of Two Surveys', *EPW*.

¹⁷ For reviews, see Datt, G Kozel, V and Ravallion, M. (2002); 'A model-based assessment of India's progress in reducing poverty in the 1990s'; World Bank (2002), 'Poverty in India: the challenge of Uttar Pradesh'.

However, attributing poverty reduction to trade liberalization is difficult in India because of the amount of ‘noise’ surrounding such changes in a large economy such as India. According to World Bank (2000) estimates, real GDP grew at an average annual rate of 10% in China and 6% in India during 1980-2000. This was the period of their outward orientation. No country in the world had as rapid growth as China and fewer than 10 exceeded the Indian growth rate. According to the Asian Development Bank (2000) estimates, the incidence of poverty declined from 28% in 1978 to 9% in 1998 in China and from 51% in 1977-78 to 27% in 1997-98 in India.

Table: 2.1 Poverty Incidence during the 1990s (headcount ratio %)

| 1993-94 | 1999-00 |
|---------|---------|
| 35.9 | 26.1 |

Source: SAARC Regional Poverty Profile 2002

Several studies document a significant decline in poverty during the reform period, of at least one percent point per year in terms of the population living below a dollar a day.¹⁸ According to a World Bank analysis, more rapid growth associated with a global reduction in protection could reduce the number of people living in poverty by as much as 13% in 2015 (or 300 million people).¹⁹

Results of the CGE modelling (see table 2.2) done by William Cline show that an estimated 75 mn people would be lifted out of poverty in India over the long term from the dynamic productivity effects of free trade. This is in addition to the reduction in poverty of around 28mn from the real income effects - mainly in unskilled wages - arising from the static effects of free trade. Thus, an estimated 103 m people would be lifted out of poverty over the next decade or two from the static and dynamic productivity gains from free trade.

Table 2.2 Poverty impact of dynamic productivity gains from free trade

| Country | Number of poor (m) | Poverty elasticity | Increase in Trade (%) | Long-term productivity gain (%) | Change in poverty (m) |
|---------|--------------------|--------------------|-----------------------|---------------------------------|-----------------------|
| India | 859.9 | 3.5 | 6.2 | 2.48 | -74.6 |

Source: William Cline (2003)

Cline shows that the reduction of tariffs and contingent protection in the textiles and apparel sector, as well as subsidies and other protection in agriculture by the developed countries, would have by far the most significant poverty reduction effects in countries such as India, and indeed globally.²⁰ These sectors are also important in terms of relevance to production in countries with a relatively high incidence of poverty such as India.

¹⁸ Datt,G, Kozel, V. and Ravallion, M. (2002), op.cit

¹⁹ World Bank, 2002, op.cit

²⁰ (November 2003)Industrial Country Protection and the Impact of Trade Liberalisation on Global Poverty, in Cline,W. ‘Trade Policy and Global Poverty, (to be published)’

While liberalization has been important in promoting mid-skill level software exports, the reforms in India do not appear to have generated significant employment in export-oriented, labour-intensive manufacturing industries, barring textiles and clothing.²¹ This compares unfavourably with the experiences of the East Asian Economies in the 1980's and the 1990s, which have emerged as the major players in labour-intensive manufacturing.²² However, some of the recent studies emerging in India show that the employment generation capacity of software, especially consultancy firms, may exceed manufacturing. In fact, the employment generated by a software company INFOSYS is greater than that of the major cement company ACC.²³

According to Alan Winters²⁴, if we can take India as a labour abundant country, trade liberalization is expected to increase the demand for labour especially in the formal sector. Its effect on poverty depends on how the labour market functions. If the elasticity of supply of labour is zero, wages will increase but not employment, whereas if it is infinite, employment increases but not wages. In the case of supply of labour being perfectly elastic at the prevailing rate, the effect on poverty depends heavily on what the additional workers were doing before accepting these new jobs. If they were engaged in subsistence activities, there is no change in their situation. Only if the switch into this labour market were so great as to significantly reduce labour supply to the subsistence sector and hence raise its wages, would there be a poverty impact. In this case, the increase would apply to all workers in formal and subsistence sectors and so potentially would have very widespread benefits. However, the increase in labour demand would have to be huge to have a material effect on the wage. Alan Winters notes that whole economies are transformed over a period of decades through this case. Trade liberalization is an important part of this process, but not the only one. The alternative and more common case is that the wage in the formal sector exceeds the subsistence wage. In this case, the workers who transfer to that sector experience a direct wage increase which almost certainly alleviates poverty. This is the situation in India, where the formal sector manufacturing wage is substantially above the poverty line.

Winters has further noted that trade liberalization was associated with a marked acceleration in formal employment growth (from 3.8% from 1987/8 to 1990/1, to 9.4% from 1991/2 to 1994/5) but also a slight deceleration in wages. This suggests workers are pulled into formal labour markets from a reserve army (infinite elasticity of supply), but wages are not affected much. The reserve army model can be used to represent the Indian formal manufacturing sector. The Indian workforce probably numbers between 500 and 600 million. The level of unemployment in India is around 11%, or less than half of the proportion of people classified as poor: hence, if the under-employed and those in poor quality employment are getting work even at the prevalent wage rate, the poverty impact of increased employment could actually be much more than what can be captured by increase in wage rates.

However, perceptions of liberalization on the ground do not always accord with the evidence available from formal statistical sources. Trade liberalization forces existing firms as well as new entrants to restructure, focus on their core competencies and bring in technological changes. This may lead to a situation in which existing employees who cannot be retrained

²¹ Rajan, R.S.(2002) 'Trade liberalization and Poverty: Revisiting the Age-Old Debate'

²² Rajan, R. and Sen, R. (2001), 'Trade Reforms in India Ten Years On: How does it Fare Compared to its East Asian Neighbours?', Discussion paper no.0147, CIES, Adelaide, Australia

²³ Economic Times, 17th December 2003

²⁴ PRUS Working Paper No. 7, (April 2000), 'Trade Liberalisation and Poverty'

are declared surplus through voluntary retirement while new employment occurs not in the organized sector but out-sourced, thus leading to greater employment in the informal sector.

The main message of a recent paper²⁵ is that “Employees of ‘globalised’ firms face a riskier but potentially more rewarding menu of labour market outcomes”. The study stresses that these employees not only get better pay, but also more opportunities to upgrade their skills. So, “the negative uncertainty costs and the positive incentive effects of globalization are thus twin to each other”. It is found that employees of exporting firms are susceptible to higher wage and employment variability, but also have a higher chance of being promoted and trained than the employees of firms not subject to foreign competition. It was posited that an employee of an exporting firm is twice as likely to be promoted in the current year as the average worker and no less than 3 times as likely as the employee of a protected firm.

Another important issue which could have positive income effects relates to the implications of removing quotas. Studies claim that the removal of rent-seeking trade-based quotas could have positive effects on poverty. Mohammed and Whalley (1984) estimated that rent-seeking costs for the major policy interventions in India could be about 15-40% of the GDP. Removal of these quotas could free real resources, potentially leading to positive income effects.²⁶

A recent Goldman Sachs study²⁷ notes that “India has the potential to show the fastest growth over the next 30 and 50 years”. This is deduced using only a modest growth rate of 6% per year between now and 2040 and a slowdown to 5% by 2050. Even with such a modest growth rate India would attain today’s Korean standards of living by 2042 and Italy’s by 2050. In terms of GDP in US dollars, the Indian economy would overtake UK in 20 years and Japan in 30 years. This is mainly attributed to compound interest and a large base population. According to the study, demographics have an important role to play in the way the world will change. India has the only population out of the BRICS (Brazil, Russia, India, China) that continues to grow throughout the next 50 years and so India has the potential to raise its US dollar income per capita to 35 times current levels. India in the next few decades will be passing through a ‘demographic dividend’. These are the decades when the economy has the highest proportion of its population in the working age (15-60) and offers the maximum potential for employment and growth.

But, there is a catch in the above analysis. In a well functioning economy, it is expected that labour demand would match labour supply and would lead to more jobs and output. But, there is no guarantee for this. In India, between 1993-94 and 1994-2000, the economy grew at around 6.7% per year. But, employment grew only 1 % per annum. Labour force during this period was growing at over 2 % per year and there was plenty of backlog of underemployment and unemployment. Thus, labour demand was growing much slower than labour supply.

With this background information, this study aims to map out the issues on which policy and negotiating approaches in the Doha Round of Trade Negotiations could maximize the benefits to the poor given the assumption that the negotiating mandate is completed. However, it has to be emphasized that India has low levels of trade relative to its size, so it is not easy to identify direct links between trade and poverty. In the following sections we

²⁵ Daveri, F. Manasse, Danila Serra, D.’ The Twin Effects of Globalisation:

²⁶ Mohammed, S. and Whalley, J (1984), ‘Rent seeking in India: Its costs and Policy significance’, *Kyklos*, Vol. 37, No.3

²⁷ *Dreaming with BRICS* (October, 2003)

examine three areas of particular concern to India, in the context of the Doha Round. The issues include: (a) agriculture; (b) services and (c) textiles. However, before this paper examines sector specific issues, a general introduction to the Indian economy and its trade policies as well as their effects on poverty is provided in the next section.

4.3 Growth and Poverty in the Indian Economy

The Indian economy encompasses traditional village farming, modest modern agriculture, handicrafts, a wide range of industries (ranging from the traditional small scale sector to high-tech software and computer services industry) and a multitude of support services. Trade liberalization during the 1990s resulted in productivity gains associated with increased competition, innovation and acquisition of modern technologies, all of which contributed to raising living standards. Unlike other Asian countries, India has not faced any major financial problems and has attracted substantial foreign direct investment in the last decade. The average rate of growth in the twelve-year period since India initiated the process of economic reforms has been at around 6% p.a. India made substantial gains in economic investment and output since the 1990s pursuant to liberalisation. More sectors were opened to private activity without licensing and other restrictions. Trade policy and the exchange rate regime were liberalized and capital markets were reformed. Overall GDP shows a growth rate of 5.4% p.a. in the period 1980-1990 and 6.9% p.a. in the 1990-2000 period.²⁸

Statewise Trade, Growth and Poverty

Ahluwalia (2000)²⁹ compared the rates of growth at the sub-national level in gross SDP in the nineties with that in the preceding decade. His results generally support the contention that states that have a higher contribution to exports have grown faster.

It is also interesting to observe (see table 3.1 below) that the States which have a higher share of total exports, have also generally witnessed more reduction in poverty rates, both rural and urban. Coincidentally these states have better infrastructure and social development indices and have experienced relatively high growth rates in the State Domestic Product. Some outliers to this observation are Haryana, Kerala and Punjab. The States with the lowest levels of poverty are typically those with the best social welfare schemes (such as Kerala and to a lesser extent West Bengal), or those which have very high agricultural productivity (such as Punjab and Haryana). States that have grown faster were better endowed in both physical infrastructure and had better indices of literacy, health and population. They also consequently contribute the highest share of exports in the country.

²⁸ World Bank, (2003), 'GEAP studies'

²⁹ Ahluwalia, M. S. (May 6, 2000), 'Economic Performance of States in Post-Reforms Period', *EPW*.

Table 3.1 Export shares, growth and poverty rates

| State | % Share in Exports 2002-03 | Growth Rate | | HCR Rural | | HCR Urban | |
|------------------|----------------------------|------------------------------|------------------------------|-----------|---------|-----------|---------|
| | | 8 th Plan 1992-97 | 9 th Plan 1997-02 | 1993-94 | 1999-00 | 1993-94 | 1999-00 |
| Maharashtra | 21.55 | 8.9 | 4.7 | 42.9 | 30.8 | 18.2 | 13.0 |
| Tamil Nadu | 10.98 | 7.0 | 6.3 | 38.5 | 25.6 | 20.9 | 11.1 |
| Gujarat | 8.7 | 12.4 | 4.0 | 32.5 | 20.4 | 14.7 | 6.6 |
| Karnataka | 5.53 | 6.2 | 7.2 | 37.9 | 30.3 | 21.4 | 11.5 |
| West Bengal | 3.82 | 6.3 | 6.9 | 25.1 | 22.7 | 15.5 | 11.4 |
| Andhra Pradesh | 3.63 | 5.4 | 4.6 | 29.2 | 27.9 | 17.8 | 11.3 |
| Uttar Pradesh | 3.03 | 4.9 | 4.0 | 28.7 | 20.8 | 21.7 | 16.5 |
| Punjab | 2.42 | 4.7 | 4.4 | 6.2 | 2.8 | 7.8 | 4.0 |
| Kerala | 2.23 | 6.5 | 5.7 | 19.5 | 11.6 | 13.9 | 10.5 |
| Haryana | 1.88 | 5.2 | 4.1 | 17.0 | 6.5 | 10.6 | 5.1 |
| Rajasthan | 1.74 | 7.5 | 3.5 | 23.0 | 16.2 | 18.3 | 10.6 |
| Madhya Pradesh | 1.31 | 6.3 | 4.0 | 36.7 | 31.2 | 18.5 | 14.1 |
| Orissa | 0.94 | 2.1 | 5.1 | 43.5 | 41.3 | 15.2 | 15.6 |
| Assam | 0.19 | 2.8 | 2.1 | 35.4 | 35.7 | 13.0 | 12.1 |
| Bihar | 0.15 | 2.2 | 4.0 | 48.6 | 39.3 | 26.7 | 23.5 |
| Himachal Pradesh | 0.1 | 6.5 | 5.9 | 17.1 | 12.5 | 3.6 | 1.7 |

Source: Director-General of Commercial Intelligence and Statistics (DGCIS), Kolkata Planning Commission, Tenth Five Year Plan document and Planning Commission, press note 2001.

Ravallion and Datt (2001) show that India's states vary enormously in terms of initial conditions that are relevant to how much impact economic growth will have on poverty. States that lagged in initial rural development and human development faced limited longer term prospects of pro-poor growth from their non-farm economies. States with higher growth in agriculture yields were not the states with initial high levels of poverty. This also has policy implications: in a state with high literacy, for example, there could be more scope for reducing poverty through non-agricultural growth. Their research (2002) shows that higher farm yields and higher development spending reduce the incidence of poverty, as does higher non-farm output per person.

Raghbendra Jha and Anurag Sharma found that relative inequality has remained unchanged in spite of major trade liberalization in the 1980s and the 1990s. Regional inequality in the incidence of poverty has persisted over time. This relates to the monthly per capita expenditure, as well as to poverty gap indices, i.e. the extent to which monthly expenditures differ from the poverty line.³⁰ A UNU WIDER Cornia and Court (2001) study on changes inter state income inequality—over the last two decades finds that the persistence of inequality at high levels has made it much more difficult to reduce poverty. The higher the level of inequality, the less impact economic growth has in reducing poverty. High levels of inequality can depress the rate of growth and also have undesirable social and political

³⁰ Jha, R. and Sharma, A. (November 22, 2003), "Spatial Distribution of Rural Poverty- Last Three Quinquennial Rounds of NSS", Economic and Political Weekly

impacts, on crime and political stability for example.³¹ Technological change and globalization are factors driving rises in inequality, but they are less important than is generally perceived. In fact the study by Cornia and Court cited above finds that Canada and Taiwan provide clear examples of countries growing fast and maintaining low inequality. They find that inequality in India, has remained unchanged between 1960s and 1990s, although data for the last 2-3 years show a rise in inequalities ‘as even a respectable growth has bypassed the rural areas where the majority of the poor live.’ In response to controlled liberalization, there was a modest rise in rural inequality in India and a more significant rise in urban inequality in the 1990s. Earlier Ahluwalia (2000) (*ibid*) found that while the inter-state inequality as measured by the gini coefficient has increased, it is not true that all rich states got richer and poor states became poorer.

There was also an increase in the incidence of poverty among rural labourers. Despite healthy growth, poverty levels remained high because of the increase in inequality and the decline in agricultural wages, and also on account of the rise in food prices, especially in the subsidized food prices in the PDS.³² Mundle and Tulasidhar³³ have argued that the targeting and coverage of the PDS have been inadequate and therefore the system has failed to shield the poor from the rise in foodgrain prices that has followed the boost in the price of fertilizers and the procurement price for foodgrains in the aftermath of the reforms.

Growth and consumption

Another insight into trade liberalisation, growth and poverty linkages could be obtained by looking at the consumption across States whose contribution to exports of merchandise goods is relatively high.

Table 3.2 Average expenditure (Rs) per person per 30 days in rural areas

| | All India | Maha-rashtra | Tamil Nadu | Gujarat | Karna-taka | West Bengal | Andhra Pradesh | Uttar Pradesh | Punjab |
|---------------------------|-----------|--------------|------------|---------|------------|-------------|----------------|---------------|--------|
| Food total | 276.35 | 291.50 | 301.51 | 354.39 | 278.02 | 304.63 | 295.73 | 234.16 | 366.86 |
| Non food - total | 221.92 | 297.81 | 250.51 | 266.71 | 247.40 | 201.38 | 242.08 | 188.48 | 394.40 |
| Total consumer exp | 498.27 | 589.32 | 552.03 | 621.09 | 525.42 | 506.01 | 537.80 | 422.63 | 761.25 |

Source: NSS report 481, Statement 2.4 R (57th Round, July 2001 to June 2002)

It can be seen from the table above that states which are better integrated have non food expenditure which is higher than the all India average, whereas states like West Bengal and UP which have a low share of exports have lower than average non food expenditure. Expenditure on non-food items is likely to be greater in more developed states as the poorer states would continue to spend more to meet their needs of food. Punjab is an outlier.

³¹ Cornia, G.A and Court, J.(2001), ‘Inequality, growth and poverty in the era of liberalization and globalisation’

³² *Ibid.*

³³ Mundle and Tulasidhar (1998)

Growth and employment

The other dimension of trade, poverty and growth that is analysed below is the impact on employment levels in various sectors and sub sectors and the impact on the real wage rates.

Table 3.3: Employment Scenario Statewise

| STATES Major ones | Employment (‘000) 1999-2000 | Employment Growth 1993/4- 1999/00 (% pa) | Unemployment Rate | | Employment Elasticity 1993/4- 1999/00 | GDP Growth 1993/4- 1999/00 (% pa) |
|----------------------|-----------------------------------|--|-------------------|-------------|--|--|
| | | | 1999-00 | 1993-94 | | |
| Andhra Pradesh | 30,614 | 0.35 | 8.03 | 6.69 | 0.067 | 5.2 |
| Assam | 7,647 | 1.99 | 8.03 | 8.03 | 0.737 | 2.7 |
| Bihar | 30,355 | 1.59 | 7.32 | 6.34 | 0.353 | 4.5 |
| Gujarat | 18,545 | 2.31 | 4.55 | 5.70 | 0.316 | 7.3 |
| Haryana | 5,982 | 2.43 | 4.77 | 6.51 | 0.420 | 5.8 |
| Himachal Pradesh | 2,371 | 0.37 | 2.96 | 1.80 | 0.052 | 7.1 |
| Karnataka | 20,333 | 1.43 | 4.57 | 4.94 | 0.188 | 7.6 |
| Kerala | 8,902 | 0.07 | 20.97 | 15.51 | 0.013 | 5.5 |
| Madhya Pradesh | 28,725 | 1.28 | 4.45 | 3.56 | 0.272 | 4.7 |
| Maharashtra | 34,979 | 1.25 | 7.16 | 5.09 | 0.216 | 5.8 |
| Orissa | 11,928 | 1.05 | 7.34 | 7.30 | 0.262 | 4.0 |
| Punjab | 8,013 | 1.96 | 4.03 | 3.10 | 0.426 | 4.6 |
| Rajasthan | 19,930 | 0.73 | 3.13 | 1.31 | 0.104 | 7.0 |
| Tamil nadu | 23,143 | 0.37 | 11.78 | 11.41 | 0.052 | 7.1 |
| Uttar Pradesh | 49,387 | 1.02 | 4.08 | 3.45 | 0.185 | 5.5 |
| West Bengal | 22,656 | 0.41 | 14.99 | 10.06 | 0.056 | 7.3 |
| All India | 336,736 | 1.07 | 7.32 | 5.99 | 0.160 | 6.7 |

Source: Employment survey (1993-94) and (1999-00)

The growth in GDP between 1993/1994 to 2000 is higher than in 1983 to 1993/1994, whereas the employment level for the same period has declined. This indicates that GDP growth does not necessarily lead to employment growth.³⁴

Overall employment in the organized sector grew more rapidly in the decade before liberalization than after liberalisation. In this context, it can be clearly seen that overall

³⁴ ILO (January 2003), ‘Global Employment Trends’

employment rates have been declining in the last six years of liberalisation (but employment in the unorganised sector like in textiles and clothing might have increased over the period) and what is even more worrying is the decline in the employment elasticity of all sectors of the economy. States which are better integrated into the global economy have also shown high unemployment rates thus pointing to the fact that the link between liberalization and employment is tenuous at best. Much clearer is the link between poverty head count ratio and export orientation of the state.

In addition, inter state inequality by itself may not increase poverty. There is anecdotal evidence to support the theory that export growth from Punjab in agricultural products may draw labour from Bihar thus leading to some poverty alleviation in Bihar. Remittances could have helped Bihar grow, where data shows that commercial bank deposits have seen sustained growth and investments in small savings were not exactly commensurate with Bihar's SDP growth pattern.

Table 3.4: Sectoral Employment Elasticity

| SECTORS | Employment Elasticity | | |
|---|-----------------------|-----------------------|----------------------------|
| | 1983 To 1987-88 | 1983 To 1993-94 | 1993-94 To 1999-2000 |
| Agriculture | 0.87 | 0.70 | 0.01 |
| Mining's and quarrying | 1.25 | 0.59 | -0.41 |
| Manufacturing | 0.59 | 0.38 | 0.33 |
| Electricity, gas and water supply | 0.30 | 0.63 | -0.52 |
| Construction | 2.81 | 0.86 | 0.82 |
| Trade, hotels and restaurant | 0.87 | 0.68 | 0.62 |
| Transport, storage and communication | 0.47 | 0.55 | 0.63 |
| Financing, insurance, real estate and business services | 0.49 | 0.45 | 0.64 |
| Community, social and personal services | 0.52 | 0.68 | -0.25 |
| All | 0.68 | 0.52 | 0.16 |

Note: elasticity may change after adjustment of workers of repair services
Source: NSSO; Different rounds of Employment & Unemployment survey

Growing unemployment has always been a major source of concern for India's planners. Although employment in the New Economy units has grown at a fairly rapid pace in the post-liberalisation years, the country's employment scenario has not improved much since the reforms. The general notion post-liberalisation was that higher competitiveness would lead to higher output growth and subsequently higher employment. But, According to the National Sample Survey Organisation data, the growth rate of employment has declined from 2.7% per annum during 1983-94 to 1.07% during 1993-2000, when GDP growth accelerated from 5.2% to 6.7%. Thus, employment elasticity of output growth has fallen from 0.52 to an insignificant 0.16 during the same above mentioned period. The important question then is how the country will achieve its 10 million a year employment growth target of the 10th Plan. Agriculture cannot be relied on for providing an increase in employment as the employment elasticity of agricultural output was estimated at a negligible 0.01 during 1993-2000. Industry thus has to contribute in a major way to employment, even though the employment elasticity

of output growth was estimated at only 0.33 during 1993-2000. The Planning Commission is projecting a higher elasticity of 0.50 for the sector in the 10th Plan. But it has to be kept in mind that a rise in elasticity will indicate either a fall in labour productivity or a shift towards labour intensive technologies. It has to be noted that even though agriculture is not expected to provide huge employment increases, its poverty alleviation effects are going to be felt more through wage, consumption and multiplier effect channels.

With respect to labour utilization, there was an increase in the rate of deceleration after 1994, which could be interpreted as increase in labour productivity. However, there was no sign of increase in earning in the organized sector, despite increase in total employment.³⁵ According to Raghendra Jha³⁶, the share of wage income has seen a mild downward trend and this tendency is even more pronounced in the organized sector. Even though the share of the organized sector in NDP has risen enormously (by about 50%), since 1992-93; the share of the profits has gone up rapidly; the share of wage income has broadly stagnated.

Trade Liberalisation and globalisation has also been associated with increasing casualisation and so-called informalisation of the labour force. While sector specific studies examine the specific effects of liberalisation, the overall picture that emerges shows a very high level of informalisation in the Indian economy as a whole. In most traded goods and in services, more than half the employment is in the informal sector.

Table 3.5: % Share to total of Gross Value Added of Unorganised manufacturing and Unregistered Small Scale Industry Sectors

| Group | GVA of Unorganized Manufacturing sector | GVA of Unregistered SSI |
|---------------|---|-------------------------|
| | % Share to Total | % Share to Total |
| Food products | 68.58 | 31.42 |
| beverages | 91.83 | 8.17 |

³⁵ CUTS (1999), 'Trade Liberalisation and Poverty: What is the Evidence?- The case for India'

³⁶ World Institute for Development Economics Research (2000), 'Reducing Poverty and Inequality in India-Has Liberalisation helped?' Working Paper No.204

| | | |
|-------------------------|--------------|--------------|
| Cotton | 98.85 | 1.15 |
| Silk wool | 85.36 | 14.64 |
| Jute | 96.33 | 3.66 |
| Textile | 75.95 | 24.05 |
| Wood products | 77.70 | 22.30 |
| Paper products | 57.78 | 42.22 |
| Leather products | 70.41 | 29.59 |
| Chemical products | 26.45 | 73.55 |
| Rubber products | 48.67 | 51.33 |
| Non-Metallic | 68.13 | 31.87 |
| Basic metals | 36.40 | 63.60 |
| Metal products | 55.69 | 44.31 |
| Non-Electrical | 43.16 | 56.84 |
| Electrical machinery | 56.53 | 43.47 |
| Transport equipment | 63.25 | 36.75 |
| Other manufacturing | 93.26 | 6.74 |
| Repair of capital goods | 100.00 | 0.00 |
| Total | 71.14 | 28.86 |

Table 3.6 Share of employment

| S.No. | Sector Name | Formal | Informal |
|-------|---------------------------------|--------|----------|
| 1 | Agriculture | 3.72 | 96.28 |
| 2 | Mining & quarrying | 90.54 | 9.46 |
| 3 | Food products | 89.62 | 10.38 |
| 4 | Sugar | 66.66 | 33.34 |
| 5 | Beverages | 64.9 | 35.1 |
| 6 | Textile | 46.76 | 53.24 |
| 7 | Wood | 17.02 | 82.98 |
| 8 | House hold electrical | 75.83 | 24.17 |
| 9 | Other manufacturing | 39.83 | 60.22 |
| 10 | Watches & clock | 99.5 | 0.5 |
| 11 | Leather | 54.2 | 45.8 |
| 12 | Rubber, plastic etc | 95.54 | 4.46 |
| 13 | Basic chemical | 93.97 | 6.03 |
| 14 | Non-metallic minerals | 66.8 | 33.2 |
| 15 | Iron and steel | 89.38 | 10.62 |
| 16 | Miscellaneous metal products | 36.85 | 63.15 |
| 17 | Capital goods | 87.74 | 12.26 |
| 18 | Transport equipment | 60.59 | 39.41 |
| 19 | Electricity, gas & water supply | 93.58 | 6.42 |
| 20 | Construction | 49.51 | 50.49 |
| 21 | Combined services | 35.67 | 64.33 |
| 22 | Health & medical service | 61.65 | 38.35 |
| 23 | Other service | 53.37 | 46.63 |
| 24 | Public administration & defence | 100.00 | 0.00 |

Source: National Account Statistics, 1997, Enterprise Surveys and ASI

Sundaram & Tendulkar³⁷ using the NSSO data of the 50th and 55th round found that in the rural areas, agricultural labour households and in the urban areas, the casual labour households had the highest levels of poverty. These are asset less households dependent on uncertain and fluctuating daily wage labour. The share of the population with regular wage/ salaried work went down in 1999-00 compared to 1993-94. The study concludes by saying that rapid growth would lead to poverty reduction.

³⁷ Sundaram, K and Tendulkar, S.D. (December 13, 2003), 'Poverty among social and economic groups in 1990s', Economic and Political Weekly

India and the Millennium Development Goals

India's performance in attaining the Millennium Development Goals (MDGs)³⁸ is mixed. It is one of the few countries on track for reducing income poverty, and is also likely to achieve the target for enrolment in primary education, and access to improved water sources.³⁹ However there are several areas of concern; maternal mortality rate remains more or less stagnant, and the proportion of assisted deliveries must at least double to reach MDG targets. It is also far behind in achieving gender parity in secondary education, and lags in reducing under-5 and infant mortality rates.⁴⁰ India is also said to have a “high level of under nourishment” - one out of five persons is undernourished⁴¹. The number of undernourished people in India has increased from 1990-92 to 1999-2001; the decreasing trend, in both the number and the proportion of undernourished people, observed from 1990-92 (214.5 million) to 1995-97 (194.7 million) reversed from 1995-97 to 1999-2001(213.7 million).⁴² See Table 3.7 for a comprehensive listing of MDG indicators and India's performance in MDGs so far.

A World Bank report titled "Attaining The Millennium Development Goals in India: How Likely and What Will it Take?" makes a detailed analysis of the attainment of five major human development-related MDGs by sub-national units in India – child and infant mortality, child malnutrition, schooling enrollment and completion, gender disparities in schooling, and hunger poverty (as reflected by inadequate calorie intake).⁴³ The report came out with six major findings:

- *Firstly*, there are very large disparities across different states and regions of India in terms of their performance on the MDGs with the indicators being much worse in the Northern states – Bihar, Uttar Pradesh, Orissa, Rajasthan and Madhya Pradesh – than in the Southern and Western states.
- *Secondly*, attainment of MDGs will be challenging for five of the above states and yet the attainment of MDGs in these states was critical for national attainment of the MDGs.
- *Thirdly*, the impact on health and educational MDG outcomes of public spending on health and education was observed to be much greater in the poorer states than in the better-off states.
- *Fourthly*, expenditure on education and health in poorer states will have an impact only if such schemes are optimally managed and quality of such spending improved.
- *Fifthly*, in addition to growth in public spending on health and education, economic growth is observed to have a strong impact on virtually every MDG.

³⁸ Goal 1. Eradicate extreme poverty and hunger; Goal 2. Achieve universal primary education; Goal 3. Promote gender equality and empower women; Goal 4. Reduce child mortality; Goal 5. Improve maternal health; Goal 6. Combat HIV/AIDS, malaria and other diseases; Goal 7. Ensure environmental sustainability; Goal 8. Develop a Global Partnership for Development

³⁹ ADB (2003), 'India Country Strategy and Program 2003-2006'. See also UNDP (2003), 'Human Development Report'

⁴⁰ *Ibid.*

⁴¹ FAO (November 2003), 'India, Monitoring progress towards hunger reduction goals of the World Food Summit (WFS) and the Millennium Declaration (MD)'

⁴² *Ibid.*

⁴³ World Bank (July 2003), 'Attaining the Millennium Development Goals in India: How Likely and What Will it Take?'

- *Sixthly*, not only was there regional inequality in development but that underdevelopment tended to be disproportionately concentrated in certain pockets.⁴⁴

Table 3.7 MDGs: What India has achieved?

| Goals and Targets | Status of India |
|---|--|
| Goal 1: Eradicate extreme poverty and Hunger | |
| <p>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.</p> <p>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.</p> | <p>Poverty incidence was reduced from 36% in 1993-1994 to 26% in 1999-2000</p> <p>Undernourished people made up 23% of the total population in 1999.</p> <p>In 1990, 64% of children under 5 were underweight; in 2000, 46%</p> |
| Goal 2: Achieve universal primary education | |
| <p>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.</p> | <p>Primary school net enrolment ratio was 65% in 1980 and 77% in 1997.</p> <p>Of pupils who reached grade 5, 52% were female and 57% male in 1980, and 55% female and 61% male in 1993.</p> |
| Goal 3: Promote gender equality and empower women | |
| <p>Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and among all levels of education no later than 2015.</p> | <p>The male-female literacy gap, which was 25 percentage points in 1991, was reduced to 22 percentage points in 2001.</p> <p>In secondary school, girls made up 33% of student in 1990, and 38% in 1998.</p> <p>The gap in the enrolment ratios between boys and girls declined over 1993-94 to 1999-2000 as indicated: 6-10 years : Fell by 3 percentage points 11-14 years : Fell by 7 percentage points</p> <p>The gender-related development index for India improved from 0.410 in 1996 to 0.560 in 2000.</p> <p>The gender empowerment measures for India improved marginally from 0.235 in 1996 to 0.240 in 1999.</p> |
| Goal 4: Reduce child mortality | |
| <p>Target 5: Reduce by two-thirds between 1990 and 2015, the under-five mortality rate.</p> | <p>Infant mortality ratio (per 1,000 live births) was 77 in 1991 and 68 in 1999.</p> <p>Mortality of children under 5 (per 1,000) was 112 in 1990 and 95 in 1999.</p> |
| Goal 5: Improve maternal health | |

⁴⁴ For instance, the Report claims that one-fifth of the villages and districts in the country account for about one-half of all infant deaths and underweight children in the country.

| | |
|--|--|
| | <p>Under the National Slum Development Program introduced in 1996, additional central assistance is given to states for slum upgrading.</p> <p>The <i>Swarna Jayanthi Shahari Rozgar Yojana</i> (Golden Jubilee Urban Employment Program), launched in 1997, seeks to increase jobs and empower the urban poor, including those living in slums.</p> |
|--|--|

Source: ADB (2003)

It has to be emphasised that achievement of MDGs requires direct government intervention. A few targets like teledensity might be reached through trade liberalisation, but most others would require government intervention.

Growth prospects in the Indian Economy

Although the economy has performed well over the past few years, it is not fully utilizing its growth potential. The fiscal health of the central and state governments needs to be improved and an increase in public investment is required for long term growth. Low agricultural productivity has largely been due to a declining investment in irrigation. The rate of capital formation in agriculture declined to 9.2% in the 1990s as compared to 21% during the 1970s and 80s. 2002-03 saw an agriculture pulled deceleration in growth on account of a drought in India. There has been an improvement in the growth performance of industry and services from 3.3% to 6.1% and from 6.8 to 7.1% respectively between 2001-02 and 2002-03. However, insufficient investment in both public and private physical infrastructure remains a major constraint in the long run. The growth in the index of 6 core infrastructural industries (electricity generation, coal, steel, crude oil, refinery throughput and cement) must continue on an upward and accelerating path for India to realize the full potential of its high growth rates.

4.4 India's Trade Regime

As a result of the Uruguay Round of Trade Negotiations, India has bound 72% of its tariff lines, with all agricultural products bound and some 68% of tariff lines bound in respect of industrial goods. For non-agricultural products, India undertook, but for few exceptions, ceiling bindings of 40 percent *ad valorem* on finished goods and 25 percent on intermediate good, machinery and equipment. The phased reduction to these bound levels is to be carried out over a 10 year transition period. Therefore, the reduction to the bound levels is to be fully implemented before January 1, 2005.

India pursued the policy of import substitution till the early nineties. Import substitution policy modernized domestic industrial sectors to firstly produce consumer goods and then intermediate and capital goods. Tariff and non-tariff barriers protected the domestic sector from external competition.

Pursuant to liberalization, India adopted policies of liberalizing trade and capital account flows combined with domestic privatization and deregulation. These reforms have been based on a fundamental shift in strategy from state led imports substitution philosophy to a market-led approach to development often in the context of stabilization and structural adjustment programmes. Post liberalization, India has also fared well in the services export sector, especially software and communication technology. This has increased employment and has been an additional source of export earnings.

Although trade has grown rapidly over the past ten years, India's share in global merchandise trade has remained very modest-- around 0.81 %. Though India has improved its share in world exports from 0.7% to 0.8%, it is very low compared to China's share of 5% in world trade. Likewise, India's total trade as a share of GDP has remained relatively unchanged in the post WTO era. India's exports as a percentage of GDP have increased from 0.4% in 1980 and 5.8% in 1991 to 9.4% in 2001-02.⁴⁵ India's approach to trade liberalization has been more sequenced and gradual when compared to its programmes of Stabilisation and Structural Adjustment that were undertaken in 1991. This sequenced approach to trade liberalisation possibly accounts for the substantial mitigation of adjustment costs that are normally otherwise associated with liberalisation. India's approach could offer lessons for structuring of better trade liberalization policies in other developing countries.

India's simple average tariff has come down from 128 % to 35% in 2002. The trade weighted tariffs declined from 87 percent in 1991 to around 30 percent by 2000. Trade tax as a percentage of revenue in India (average of 1994-96) is 23.8%. It was thus feared that with tariff reductions the revenue base of India would be adversely affected thus impairing India's ability to implement social reforms which are key to poverty reduction. However, import growth has accelerated from 9.2% in April-September 2002 to 21.4% in April-September 2003. This has meant that revenue collections have not decreased in absolute terms but have actually marginally increased from tariffs.⁴⁶ There has been a major surge in all commodity groups. However, imports of export related imports witnessed a deceleration during this period, due to decline in imports of pearls, stones and inorganic chemicals

⁴⁵ Ministry of Commerce, Government of India website

⁴⁶ Ministry of Finance (November 2003), 'India's Mid Term Economic Review'

Table 4.1: GDP Growth and Official Merchandise Trade 1990-2002

| | 1990-1991 | 1991-1992 | 1992-1993 | 1993-1994 | 1994-1995 | 1995-1996 | 1996-1997 | 1997-1998 | 1998-1999 | 1999-2000 | 2000-2001 | 2001-2002 | 2002-2003 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| GDP growth (%) at factor cost (1993-94 prices) | 5.6 | 1.3 | 5.1 | 5.9 | 7.3 | 7.3 | 7.8 | 4.8 | 6.5 | 6.1 | 4.4 | 5.6 | 7(P) |
| Inflation (%) | | | | | | | | | | | 1.1 | 2.6 | |
| FDI (US \$ m) | | | | | | | | | | 4029 | 6131 | 5518 | |
| Export (US \$ m) | 18143 | 17865 | 18537 | 22238 | 26330 | 31797 | 33470 | 35006 | 33218 | 36822 | 44560 | 43827 | 38115 (P) |
| % change | 9.2 | -1.5 | 3.8 | 20 | 18.4 | 20.8 | 5.3 | 4.6 | -5.1 | 10.8 | 21.0 | -1.6 | 20.4 (P) |
| Import (US \$ m) | 24075 | 19411 | 21882 | 23306 | 28654 | 36678 | 39133 | 41484 | 42389 | 49671 | 50536 | 51413 | 43882 (P) |
| % change | 13.5 | -19.4 | 12.7 | 6.5 | 22.9 | 28.0 | 6.7 | 6.0 | 2.2 | 17.2 | 1.7 | 1.7 | 14.5 (P) |

Source: Economic Survey of India (2002-03)P=provisional April-December 2002 Exports grew to US\$52.7bn in the financial year 2002-03.

Table 4.2 India's Merchandise Exports (US \$ m)

| Items | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Jute Manufactures | 148 | 141 | 90 | 126 | 204 |
| Tea | 295 | 512 | 542 | 412 | 432 |
| Iron Ore | 488 | 483 | 386 | 271 | 357 |
| Engineering Goods | 4076 | 4482 | 4008 | 4386 | 5716 |
| Cotton Fabrics | 3150 | 3313 | 2790 | 3090 | 3500 |
| Leather & leather Products | 1594 | 1655 | 1638 | 1590 | 1951 |
| Cashew kernel | 366 | 382 | 389 | 568 | 412 |
| Gems and Jewellery | 5258 | 5574 | 6212 | 8145 | 7779 |
| Marine Products | 1139 | 1225 | 1045 | 1183 | 1394 |
| Readymade Garments | 3910 | 4025 | 4127 | 4765 | 5575 |
| Coffee | 405 | 463 | 413 | 331 | 260 |
| Other Commodities | 12934 | 13228 | 12218 | 11848 | 16748 |
| TOTAL | 33763 | 35483 | 33858 | 36715 | 44328 |

Source: Economic Survey 2002-03

The details of commitments undertaken in respect of various agricultural and non-agricultural products will be elaborately dealt with in the respective sections on those issues. India pursued the policy of tariff reduction and rationalization of the tariff structure, notably by reducing the number of tariff bands and by removing the special duty and surcharge, of 5% and 10%, respectively. Customs revenue table from 1990/91 to 2002/03 is given below. From the table below it can be seen that even though customs revenue as a % of gross tax revenue and as a % of GDP has slightly decreased over the past few years, it does not coincide with post-Uruguay round reductions. Also, the revenue has not decreased in absolute terms and so it should not be affecting the development expenditure of the government.

Table 4.3 **Timeline Customs Revenue Statistics**

| | 1990-91 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Customs (Rs.crores) | 20644 | 42851 | 40193 | 40668 | 48420 | 47542 | 40401 | 45193 |
| Customs Revenue as a % of gross tax revenue | 35.9 | 33.3 | 28.9 | 28.3 | 28.2 | 25.2 | 21.6 | 19.2 |
| Customs revenue as a % of GDP | 3.6 | 3.1 | 2.6 | 2.3 | 2.5 | 2.3 | 1.8 | 1.8 |

Source: Economic Survey 2002-03

Further, in its budget for the year 2003-04, India has reduced the peak rate of basic customs duty (BCD) to 25%. Despite this, revenue from customs duties (net of refunds) upto September 2003 increased by 8.1% from the revenues in the corresponding period of the previous year. Therefore for India, trade liberalisation has had neutral budget effects on its capacity to divert resources to poverty alleviation. Thus given this overall macro picture, we are not examining this issue for each sector as suggested in Winter's framework to analyse the effect of trade reforms on poverty.

However, a special additional duty (SAD) of 4% was introduced apparently in place of state taxes, which are applied only to domestically produced goods. The tariff also continues to have a number of "exemptions", which are targeted at particular industries or end users. Tax reforms have been undertaken to broaden the tax base, modernize tax administration, and bring a larger number of services under the tax system, in order to offset the likely loss of revenue from lower customs tariffs. Notwithstanding the elimination of remaining quantitative restrictions on imports of 715 items with effect from March, 31, 2001, there has been no surge in the import of these commodities, even though overall level of imports have increased significantly.

The EXIM Policy 2002-07, which came into force with effect from April 1, 2002 provides for easing the procedures applicable for imports and exports. The focus of the EXIM policy is on trade facilitation and export promotion through greater automation in procedures and steps like removal of quantitative restrictions on all products except certain sensitive items. The new EXIM policy also purports to simplify the complexities of import regulation maintained in India.

Table: 4.4

Structure of Tariffs in India

| | | 1997/98 | 2001/02 | U.R. ^a |
|-----|---|---------|---------|-------------------|
| 1. | Bound tariff lines/all tariff lines ^b | 66.9 | 72.4 | 72.4 |
| 2. | Duty-free tariff lines/all tariff lines | 1.4 | 1.1 | .. |
| 3. | Non- <i>ad valorem</i> rates/all tariff lines | 0.2 | 5.3 | .. |
| 4. | Tariffs with no <i>ad valorem</i> equivalent | 0.2 | 5.3 | .. |
| 5. | Simple average bound tariff rate ^c | .. | .. | 50.6 |
| | Agricultural products (HS01-24) | .. | .. | 115.7 |
| | Non-agricultural products (HS25-97) | .. | .. | 37.7 |
| 6. | Simple average applied tariff rate | 35.3 | 32.3 | n.a. |
| | Agricultural products (HS01-24) ^d | 33.8 | 41.7 | n.a. |
| | Non-agricultural products (HS25-97) | 35.6 | 30.8 | n.a. |
| 7. | Domestic tariff "spikes"/all tariff lines ^e | 0.2 | 1.3 | .. |
| 8. | International tariff "spikes"/all tariff lines ^f | 96.6 | 93.9 | .. |
| 9. | Overall standard deviation | 14.5 | 13.0 | .. |
| 10. | Coefficient of variation ^g | 0.4 | 0.4 | .. |

n.a. Not applicable.

a Based on 2001/02 MFN tariff description.

b Partially bound rates exist in 1997/98, 2001/02 and U.R., representing respectively 0.1%, 0.8% and 0.8% of all tariff lines.

c Tariff lines with two or more different bound rates have been excluded from the calculation. Such tariff lines are found in textiles (chapters 51, 52, 53, 54, 55, 58 and 63); chapter 84 (25 lines); 12, 27 and 85 (four lines each); 30, 33 and 90 (two lines each); and chapters 2, 4, 9, 10, 13, 18, 19, 20, 21, 25, 32, 44, 48, 72, 82, 94 (one line each).

d Under the definition used in the WTO Agreement on Agriculture, the simple applied tariff average on agricultural imports is 35.1% and 40.7% in 1997/98 and 2001/02, respectively.

e Domestic tariff "spikes" are defined as those rates exceeding three times the overall simple average MFN rate.

f International tariff "spikes" are defined as rates exceeding 15%.

g The coefficient of variation is the standard deviation (indicator 9) divided by the simple average (indicator 6).

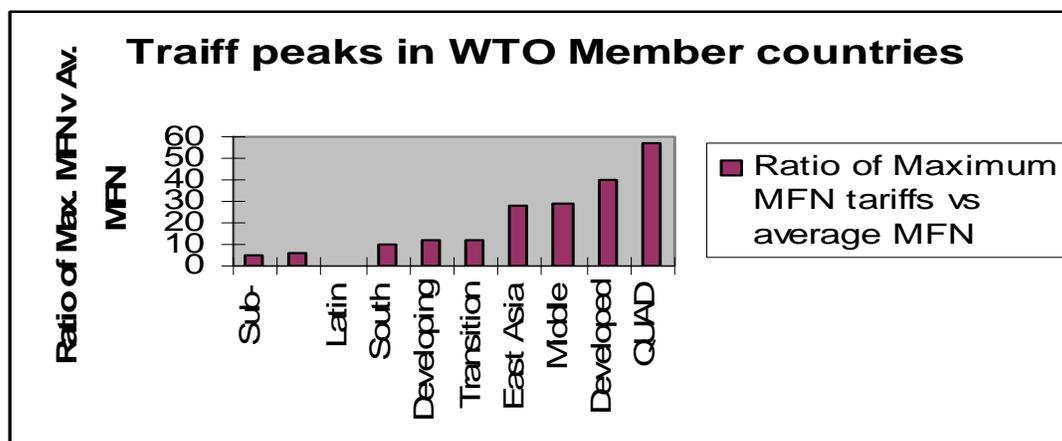
Note: Tariff analysis based on standard tariff rates.

Calculations exclude specific duties and include the *ad valorem* part of alternate and compound rates.

Source: WTO Secretariat

Table 4.5

Tariff peaks



Source: World Bank

With bilateralism and regionalism gaining momentum, it is necessary for India to be a part of such agreements as well. South Asian countries adopted the SAFTA treaty during the 12th SAARC Summit in Islamabad, Pakistan in January 2004. SAFTA is to be launched formally in January 2006 with a total of 10 year transition period for full implementation. The SAFTA treaty has taken up some of the issues with very clear provisions. Such areas include those on tariff reduction and the procedural aspects of the application of Balance of Payment and Safeguard measures, as well as Dispute Settlement Mechanism. The treaty has clearly stipulated the actions that Contracting States can take while facing BOP difficulties, during import surges or in the case of disputes. Likewise, the treaty has also laid down a clear path of tariff reduction beginning 2006.

However, the treaty itself does not incorporate all components that are essential for the effective functioning of a free trading regime. Some of the more important and apparent lacking in the SAFTA treaty is the inability of the member states to draw concrete consensus on certain issues – namely, revenue compensatory mechanism, rules of origin, sensitive list, technical assistance for least developed members, among other rules and regulations for the effective implementation of the Trade Liberalisation Programme and granting of Special and Differential Treatment to LDC members. These issues form the crux of the treaty, and there is likely to be good mooting on them. Until and unless concrete and constructive negotiations are concluded on these issues, the future of SAFTA would remain uncertain.

India is set to also join the ASEAN Free Trade Agreement which will bring down the tariff rates to the '0 to 5 percent' by 2010. The list of products included are fairly comprehensive and it is possible that the Indo-ASEAN agreement may force the pace of tariff reforms in India.

4.5 Agriculture

Agriculture and allied activities make the second largest contribution to GDP and agriculture is the single most important sector for providing employment.⁴⁷ Cultivators and agricultural labourers are 227 million in number and account for over half the national workforce. The Indian rural population which numbers 741 million is largely dependant on these workers. The centrality of agriculture for poverty reduction is due not only to the proportion of population dependant on agriculture but also due to the disproportionate concentration of poverty in this sector.⁴⁸ Nutrition, education and health are key determinants of poverty; all these indices score extremely poorly for largely agriculture dependant rural populations India.⁴⁹ They have also been identified as important Millennium Development Goals (MDGs). In addition to real growth in public spending on health and education, growth is observed to have a strong impact on virtually every MDG.⁵⁰ Agricultural development represents the convergence of the main objectives of economic policy in India: growth, stability and poverty alleviation.⁵¹ It is clear that as most of India's population is dependent on agriculture, growth in this sector is more fundamental to alleviating poverty than general economic growth.

The share of agricultural products in total export earnings has always been substantial though its relative share in total exports has been falling over time. Benefits of multilateral liberalisation to Indian Agriculture under the Uruguay Round were palpable in 1995-the first year of implementation of the Agreement on Agriculture. Annual exports grew by an unprecedented 54% to touch \$ 4.24 billion. The average annual exports during the Uruguay round implementation period⁵² was more than twice that of the pre-Uruguay round period.⁵³ While employment-output elasticity in agriculture appears to be at a dismal low of 0.01, real agricultural wages in India seem to be growing along a trend, with fluctuations being caused largely by variations in the monsoons.⁵⁴

Despite the positive effects of the Uruguay round, global agriculture market distortions continue to act as a major impediment to Indian agricultural growth.⁵⁵ Economic models suggest that among all goods market distortions in the world it is the agricultural trade distortions have the most negative of welfare effects⁵⁶. Agricultural commodities prices have fallen by some 50 per cent in the last two decades; the net effect being a loss of annual export

⁴⁷ The rural workforce which is not directly engaged in agriculture is about 83 million of whom only 12 million work in household industries and the remaining 71 million fall in the category of "other workers".

⁴⁸ Those living below poverty line in India number close to 200 million people, about three times the number of urban population that live in poverty. See also Conway, T. (2003), 'Trade liberalization and poverty reduction' (forthcoming), ODI, London

⁴⁹ Rural literacy is just about 50% when compared to urban literacy which is about 70%. The nutritional gap is evident in the gap between official estimates of rural and urban poverty. See Khan, M.H.(2001), 'Rural Poverty in Developing Countries: Implications for Public Policy', IMF Economic Issues, No.26. See also Asian Development Bank (2002), 'Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy'

⁵⁰ Deolalikar, A.B. (July 2003), 'Attaining the Millennium Development Goals In India: How Likely And What Will It Take?', World Bank

⁵¹ Annual Report of RBI (2000-01)

⁵² 1995-2003

⁵³ 1991-1995

⁵⁴ Jha, R. (2002), 'Reducing Poverty and Inequality in India: Has Liberalization Helped?', Australian National University, Economics RSPAS in its series Trade and Development with number 2002-04

⁵⁵ As is shown later removal of all distortions could double India's agricultural growth rate.

⁵⁶ Anderson, K. (2003), 'How Can Agricultural Trade Reform Reduce Poverty?', Discussion Paper No.0321, Centre for International Economic Studies, University of Adelaide, Adelaide

earnings to the tune of \$60 billion a year for developing countries.⁵⁷ Estimates have been made to the effect that a complete removal of all trade distortions, would increase net Indian agricultural exports by about \$2.7 billion per year, which would be a 50% increase in the current levels of exports.⁵⁸

It would be interesting to examine the effect of the Uruguay Round obligations on India's market access in the EU. The EU would be a good case to examine because the EU is the main destination of Indian exports contributing to more than 20% of all Indian exports.⁵⁹ Fruits, Vegetables and Cereals (particularly rice) are among the top agricultural exports from India to the EU⁶⁰. EU applied tariff reductions of 36% on these products coincided with substantial Indian export increases in these products. See **Table 5.1**

The macroeconomic implications of the Uruguay Round can be gathered by making estimates as to the effects on poverty on employment the growth in agricultural exports would have contributed to. Our rough estimates (formula explained at page 36)suggest that between 1995-2002 period of Uruguay round implementation, agricultural export increases have contributed to a removal of about 21 million people from below the poverty line and have contributed to providing direct employment to about 221,000 people.

Table 5.1 EU Tariff reductions in UR, Indian Export Returns and RCA

| Product | % Reduction in EU Applied Tariffs | % Increase in Indian Export Returns | India Relative Comparative Advantage |
|------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Fruits | 36 | 291 | |
| Vegetables | 36 | 237 | 1.9 |
| Rice | 36 | 33 | |
| Wheat | 23 | 185 | 4.1* |

*RCA for grains as whole

Source: ATPSM & UN COMTRADE.

Doha and onwards

The Doha Round of negotiations on agriculture is structured for comprehensive negotiations aimed at substantial improvements in market access; reduction, with a view to phasing out all forms of export subsidies and; substantial reductions in trade distorting domestic support.

Market Access and Market Entry

Developing countries including India use tariffs as a means of domestic protection. Considering the budgetary constraints for providing domestic support in India, tariffs remain the only effective source of protection to the domestic production. The simple average

⁵⁷ UNCTAD(2003), 'Handbook of Statistics'

⁵⁸ Anderson, K., (2003)'Agriculture and Agricultural Incentives in China and India post-Uruguay round', presented at International Conference on Agricultural policy reform and the WTO: where are we heading?, Capri, Italy

⁵⁹ India's agricultural trade has generally paralleled its overall trade. From 1991 total EU-India trade has more than trebled, from EUR 9.9 billion to EUR 30.7 billion in 2001. In 2002 the EU was India's main trading partner.

⁶⁰ European Commission Directorate-General for Agriculture(April 2001), 'The EU and India – facts and figures on trade in agricultural products'

applied tariff on agriculture is around 114% in 2001/02. India had bound its tariffs at 100% for primary products, 150% for processed products and 300% for edible oils, except for certain items (comprising about 119 tariff lines), which were historically bound at a lower level in the earlier negotiations. Out of these low bound tariff lines, bindings on 15 tariff lines which included skimmed milk powder, spelt wheat, corn, paddy, rice, maize, millet, sorghum, rape, colza and mustard oil, fresh grapes etc. were successfully negotiated under GATT Article XXVIII (modifications and rectification of schedule of concessions) in December 1999 and the binding levels were suitably revised upward to provide adequate protection to the domestic producers. The rebinding of the tariffs were necessitated in view of the recommendations of a WTO panel and the Appellate Body⁶¹ wherein India was required to remove quantitative restrictions on 416 agricultural goods at HS six- digit level. The overall distribution of final bound rates shows that about 82% of tariff lines have bound rates which range between 75 percent and 150 percent. Approximately 4% of tariff lines have bound rates of 300%.

Although the bound rates on most of the agricultural products are relatively high, the applied rate of tariff is considerably low. The distribution of applied tariffs illustrate that, for a little over 89% of tariff lines, the applied rates are either below or equal to 50%. There are only 9.4% of the tariff lines for which the applied rates of duties range between 50 and 100%. For only 1.3% of items, mainly alcoholic beverages, are the applied rates of duty high, i.e. more than 150%. Table 5.2 adequately demonstrates that for several important products, Indian produce face substantial tariffs.

In the case of dairy and fruits & vegetable developed countries impose tariffs that are on average more than three times the tariff applied in India. The grains sector in India occupies a predominant position in total food production. The proportional share of the grains sector in the 1990s was at about 65-70% throughout. Wheat and rice continue to dominate grain production with both of them jointly accounting for more than 50% of land under cultivation for food grains.⁶² The Revealed Comparative Advantage (RCA) Indexes presented in a World Bank study shows that India has quite a strong comparative advantage in other agricultural commodities as well. For agriculture as a whole, India's RCA was almost twice the world average of unity, and rose slightly during the 1990s. The RCA for India is high for some of the highest growth agricultural exports, such as flowers and plants (RCA=4.6) and grains (RCA= 4.1). Fish products for which demand is growing rapidly, also have a strong comparative advantage.

⁶¹ WT/DS 90/R, WT/DS 90/AB/R

⁶² Chakraborty D. (2003), 'Agricultural growth and the small farmer in India, Working paper series on Agriculture and the poor', No. 8, Bazaar Chintan and Chakraborty, I.(2003), 'Agricultural growth and the small farmer in India'

Table 5.2 Average Applied Peak Tariffs (%)

| Commodity Groups | Developed Countries | India |
|-----------------------|---------------------|-------|
| Dairy | 119 | 36.48 |
| Rice | 71 | 59.28 |
| Wheat | 127 | 78.00 |
| Sugar | 75 | 60.00 |
| Tea | 23 | 70.00 |
| Fruits and vegetables | 110 | 34.42 |

Source: AMAD, FAO and ATPSM

While the poverty attenuating impacts of reduction of tariffs are difficult to measure, a limited exercise of the impact of processed food exports has been attempted by one of the recent studies.⁶³The Per Capita Income in the food processing industry has been increasing suggesting poverty reduction of the rural poor. In fact the increases in Per Capita Income is much higher than the national average, and even higher than the textiles sector studied later, pointing to the possibilities of poverty alleviation with an expansion of exports of processed food.

Table: 5.3 Employment and Per Capita Income in the Organised Food Processing Industry for periods 1995-96, 1996-97 and 1999-00

| Years | 1995-96 | 1996-97 | 1999-00 |
|------------------------------------|---------|---------|---------|
| Average Number of Persons Employed | 401809 | 472970 | 420347 |
| Annual p.c. Income (US \$) | 614.24 | 493.37 | 929.31 |
| Annual Value of Exports (US \$) | 2314.45 | 2312.67 | 2599.09 |

Source: Annual Survey of Industries, CSO, 1995-96, 1996-97 and 1999-00

Improving market access in the developed countries through lowering of tariffs would be beneficial to India. Domestic Support has been viewed as the equivalent of implicitly imposing tariffs. Cline (2003) in the table given below has tariffed all subsidies and added it to tariff rates in the Quad to indicate the overall levels of protection provided by the Quad to agriculture. Thus in the case of EU and US if tariff equivalents of subsidies are taken into account the overall tariff protection rises substantially. Developed countries have consistently made demands for developing countries including India to reduce their tariffs to the extent that developed countries have. However adequate understanding has been achieved to the effect that Domestic Subsidies and Export Subsidies provided by developed countries, not only restrict access of developing country exports but they also have had the effect of depressing world food prices to the extent that if developing countries were to liberalise their tariffs, their only means of protection, this would have an adverse effect on food prices in countries like India ; cheaper imports would depress prices in domestic markets - and hence depress farm-gate prices, and this would impact adversely the livelihood of almost all farmers; consequently the availability of employment for India's large number of landless

⁶³ Centre for Social Research (2003), 'Gender and Trade: Impact of Globalisation on Women Workers in the Textiles and Food Processing Sector in India', in Jha, V. ed., Trade, Globalisation and Gender-Evidence from South Asia, UNIFEM

agricultural labourers⁶⁴. Tariff liberalisation unless accompanied by substantial removal of developed country Domestic Support and Export Subsidy Market distortions, could have severe consequences like large-scale unemployment, poverty, and hunger.⁶⁵

Table: 5.4 Overall Protection in Agriculture (including tariff equivalents of subsidies)

| | US | Canada | EU | Japan | India |
|--------------------------------|------|--------|------|-------|-------|
| Tariffs | 8.8 | 30.4 | 32.6 | 76.4 | 40.8 |
| Tariff equivalent of subsidies | 20.8 | 1.8 | 19.6 | 9.8 | 0.0 |
| Total protection | 31.4 | 32.7 | 58.6 | 93.7 | 40.8 |

Source: William R. Cline, 2003, Trade Policy and Global Poverty and ATPSM

Non-tariff Barriers

SPS barriers

Environmental, health and sanitary standards required by developing countries are sometimes perceived as new non-tariff barriers to trade by developed countries. These are as important as traditional WTO issues such as tariffs and QRs, as they have significant effects on market access. Environment-related trade measures can take several forms such as, technical standards and regulations, certain sanitary and phytosanitary (SPS) measures, packaging regulations, labelling requirements, non-automatic licenses, quantitative restrictions, taxes and charges and non- government requirements. Health and SPS measures are sometimes just based on a precautionary approach instead of strict scientific evidence. This can cause trade disruption and may make products of exporters in developing countries uncompetitive, hence becoming barriers to trade.

In general, developing countries tend to be ‘standard-takers’, rather than ‘standard-setters’. These standards may not be relevant to the production conditions of the exporting countries. Compliance costs to comply with developed country standards can be large, with no extra price premiums for developing countries. Also, there are trade impacts and impacts on the domestic industry of the exporting country, as small and medium size enterprises are unable to implement comprehensive SPS measures.

India faces restrictions to exports of products like peanuts, mango pulp, rice, spices and tea due SPS standards. We take the example of peanuts. The EU Commission has imposed strict aflatoxin standards and testing methods. These are more stringent than the international standards. This has led to high costs of compliance for Indian exporters. Further, tests are required by the EU markets only for exports from Egypt and India and not for exports from USA and Argentina. Also, there are high opportunity costs of lost trade. Indian peanut exporters have to make distress sales, when foreign buyers do not accept supplies. Even though the Indian producers perceived the stringency of the EU standards and testing procedures as unjustifiable, the government and producers adopted a proactive approach towards new marker requirements. India has managed to substantially reduce aflatoxin levels and has developed reliable testing methods.

⁶⁴ 107 million according to 2001 Census.

⁶⁵ Singh,R.B., Kumar, P. and Woodhead, T.(2002), ‘Smallholder Farmers in India: Food Security and Agricultural Policy’, FAO

There is a need for more transparent and participatory preparation of standards. Standards should be developed with the involvement of producing and consuming countries. Harmonisation and mutual recognition of product standards and regulations based on 'equivalence' in the WTO should be promoted. Developing countries should get adequate time to adjust to these high standards. India should also try for effective implementation of comparable standards in the domestic market or on a regional basis. Branding and umbrella certification, infrastructure development and special measures for small and medium scale enterprises should also be considered.

Tariff Rate Quotas (TRQs)

TRQs were used in the Uruguay Round Agreement on Agriculture to permit minimum market access and at the same time convert a large range of agricultural non tariff barriers into tariffs. Under TRQs, some level of imports is allowed at a relatively low or zero tariff rate, but any imported quantity above the quota is taxed at a higher or a prohibitive rate. A FICCI study notes that implementation of the tariff quota system was left to importing countries with the result that there has been little improvement in additional access under the quota scheme for developing countries. A geographical distribution of these quotas indicates that more than 82% of the total number of TRQs emanate from countries in Europe, North America and South America. The products largely subject to these quotas are fruits and vegetables, meat products, cereals and dairy products. Tariff quotas continue to be maintained on several products including some edible oils (1512.11 and 1514.90) maize and milk powder.

It was felt that TRQs established to provide minimum market access opportunities had perpetrated trade distortions, generating quota rents and denying market access to newcomers. Also, it was pointed out that non transparent administration of TRQs have led to low quota filling in several commodities. Similarly no rational set of criteria has been evolved in giving selective market access to few countries under country specific quotas. For example, the European Union (EC) and the US have committed tariff quotas of sugar for 1.3 million tonnes and 1.1 million tonnes respectively. The EU has allocated much larger shares to smaller countries such as Mauritius (491,000 tonnes), Fiji (165,000 tonnes), Guyana (159,000 tonnes), while India, which is the largest sugar producer in the world, has been allocated only 20,000 tonnes. The US has committed sugar quota of about 1.1 million tonnes this year. India has been allocated as low as 9,000 (0.8 per cent) tonnes, whereas the Philippines, with much lower production and export potential, has been accorded a quota of about 146,000 tonnes.

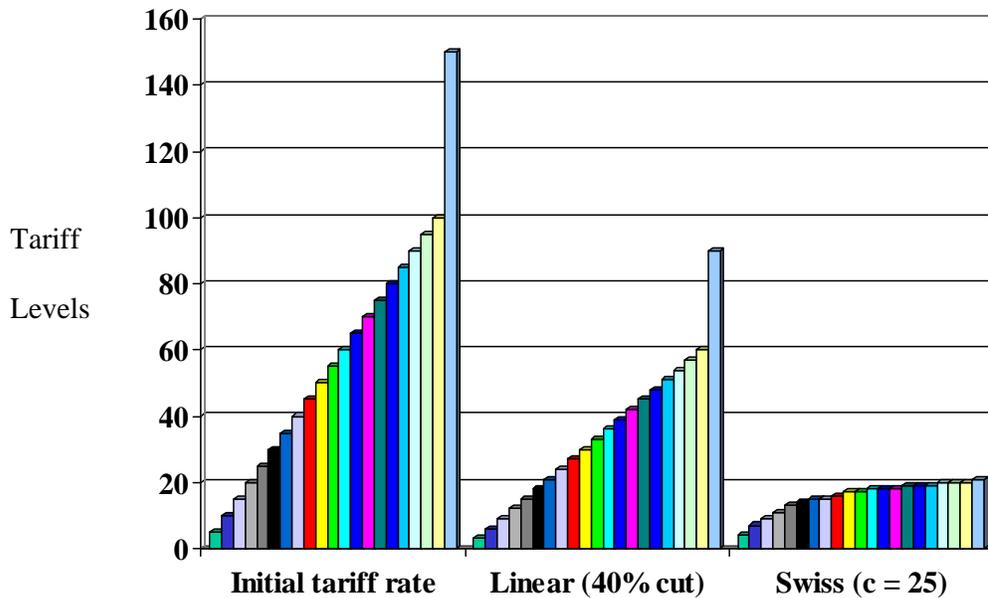
The EU has quota commitments of 2.2 million tonnes of bananas and of 62,600 tonnes of mushrooms. These tariff quotas were allocated to specific countries without taking into consideration the trends observed in a number of countries of consistently rising production, sustainable exportable surplus as also the reliability as steady suppliers to the world market. There is a need for reforms of the tariff quota system to bring about transparency, fairness and discipline in its administration.

Approaches to Tariff Reduction

While the Doha round called for substantial improvements in market access a formula on tariff reductions has eluded consensus. There has been a suggestion for the continuance of the Uruguay Round's average cut approach which is designed to allow varied levels of tariff

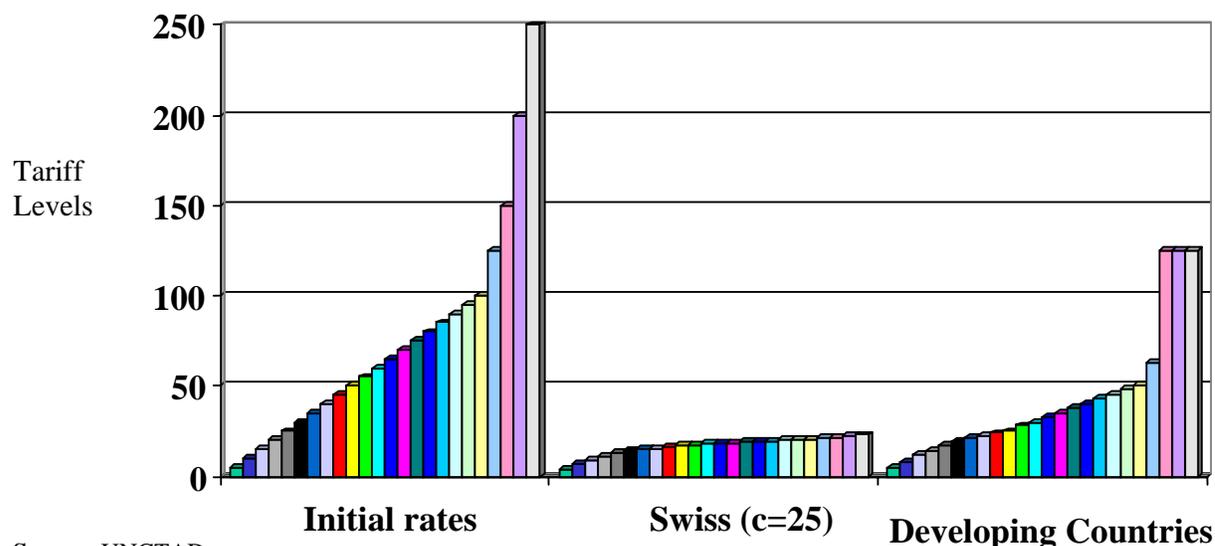
protection across products but nonetheless subjecting all tariff lines to a minimum degree of cuts in a linear fashion. But developing countries have contended that the Uruguay round approach allowed developed countries to focus the largest reductions on the lowest tariffs while allowing them to maintain high tariffs on lines that were of interest to developing country exports. The Harbinson proposal retains the average cut approach to tariff reduction, but attempts to restore some discipline to this approach by requiring minimum cuts that increase with the level of the initial tariffs. The Swiss-formula proposals use specific ceiling values for tariffs that would require much larger reductions in tariffs in countries with high agricultural tariffs than in countries with lower agricultural tariffs. The Swiss Formula's object is to reduce tariff dispersion and eliminate tariff peaks and tariff escalations. While developing countries are agreeable to such an approach being applied on developed country tariffs, they contend that developing countries should be subject to only linear reduction obligations on two counts. Firstly, as a legitimate basis to protect livelihoods of their predominantly poor populations and secondly to counteract the substantial non-tariff distortions caused by developed country policies on domestic support and export subsidies. The Cairns Group formula appears to be more reasonable as it treats Developed Countries and Developing Countries separately, while seeking to retain the objective of meaningful market access to all countries.

Table 5.5 Simulation of effects of Linear cut formula vis-à-vis Swiss Formula



Source: UNCTAD

Table 5.6 Simulation of effects of Cairns Group Modified Swiss Formula



Source: UNCTAD

As can be seen from Table 5.5A the effect of the non-linear Swiss formula would be to reduce tariffs substantially, reducing the higher lines by greater margin. The linear formula on the other hand would reduce all lines in the same proportion. Developing countries argue that their reduction commitments must be on the basis of a linear formula as tariff protection is their only means of safeguarding their developmental needs and protecting themselves from international price shocks. Table 5.5B shows simulations of the Cairns approach which calls for two differential blended formulas wherein, the issue of high tariff peaks that developed countries impose is addressed (Swiss $c = 25$) while softening the same nature of obligations for developing countries.

Domestic Support and Export Subsidies

Under the Agreement on Agriculture the impact of domestic support measures is captured through the Aggregate Measurement Support (AMS). India maintains a product price support system in the form of minimum support prices announced by the government for different commodities. For India, the total AMS tends to be negative, suggesting taxation rather than protection of Agriculture. Gulati and Pursell present detailed estimates of the margins of protection provided to Indian agriculture by the policies that have been applied.⁶⁶ These estimates are based on extremely detailed calculations, taking into account transport costs and the net trade situation of producers in key regions within India, as well as impacts at the border. The negative producer support observed in India stands in very sharp contrast with the high to extremely high levels of support observed in OECD countries, where Producer Support Estimates average over 30%. These high rates of protection reduce the demand for agricultural products, and hence reduce the demand for exports from India and other net agricultural exporters.

The AMS is maintained in aggregate rather than in product specific terms by many developed countries. Consequently such countries have been able to increase the domestic support for

⁶⁶ Gulati, A., and Pursell, G. (2003). 'Indian Agriculture During the 1990s, Performance, Policy Environment and Incentives' World Bank Working Paper. Washington, D.C

sensitive products such as rice, sugar and dairy products (UNDP, Making Global Trade Work for People, 2003). It is seen that such subsidised imports from certain developed countries have suppressed the prices of agricultural goods in India. The cyclical nature of prices of agricultural products, coupled with exceptionally high amount of subsidies, posed a threat to farmers in India.⁶⁷ Coconut prices have crashed from 25 cents to 5 cents per unit putting the coconut farmers' livelihood at stake. Rubber has plummeted from US\$1.5 per kg to US\$ 0.30 and coffee from US\$ 1.5 in 1999 to US\$0.75 per kg in 2001. Pepper prices have also fallen from US\$ 5 US\$2.5 per Kg in the consecutive period. While these products may not necessarily be produced by the developed countries, often their substitutes are. For example, subsidizing oilseeds implies that oil from developed countries which is a direct competitor to coconut oil is cheaper, thus putting a downward pressure on the price of coconuts. Similarly to the extent that procurement and distribution of the other products are eligible for subsidies, prices continue to remain depressed. Also, subsidies given by developed countries may not be directly linked to prices, but may be a type of income support. But, even in an upturn, prices of agricultural commodities may stay low because of these subsidies.

The exporters of agricultural products do not receive direct export subsidies in India. However, the developed countries provide export subsidies for several commodities like wheat, coarse grains, oilseeds, vegetable oils, sugar, dairy products, fruits and vegetables which are of great significance for food security in developing countries. Five sixths of all export subsidies in the mid-1990s were granted by the EU, and all but 2% of the rest were on account of exports support measures given by the US, Norway and Switzerland.⁶⁸ Export subsidies have far-reaching trade-distorting affects. For instance, the butter export subsidy paid by EU has risen to an equivalent of 60% of the EU market price and has also resulted in an average export increase of 7.7%. It is interesting to note that despite these distortions, India is still competitive in the production of rice; a removal of trade distortions on rice would thus be of great advantage to India.

The imports of such subsidized products into India may adversely affect domestic sales and result in price suppression and depression in the Indian market. On the whole the approach taken by India should not be to aim at a partial elimination of export subsidization on a select list of product but to phase out export subsidies themselves.

India, on account of the constraints on its resources cannot match the subsidies provided by the developed countries to their farmers. The only option available to protect the small farmers from the distorted international production and support environment is to provide adequate border protection through the mechanism of tariffs. India has pressed for much deeper cuts in the farm subsidies of the US and European Union than were contained in the Cancun text.

The agricultural subsidies of rich countries as well as the barriers to agricultural exports erected by Europe, Japan and the United States prevent countries such as India from fully exploiting its comparative advantage. In developed countries high levels of support to

⁶⁷ Business Standard, 13/11/03

⁶⁸ Tangermann, S. and Josling, T.(1999), 'The Interests of Developing Countries in the Next Round of WTO Agricultural Negotiations', paper presented at the UNCTAD workshop on Developing a Proactive and Coherent Agenda for 37 African Countries in Support of their participation in International Trade Negotiations, Pretoria

agriculture, exceeding US\$330 billion,⁶⁹ encourage overproduction and cause world price levels to fall close to, and even undercut, producer costs in developing countries.⁷⁰

Peace Clause

With the expiry of the 'peace clause' (provision in Article 13 in the WTO Agreement on Agriculture) by the end of '03, every country can take action against subsidised imports that cause injury to domestic producers. WTO norms permit imposition of countervailing duties to the extent of subsidies provided by the governments of the exporting country. Thus, developed countries, which are the main users of domestic subsidies, will be exposed to disputes launched by other countries. Developing countries are not expected to be greatly affected by the conclusion of the clause since they do not have a large amount of domestic subsidies. Trade experts have warned that the European Union and the US, the two biggest subsidy spenders, could face a deluge of WTO complaints in 2004 with cotton, rice, dairy products and sugar high on the list of potential targets.

However, both the EU and the US might retaliate with similar actions that might affect market access for developing country goods in America and Europe. The EC has issued a scarcely veiled threat to anyone thinking about challenging their subsidy regime: "a strategic choice has to be made by Members, and in particular by the export oriented Members, between two alternative routes that are largely mutually exclusive: either they believe that multilateral negotiations are the way forward to a fair and market oriented trading system, or they believe WTO litigation is the way forward."⁷¹

The case for comprehensive multilateral liberalisation of agricultural trade policies

Cline using a CGE model, estimates welfare benefits to the tune of \$0.82 billion for India from a free trade in agriculture. Full liberalisation of OECD farm policies would boost the volume of global agricultural trade by more than 50% but would cause real food prices to rise by only 5% on average.⁷² Some models have projected food price rises of about 8 - 12%.⁷³ Results of a World Bank study indicate that a removal of agricultural tariffs and subsidies by all WTO countries would generate an increase in developing country exports of 15% and increase in imports of 12%. In terms of this study, India would experience an increase in exports of 13%. World prices of wheat are expected to rise by about 10% and prices of rice are expected to rise by about 16%. As an exporter of both rice and wheat, India therefore, stands to gain significantly from terms-of-trade improvements.⁷⁴

According to Cline, a rise of world agricultural prices by 10% on account of trade liberalization would reduce the incidence of poverty by 201.5 million persons, or by about

⁶⁹ OECD(2002), 'Agricultural Policies in OECD countries: Monitoring and Evaluation', Paris

⁷⁰ UNCTAD Secretariat,(October 2003), 'Review of Developments and Issues in the Post-Doha Work Programme of Particular Concern to Developing Countries: The Outcome of the Fifth WTO Ministerial Conference', Geneva, TD/B/50/8

⁷¹ Action Aid International (December 2003), 'Beyond Cancun: Key Issues Facing the Multilateral Trading System'

⁷² Anderson, K. (2003), 'How Can Agricultural Trade Reform Reduce Poverty?', Discussion Paper No.0321, Centre for International Economic Studies, University of Adelaide, Adelaide

⁷³ Diao ,X., Roe, T. and Somwaru, A.(2002),'Developing Country Interests In Agricultural Reforms Under The World Trade Organization' International Food Policy Research Institute

⁷⁴ World Bank (2003), 'GEAP'

8%. The poverty reduction gains would be especially significant for India which is a net food exporter. Anderson (2003) has projected that a completed global liberalisation of agricultural trade (including the removal of massive agricultural protection by OECD countries) would have the effect of increasing net annual exports of agricultural and food products by \$2.7 billion⁷⁵; a 40% rise over the current level of agricultural exports.

What does an annual export increment of \$ 2.7 billion in agriculture translate to? The current annual value of agricultural production in India is close to \$100 billion. A \$2.7 billion growth in exports would constitute in itself close to 2.7% annual growth in value of Gross Domestic Agricultural Product which equals the current average annual growth rate⁷⁶. Thus assuming an adequate supply response, growth rates in agriculture production may tend to double on average for the first few years. In terms of poverty and employment in India a rough estimate maybe arrived at by using the poverty-growth and employment agricultural output elasticities. These rough estimates point to annual gains in employment for about 61,000 people and lift about 400,000 people out of poverty. These gains are at best projections and while appearing to be modest they are not insignificant and are certainly not adverse. Also, it is necessary to emphasize that this is only a general equilibrium picture and might be slightly more optimistic than reality, as certain products of particular interest to India are likely to be liberalized least and there are other competitors who will have terms at least as good as those of India.

⁷⁵ Anderson, K., (2003)'Agriculture and Agricultural Incentives in China and India post-Uruguay round', presented at International Conference on Agricultural policy reform and the WTO: where are we heading?, Capri, Italy

⁷⁶ For years 1992-2003 : Economic Survey (2002-03)

Table 5.7 Estimates of Annual Poverty Alleviation Effects of Multilateral Agricultural Liberalisation

Y = Projected Increase in Agricultural Exports with multilateral liberalisation = \$2.7b⁷⁷
 GDP = GDP for India (2002-03) = \$497b
 E=Overall Growth Poverty Elasticity in India =0.28
 P=Population below the Poverty Line=268 million people

Therefore annual number of people removed out of poverty
 = $(Y/GDP * E) * P$
 = $(2.7/497 * 0.28) * 268$ million people
 = **402,000 people**

Estimates of Annual Employment Effects of Multilateral Agricultural Liberalisation

OE= Output Employment Elasticity of Agriculture = 0.01
 Y = Projected Increase in Agricultural Exports with multilateral liberalisation = \$2.7b
 AGDP=Total value of agricultural production (2001-02)= \$99.9b
 PA=Population Engaged in Agricultural Labour = 227 million

Therefore annual number of people employed
 = $(Y/AGDP * OE) * PA$
 = $(2.7/99.9 * 0.01) * 227$ million people
 = **61,351 people**

Projections assume more interesting results if state and sector specific estimates are made. We take the states of Bihar and Orissa which are one of the poorest states in India and have incidences of poverty significantly higher than that of the national average and take the case of the likely effects of liberalisation. The linkages between liberalisation and returns to agriculture are taken with reference to rice production which accounts for over 40% of the value of total agricultural production in these states.⁷⁸ Bihar and Orissa also have large proportions of rural labour engaged in agriculture, with shares of 80.62 % and 73.06% respectively.⁷⁹ Assuming that these states have equal market integration with other states in the India (or will in future be fully integrated on account of domestic interventions), a 5% rise in the price ought to contribute to a growth in rice's contribution to the agriculture GDP to the same extent. Thus after factoring the value of rice and agriculture in the state's GDP we are able to make an estimate of the effect of international price rise of rice on poverty. The estimates show that in the case of Bihar more than 100,000 persons will be lifted out of

⁷⁷ The approach is an adaptation of the approach taken towards calculating growth poverty linkages. Precision is not a claim that is made even while making macro growth-poverty effect calculations. It is an approximation that serves as a useful indication. The projected price rise is assumed on the basis of model presented by Anderson, K. (2003), 'How Can Agricultural Trade Reform Reduce Poverty?', Discussion Paper No.0321, Centre for International Economic Studies, University of Adelaide, Adelaide

⁷⁸ Rice exports under the same model are expected to increase by \$2.5 billion in comparison to the current value of less than \$1 billion.

⁷⁹ Chakraborty D. (2003) Agricultural growth and the small farmer in India, 'Working paper series on Agriculture and the poor, No. 8, Bazaar Chintan

poverty annually whereas in Orissa the number lifted out would be about 48,000 people annually.

Table 5.8. Estimates of Annual Poverty Alleviation Effects of Multilateral Agricultural Liberalisation for dominantly rice producing States like Bihar and Orissa⁸⁰

| |
|--|
| <p>BIHAR</p> <p>P=Percentage Price rise in rice on account of multilateral liberalisation = 5% BA=Contribution of Agri to Bihar's State Domestic Product in (2000-01) = 36.5% V=Value of Rice in total agri production = 44%</p> <p>C=Contribution of price rise in rice to Bihar's State Domestic Product =P*BA*V =(5/100)*(36.5/100)*(44/100) =0.00803</p> <p>BE=Growth Poverty Elasticity of Bihar = 0.52 BP=Population of rural Bihar below poverty line = 29,160,441</p> <p>Therefore annual number of people brought out of poverty in Bihar =C*BE*BP =0.00803*0.52*29,160,441 =121,762 persons</p> |
| <p>ORISSA</p> <p>P=Percentage Price rise in rice on account of multilateral liberalisation = 5% BA=Contribution of Agri to Orissa's State Domestic Product in (2000-01) = 24.7% V=Value of Rice in total agri production = 37%</p> <p>C=Contribution of price rise in rice to Orissa's State Domestic Product =P*BA*V =(5/100)*(24.7/100)*(37/100) =0.04570</p> <p>OE=Growth Poverty Elasticity of Orissa= 0.1 OP=Population of rural Orissa below poverty line = 12,889,978</p> <p>Therefore annual number of people brought out of poverty in Orissa =C*OE*OP =0.04570*0.1*12,889,978 =58,907 persons</p> |

The likely effects of rises in food prices on account of multilateral liberalisation

The global policy debate on food prices is essentially one on the permanent tension between maintaining high prices for producers versus assuring low prices for consumers.⁸¹ Farmers participate in both sets of market activities: they are both sellers and buyers of food; therefore both their income and expenditure endure effects on account of price changes.

⁸⁰ On the basis of 5% average price rise as modelled by Anderson, K. (2003)

⁸¹ Díaz-Bonilla, E. and Thomas, M. (2001), "Trade And Food Security", 2020 Focus 8 (Shaping Globalization for Poverty Alleviation and Food Security), Brief 4 of 13, International Food Policy Research Institute

There are critics of liberalization that argue that the effect of liberalization would be to raise global food prices and thereby depress real incomes for those who are already below the poverty line. As mentioned earlier a study using the Global Trade Analysis Project (GTAP) model has suggested that full liberalization of OECD farm policies would cause international food prices to rise by 5% on average.⁸² In such a scenario the moot question would be whether higher international food prices would increase poverty and food insecurity for poor households in India.

This question is best answered by asking the question as to whether the average person below the poverty line is either a net producer of food or a person who is dependant on a net producer of food. If this question is answered in the affirmative then a price rise will lead to an increase in the income of the average poor person and thus alleviating poverty to that extent.⁸³

Studies on the welfare effects of food price rise on the rural poor have been limited. The macro-implications of food prices remain under-explored.⁸⁴ Studies that do exist however point to mixed evidence and are often country specific. A 1998 study on India has mixed implications. The study positively correlated higher wages and higher yields to reductions in poverty, but found a strong adverse effect of higher food prices on the poverty measures.⁸⁵ This could probably imply delays or barriers in distribution of returns or the need for continuance of State intervention for those rural poor who would benefit from the rises in food prices only in the long run. Another India study using an agricultural wage model concluded that a once-and-for-all increase in the price level has only a short-term negative effect on real wages (nominal wages subsequently catch up with the price change).⁸⁶ Thus as long as the real inflationary effects of food price rise are only in the short term the rural poor would tend to gain in the long run. Anderson has argued that even poor landless farm labourers who are net buyers of food would benefit indirectly from agricultural trade liberalization via a rise in the demand for their unskilled farm labour. Increased incomes could also imply increased consumption of non-farm goods and services which could generate secondary income effects in both rural and urban settings.

⁸² Hoekman, B., Francois, J., Anderson, K., Dimaranan, B., Hertel, T. and Martin, W. (2001), 'The Cost of Rich (and Poor) Country Protection to Developing Countries', *Journal of African Economies* 10(3). The study has however also concluded that the volume of global agricultural trade would grow by 50%

⁸³ For households producing their own food, the income and substitution effects come into play as a result of higher prices of produce. In general, increases in prices benefit the agricultural sector by improving the incomes of all households that are net sellers of food. Assuming that most small-scale farmers produce for the market and for their own consumption, but must also purchase a proportion of their food, some of this added income will be used to improve the nutritional intake of their households.- Chernichovsky, D. and Zangwill, L. (1990), 'Micro-economic theory of the household and nutrition programmes', *Food and Nutrition Bulletin*, The United Nations University Press, Volume 12, Number 1

⁸⁴ Islam, N. and S. Thomas (1996) *Foodgrain Price Stabilization in Developing Countries*. International Food Policy Research Institute [IFPRI], Washington, DC

⁸⁵ Datt, G. and Ravallion, M.(March 1998), 'Farm Productivity and Rural Poverty in India', FFCND Discussion Paper No. 42, IFPRI

⁸⁶ Ravallion, M. and Datt (1994), g. "Growth and Poverty in Rural India," Policy Research Working Paper Series,1405,IFPRI See similar view in Fan, S., Hazell, P. and Thorat, S.(March 1998), 'Government Spending, Growth and Poverty: An Analysis of Interlinkages In Rural India', Eptd Discussion Paper No. 33, IFPRI. Here the initial condition determination made is that the poor are net food consumers. They are as such likely to suffer adverse real wages in the short run in the absence of adequate safety nets

Organic Agriculture

An issue gaining importance these days is organic agriculture. India has traditionally practiced organic agriculture, but its export possibilities remain uncertain. Market premiums are limited in the domestic markets and organic food export markets entail high cost of entry.

Price premiums for organic agriculture farmers are uncertain and difficult to secure. This is in part due to the fact that marketing chains tend to be complex, mainly due to the lack of economies of scale benefits in this sector. Thus, even where consumers and retailers are willing to pay a price premium, in many cases such premiums do not seem to have benefited producers.

In the case of pepper, it had been difficult to obtain price premiums. In fact, since the prices of conventional pepper had been steadily rising since 1997, advance contracts for the supply of organic pepper were seen to offer no advantages over the sales of conventionally grown pepper. In the case of Darjeeling tea, market premiums of over 80 per cent obtained for organic tea in the early 1990s had prompted many growers to begin exporting organic tea. However, only 10 of the gardens that had converted to organic tea production were able to realize a profit. Most of the profitable enterprises had invested a substantial portion of their profits in marketing tea in their main markets.

The basic infrastructure for regulating the growth of organic agriculture in India has been established. However, lack of market information and marketing strategies is a major constraint to market development. For example, export channels for organic coffee from India are not fully established. Marketing policies to promote the use of brand names and other mechanisms, including electronic commerce, to move organic products out of commodities markets and auctions, are needed to increase premiums. Also, much remains to be done in terms of obtaining recognition for the Indian standards by international standards organizations, including those in important markets; involving producers to ensure that the standards adequately reflect field situations; and accrediting credible certification agencies.⁸⁷

Recent analysis appears to indicate that niche markets for “organic agricultural” products continue to hold promise for developing country producers. It has been estimated that though the market share of organic products is, on average, no more than 2.5 per cent of total food sales in most developed countries, the rate of growth is between 5 and 20 per cent.

By 2008, 500 odd villages in Uttaranchal are expected to produce a range of organic commodities for the domestic and export markets under the internal control systems of management (groups of farmers keeping an eye on each other) of production and certification. Region specific items like red beans, medicinal plants, herbs, grains, preserved food, coarse grains will be promoted under brands. The certification regime is expected to be harmonized with organic farming for cost-effectiveness and affordability.

⁸⁷ Jha,V. (2004), 'Implications for Development, the Environment and Trade in selected Developing Countries: India', Trading Opportunities for Organic Food Products from Developing Countries, UNCTAD

Enabling measures for improving poverty effects of improved agricultural trade

Commentators have asserted that large scale welfare gains from multilateral agricultural liberalisation are contingent on well functioning domestic economies and that if factor markets were inflexible or public infrastructures were in poor shape only a fraction of the gains from trade reforms would be realized.⁸⁸ This importance of domestic reforms in an atmosphere of increased global integration has been acknowledged. The Reserve Bank of India (RBI) anxiously observed in its 2001 Annual Report that "...the pace of progress in liberalisation of external trade in agriculture warrants a sense of urgency and priority to institutional reform in agriculture."⁸⁹ While stressing the importance of public investment in basic infrastructure the RBI stressed the importance of effective supply chain arrangements that encompassed storage, processing and trading. It also noted a major concern of regulating intermediaries. There is a strong perception that inadequate regulation of intermediaries in agricultural trade acutely affects farmers on account of the low farm gate prices.

Policy constraints such as restrictions on movement of agricultural commodities and *ad hocism* in export policy have been cited as a major source of regulatory problems.⁹⁰ The federal government of India removed several statutory restrictions in its 2002 National Agricultural Policy. In early 2004 the Government liberalised procurement of food grains for the export market; exporters are now permitted to procure rice and wheat from farmers at market determined rates.⁹¹ Food grain market policy in India has tended to be highly interventionist with the central and state governments actively involved in grain storage and restrictions on the movement of food grains across states.⁹² Transport costs are also extremely high in India. Jha and Srinivasan estimate that comprehensive reform and infrastructure intervention consisting of rationalisation of internal movement controls, reduction of transport costs by 50% and decentralisation of public procurement and the PDS would have the effect of increasing welfare by about \$ 2 billion.⁹³

The efficacy of India's Public Distribution System (PDS) in ensuring food security to the poor has been a subject of extensive criticism. It was earlier thought that the main weakness in PDS is spreading itself out too thin i.e. not reaching the poor effectively on account of the universality of the PDS coverage.⁹⁴ On account of this in 1997 a Targeted PDS was introduced with the object of making the system more pro-poor.⁹⁵ While there have been

⁸⁸ Anderson, K. (2003), 'How Can Agricultural Trade Reform Reduce Poverty?', Discussion Paper No.0321, Centre for International Economic Studies, University of Adelaide, Adelaide

⁸⁹ RBI annual report (2000-01)

⁹⁰ Government of Kerala (2003), 'Report of the Commission on WTO concerns in agriculture' See also Sharma, A. (2003), 'Case Study for India', WTO Agreement on Agriculture: The implementation experience – Developing Country Studies, Commodities and Trade Division, FAO

⁹¹ Prior to the reforms exporters could only purchase grains from the Food Corporation of India at pre-determined rates.

⁹² Jha, S. and Srinivasan, P.V. (2004), 'Efficient Redistribution through Deregulation of Domestic Grain Markets', Paper presented at Paper prepared for presentation at the conference on Anti-poverty and Social Policy in India at the Neemrana Fort-Palace near Delhi, India, hosted by the MacArthur research network on Inequality and Economic Performance, Indira Gandhi Institute of Development Research (IGIDR)

⁹³ Jha, S. (2nd January 2004), 'Presentation made at Neemrana, Rajasthan, India

⁹⁴ Under universal coverage all persons regardless of income status were entitled to quotas of subsidised essential foodstuffs at a common fixed price. Nawani, N.P.(1994), 'Indian experience on household food and nutrition security', Regional Expert Consultation, Fad-Un Bangkok (Thailand)

⁹⁵ Wherein Persons below the poverty line received food at lower prices than those above the poverty line.

critiques of the concept of the Targeted PDS⁹⁶, the inability of the PDS in India to effectively deliver to those in poverty has been more on account of inefficiency and corruption⁹⁷, problems of identification and classification, leakage and diversion the black market⁹⁸, implementation costs and low levels of accountability.⁹⁹

Very strong evidence from in-depth studies of rural development patterns across China and India suggest that a broad range of infrastructure services are crucial, and interact positively with agricultural growth.¹⁰⁰ Public investment in agriculture and rural areas will continue to be critical to enabling Indian agriculture to reap the full gains of trade reform. A recent IFPRI report suggests that substantial gains in agricultural productivity and poverty in India can be made through focussing public investment on

- Agricultural Research and Development,
- Roads, and
- Education¹⁰¹

The need for active engagement at the domestic level is aptly stressed by Sharad Joshi - a leading Indian agricultural activist: “A lot remains to be done to prepare the Indian farm sector to face the challenges and seize the opportunities offered by the WTO regime. There is a need to minimise the role of the government in agricultural production and marketing, make India a single commodity market governed by the law of ‘comparative advantage’, create countrywide networks of information technology so that farmers are well informed about the market and price situation the world over, meet the sanitary and phyto-sanitary hurdles by providing farmers easy access to a scientific laboratory network, replace the outdated Agricultural Produce Market Committee structures dominated by middlemen and bring in a more modern network of retail outlets, create a ready market for land to facilitate exit from and entry into farm sector, stop coercive recoveries and finally increase both credit and public investment. There is a need to encourage farmers’ corporations that aim to bring about an operative consolidation of land by converting farmers’ holdings and labour into equity. The corporate farm, with the help of technicians and management, should provide the necessary inputs as also post-harvest services.”¹⁰²

⁹⁶ SWAMINATHAN, M.(Jan. 20 - Feb. 02, 2001), ‘A further attack on the PDS’, Frontline, Volume 18 - Issue 02. Sainath, P. (2001), ‘Its the Policy, stupid, not implementation’, www.indiatogether.org

⁹⁷ Hoda, A. and Gulati, A. (2002), ‘Indian Agriculture, Food Security and the WTO-AOA’, At South Asia Initiative :ICRIER-ICAR-IFPRI Conference on “Economic Reforms and Food Security – The Role of Trade and Technology”, New Delhi

⁹⁸ See Jha,S. and Srinivasan, P V (September 29, 2001), ‘Taking the PDS to the Poor: Directions for Further Reform’, Economic and Political Weekly

⁹⁹ See generally also edited by Asthana, M.D. and Madrano, P.(2001), ‘Towards Hunger Free India: Agenda and Imperatives’ ; Manohar Publishers, New Delhi

¹⁰⁰ DFID (January 2002), ‘Making connections: Infrastructure for poverty reduction’, Consultation Document . Also see Fan, S., Hazell, P. and Thorat, S.(March 1998), ‘Government Spending, Growth and Poverty: An Analysis of Interlinkages In Rural India’, Eptd Discussion Paper No. 33, IFPRI

¹⁰¹ IFPRI (2002), ‘Sound Choices for Development: The Impact of Public Investments in Rural India and China’

¹⁰² Joshi, S.(12/11/03), Hindu Business Line

4.6 Services

Introduction

The services sector has grown briskly during the 1990s, presently contributing nearly 50% of the country's GDP¹⁰³. As the largest generator of economic growth, its poverty alleviation effects are both direct and indirect – by providing employment to even unskilled personnel but of greater importance are the indirect effects through remittances which are real injections into the economy and have multiplier growth effects. While it is very difficult to estimate employment in this sector, using the residual method, employment in this sector is about 26% of the total employment in the year 2000.¹⁰⁴ In addition the provision of several services as part of the Millennium Development Goals can be seen as a poverty attenuating measure.

The poverty attenuating effects of the services sector would work out through the following:

1. Services liberalization itself leads to growth which would in turn reduce poverty.
2. Direct poverty alleviation effects through increase in employment in this sector. This relates to the 4th issue set in the table from Winters in Chapter 1 of the report.
3. The increased access to some of these services which would have resulted from liberalization of this sector would in itself be meeting an MDG goal. This relates to the 2nd issue in the table from Winters in Chapter 1 of the report.

Services Liberalisation, growth and poverty alleviation

According to an IMF study, growth in services averaged at 7.5% per annum thus providing a valuable prop to industry and agriculture which grew at 5.8% and 3.1% respectively in the decade of the 1990's.¹⁰⁵ In order to arrive at a rough estimate of the contribution of this sector's exports to growth, the value added component of these exports have been estimated by the IMF at 60%. Based on this estimation services exports contributed 0.6% percentage points to the total growth of this sector. Using the following formula:

$$Po = Sg * Es * Sgdp * Pe$$

Where Po= percentage reduction in poverty

Sg= Services growth=7.5% (IMF)

Es= Value added from exports of services to services growth=0.6 of 1%(IMF)

Sgdp=Share of services in total GDP=0.5 (Economic Survey, GOI)

Pe= Poverty elasticity of growth=0.27 (Ravaillon and Dutt's survey of 2000)

¹⁰³ Ministry of Finance and Company Affairs, Economic Division(2002), 'Mid-Year Review, November 2002'

¹⁰⁴ Federation of Indian Chambers of Commerce and Industry(2003), 'Growth with employment : The Challenge Ahead'

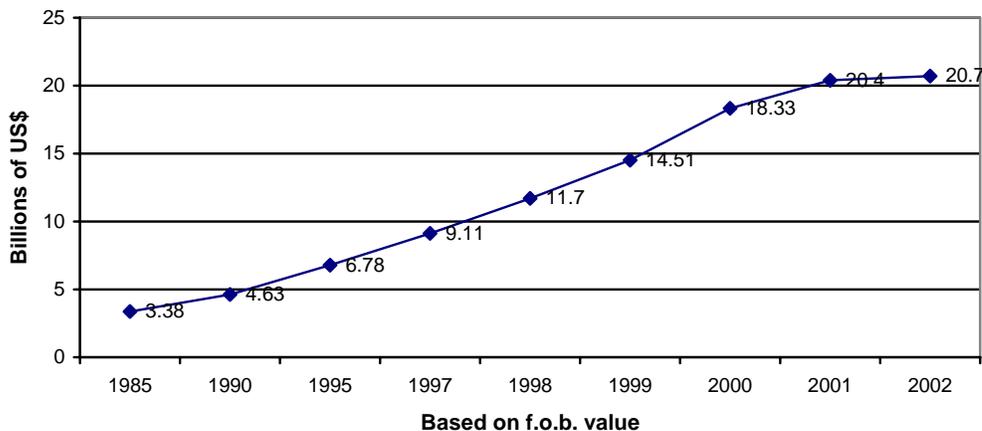
¹⁰⁵ Gordon, J. and Gupta, P. (2003), 'Understanding India's Services Revolution', presented in an 'IMF-NCAER Conference on A Tale of Two Giants: India's and China's Experience with Reform', New Delhi

$$Po=7.5*0.006*0.5*0.27$$

This would imply that approximately 1.6 million people would move out of poverty with the current rates of growth of exports of the services sector. The direct effects through employment would be larger.

The share of India in global trade in services is considerably higher than in manufacturing and increased from 1.2% in 2000 to 1.3% in 2002 (WTO website). In 2000, India was ranked 22nd in terms of its share in world exports of commercial services, with China and Korea being the only two East Asian economies ranked higher than India. It has improved its ranking to 21 in 2002. The growth of service exports in recent years can be gauged from the following chart:

Table 6.1 Trend in value of service exports-India (In billions of US \$)



Source: UNCTAD Statistical Database

Services have the capacity to generate demand for goods and services in other sectors including manufacturing, following an increase in their own output and help shape overall economic performance. Studies by World Bank have shown that openness in services influences long run growth performance. On the basis of an econometric study, after controlling for other determinants of growth, it was seen that countries that fully liberalized financial and telecommunication services have, on an average, grown 1.5 percentage points higher than other economies.¹⁰⁶

¹⁰⁶ Matto, A. Rathindran, R. and Subramanian, A. (2001), 'Measuring Services Trade Liberalisation and its Impact on Economic Growth: An Illustration', World Bank Policy Research Working Paper No.2625, World Bank, Washington, D.C

Employment effects

Liberalisation is also expected to create spill over benefits from the movement of capital and labour. Studies by Jim Gordon and Poonam Gupta have shown that service sub-sectors which have registered a fast growth rate include business services (which includes IT), communication services, financial services, tourism, hotel and restaurants, and distributions.¹⁰⁷ A study¹⁰⁸ by World Bank has shown that the more liberalized sectors in India have attracted more FDI and have shown far higher growth than less liberalized services. The study shows that the segments that have been aggressively liberalized – telecommunication, computer and related services, other business services (management consultancy, R&D, advertisement, etc) and hotels and restaurants- have experienced higher employment growth than other sectors which are relatively less liberalized. The above studies indicate that the high income elasticity of demand for services and increased input usage are likely to provide further impetus to growth in the services sector.

A study by FICCI¹⁰⁹ shows that employment in this sector has increased from 20% to 26% in the decade of the 1990's. This increase in employment would have directly reduced poverty as some estimates show that nearly 2/3rd of the employment in some service sectors is that of unskilled and semi-skilled labour. According to a CGE simulation by NCAER and the University of Michigan, a 33% reduction in service trade barriers would increase wages by roughly by 0.17% per annum in India. Economic welfare would increase by 0.5% per annum and returns to capital by 0.2% per annum.¹¹⁰ It is to be noted that the increase in wages is almost as much as the increase in the returns to capital, which goes against the general trend in India where returns to labour are falling much faster than the returns to capital. This also illustrates the high potential of this sector for attenuating poverty.

Access to services and MDGs

In some sectors, such as telecommunications, computers and related services, as well as health services, the provision of these services, would by themselves achieve the goals of MDGs. In some cases, such as telecom liberalization, a significant impact on the provision and pricing of these services can be observed in the case of India. This has made these services accessible to a large section of the population, including the poor. For example, tele-density and internet usage has risen significantly in the post liberalization era which also saw an increased role of the private sector.

The provision of these services at affordable prices, especially Universal Service Obligations, would be easier with domestic deregulation. This would improve with competition which accompanies privatization. In the case of India there appears to be a strong correlation between the flow of FDI and increased private sector participation in services. This applies particularly to communication services¹¹¹. In general a framework for regulated competition

¹⁰⁷ Gordon, J. and Gupta, P.(2003), 'Understanding India's Services Revolution', presented in an IMF-NCAER Conference on A Tale of Two Giants: India's and China's Experience with Reform, New Delhi

¹⁰⁸ World Bank-South Asia (2004), 'Trade in Services: Access to Foreign Markets, Domestic Reform and International Negotiations'

¹⁰⁹ FICCI, 2003 op cit

¹¹⁰ Chadha, R. Brown, D. and Dearndoff, A and Stern,R. (2003) in Ed Mattoo, A. and Stern, R. (2003), India and the WTO, Oxford University Press

¹¹¹ Gordon, J. and Gupta,P. 2003, op cit.

has been preferred for the provision of public utilities such as power, transport and communications. These sectors have also seen very high growth.

India, GATS and Doha Round

India has placed emphasis on autonomous liberalization. Some two-thirds of the WTO Members have scheduled fewer than 60 sectors of the approximately 160 sectors covered by the GATS.¹¹² The liberalisation across most sectors is found to be far higher than the commitments bound at the WTO. This applies to all the sectors for which commitments have been undertaken. In practice it is seen that the policy reforms taken pursuant to autonomous liberalization have by and large, not been reversed to the detriment of foreign service providers. Therefore, the Doha Round presents an opportunity to seek better market access in a number of sectors, which could help in reducing poverty levels.

India and Liberalisation of Temporary Movement of Natural Persons (Mode -4¹¹³)

It is considered that even fully liberal cross border trade goods and services will leave significant global efficiency gains unrealised unless there is due recognition of factor movements.¹¹⁴ Dani Rodrik has noted that the income gains that arise from international trade rise with the square of price differentials across national markets.¹¹⁵ The wages of similarly qualified individuals in the advanced and low income countries differ by a factor 10 or more.¹¹⁶ Rodrik concludes that a multilaterally negotiated visa scheme that allows expanded entry into advanced nations of mixed skill and unskilled workers from developing countries would create income gains that are larger than all of the items on the WTO negotiating agenda taken together.¹¹⁷ Despite this impressive reason for labour movement, unskilled and semi-skilled services were largely excluded from GATS, both because the subject matter was not covered, and because the mode of delivery by which these services may be traded is physical movement of the service provider.¹¹⁸ In the context of GATS, the movement of natural persons were, in practice, linked to mode 3, namely commercial presence. Such commitments were of limited value and interest to developing and other low income countries who have limited share in foreign direct investment.

The poverty links with Mode 4 can be traced to the following factors:

1. Income from remittances which increase the level of well being of a particular society.

¹¹² World Bank (2003), 'Global Economic Prospects', Washington, D.C.

¹¹³ Mode 4 is defined as the supply of services by a supplier of a WTO Member through the presence of natural persons in the territory of another WTO Member on a temporary basis. GATS does not apply to measures affecting persons seeking access to the labour market of a member country or to measures regarding citizenship, residence, or employment on a permanent basis. For details, please see the Annex on Movement of Natural Persons Supplying Services under the Agreement.

¹¹⁴ Mattoo, A. and Subramaniam, A. (2003), 'What Would a Development-Friendly WTO Architecture Really Look Like? IMF Working Paper', WP/03/153

¹¹⁵ Rodrik, D. (2002), 'Feasible Globalizations', Working Paper dated

¹¹⁶ For examination of the wages differences of software service personnel in various countries see, Rubin, H. (1999), 'Global Software Economics', New York : Hunter College, Department of Computer Science, and Rubin System, Inc.

¹¹⁷ Rodrik, D. (May 2002), 'Feasible Globalizations', Working Paper

¹¹⁸ Trachtman, J.P.(2003), 'Legal Aspects of a Poverty Agenda at the WTO: Trade Law and 'Global Apartheid'', Journal of International Economic Law, (3-21).

2. Skill upgrading which increases efficiency and hence growth with its accompanying poverty alleviation effects.
3. Direct poverty alleviation of economic migrants whose opportunity cost in their home countries may be low.

Remittances: Even in the absence of any international framework for facilitating movement of labour, India has been able to derive substantial foreign remittance and has been the top recipient for a long time [Table 6.2]. In terms of foreign exchange earnings, the foreign remittances (US \$ 7.6 billion for the year 1996) came close to the contribution of the country's entire textiles and clothing industry in India.

Table 6.2 Remittances of India and other countries (2001)

| Selected countries (sorted by 2001 value) US \$ m | 1985 | 1990 | 1995 | 2000 | 2001 |
|--|-------|-------|-------|-------|--------|
| India | 2,469 | 2,384 | 6,223 | 9,160 | 10,228 |
| Mexico | 1,616 | 3,098 | 4,368 | 7,596 | 9,920 |
| France | 1,393 | 4,035 | 4,640 | 8,606 | 9,221 |
| Philippines | 806 | 1,465 | 5,360 | 6,212 | 6,164 |
| Spain | 1,234 | 2,186 | 3,235 | 4,517 | 4,720 |
| Belgium+Lux | 817 | 3,583 | 4,937 | 4,005 | 3,933 |
| United Kingdom | - | 2,099 | 2,469 | 3,587 | 3,867 |
| Germany | 807 | 4,876 | 4,523 | 3,477 | 3,803 |
| Portugal | 2,164 | 4,479 | 3,953 | 3,406 | 3,566 |

Source: Butkeviciene, UNCTAD (2003)

However, the benefits could be even more substantial in terms of temporary movement of natural persons (TMNP), encompassed under mode 4, if it achieves moderate degree of success in the negotiations.¹¹⁹

Liberalization of TMNP would also infer that the economic benefits would flow back to the sending country of the service supplier either through remittances from abroad or return in investment, education and other activities in the sending states and would result in significant growth.¹²⁰ The example of Kerala outlined in **Box.7.1** would suggest that remittances of temporary migrants have contributed significantly to Kerala's economy. The multiplier effects of remittances, in conjunction with other factors such as development of human capabilities, especially education, access to land and empowerment of women, could have helped Kerala in reducing poverty.

¹¹⁹ Under TMNP, workers enter a country temporarily to carry out particular jobs and provide labour inputs. In such a situation there is no shift in residence, which is associated with international migration. However, its direct economic consequences can be thought of as those of migration. See Winters, A. (2001), 'The Economic Case for Labour Mobility, Paper presented in the Joint WTO- World Workshop held in Geneva', April 11-12, 2001

¹²⁰ Galor, O.S.(1991), The Probability of Return Migration, Migrant's Work, Migrant's Work Effect and Migrant's Performance, Journal of Development Economics, No. 35

Box.6.1

Poverty Alleviation Effects of Foreign Remittance to Kerala's Economy

Kerala, during the post-liberalisation period appears to be an example of a state which has had high rates of unemployment, but yet not encountered the levels of poverty that high unemployment levels are normally associated with. This unusual result of low levels of poverty coupled with high levels of unemployment (among the highest in the country) can be best explained by the substantial contribution made to the Kerala economy by its expatriate population. Kerala is unique among Indian States in that its largely unskilled expatriate labour force contributes remittances, which are more than 20% of Kerala's income and also more than 20% of Kerala's State Domestic Product. The average annual foreign remittances to Kerala increased by more than 20 fold for the period 1980-85 to 1995-00 from USD 118 million to USD 2378 million respectively. There have been substantial rises in the macro-economic contribution of expatriate incomes to Kerala's economy following liberalisation in the 1990s, which, among other things saw the rationalisation of the fixed exchange rate system. It is also evident that returns through expatriate labour force employment have been more than proportional to the level of deployment of expatriate labour. Expatriate labour accounts for only 10% of Kerala's total labour force, and yet returns to Kerala's income are at about 20% of the state's total income. Macroeconomic gains have shown improvement even when taking demographics into account as the per capita indices have been overwhelmingly positive in Kerala when compared to India overall. It is clear that remittances have had distributive income effects as the per capita income of Kerala equalled the National Average only in 1984-85 but showed significant improvement and by 1999-2000. Kerala's per capita income exceeds the National Average by about 50%. It also appears that remittances have contributed to increased consumption power as the per capita consumption expenditure in Kerala equalled the National Average only in 1977-78 but showed substantial improvement by 1999-2000. Kerala's per capita consumer expenditure exceeded the National Average by 41%. Kerala's experience is a pointer to the substantial poverty reduction effects at source on account of even minimal exportation of person embodied services. What is of added significance is that most of Kerala's remittances can be attributed to unskilled labour, which constitutes the bulk of Kerala's expatriate person embodied services.

Source: Kannan, K.P. and K.S.Hari, 'Kerala's Gulf Connection: Emigration, Remittances and their Macroeconomic Impact: 1972-2000', March 2002.

It is also seen that states such as Punjab and Haryana have also used international remittances as an important instrument in stimulating growth and hence reduction in poverty.¹²¹

Skill development

The additional skills acquired by temporary workers can be put to work upon their return, thereby contributing to economic growth and development.

Opportunity cost of economic migrants

Although there is a theoretical possibility¹²² that diminished supply of workers in the sending country may push wages up and can put added pressure on the economy, it is unlikely to be an issue in India where the share of migrants constitute only a miniscule percentage of the total work force, both skilled and less skilled. It is seen that emigration clearances granted

¹²¹ Singh, N. et al(2002), 'Regional Inequality in India: A Fresh Look'

¹²² Meyer, B. (July-August,2001), 'The 'Brain Drain': New Aspects of the South/North Exodus', The Courier, ACP-EU

even during peak years have constituted only 0.1 percent of the total work force in that particular year.¹²³

India's interests in Mode 4

For countries such as India, liberalization in temporary movement of service providers under mode 4 of GATS is the key to maximizing its benefits under WTO regime. A cursory look at the WTO Members' Schedule shows that the trade conditions for mode 4 tend to be significantly more restrictive than conditions in other modes, in particular, mode 2. This is reflected in the pattern of horizontal limitations in current schedules applying across all sectors. While the limitations over mode 2 are around 20, the limitations are over 100 for mode 4.¹²⁴ Further, the commitments were confined to intra-corporate transferees at senior level and executives, managers and specialists, with very few commitments, or even general absence of commitments for less skilled persons.

India's proposals can be broadly classified as follows:

1. India has submitted comprehensive proposals¹²⁵ under the Doha Round for improved market access commitments to the movement of individual professionals, technicians, and "assistant professionals", both on a horizontal and sector specific basis.
2. The possibility of extending mode 4 commitments to less skilled workers, through the provision of such services through independent contracts rather than an establishment. In the above backdrop, India has called for a more disaggregated set of categories for scheduling purposes, suggesting the International Standard Classification of Occupations (ISCO-88) framed by the International Labour Organisation as a reference point for scheduling commitments.¹²⁶ It is also felt that a classification based on ISCO-88 would at least help in bringing effective market for services with different skill levels under mode- 4.¹²⁷
3. Commitments on mode 4 should not be subject to conditions on qualification which are onerous.¹²⁸ Lack of recognition of qualifications can also potentially restrict the countries to which service suppliers can move. Language skills and competency is another issue.
4. The asymmetrical nature of liberalization in respect of mode 4, which according to available statistics contribute only for less than 2 % of the total value of the service trade[**Table 6.3**] needs to be corrected.¹²⁹

¹²³ Ministry of Labour(2003), 'Report of the Committee to Study the Operation and Long-term Relevance of the Emigration Act, 1983 and the Functioning of the Office of the Protector General of Emigrants', Government of India, New Delhi.

¹²⁴ WTO (2000), 'Guide to the GATS', Kluwer Law International, The Hague

¹²⁵ India Proposal to the WTO(24 November, 2000), S/CSS/W/12

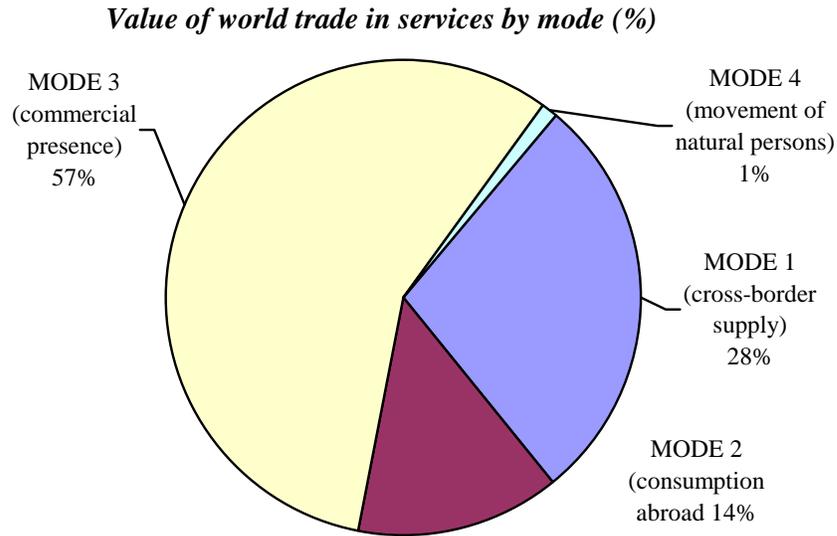
¹²⁶ The ISCO-88 classification covers the entire range of occupations from top company executives to unskilled labour categories. The coverage of unskilled categories of labour in the ISCO classification will help in making a legitimate claim for opening up markets for those categories labour which are inadequately covered under the existing service classifications of the GATS.

¹²⁷ Self, R and Zutshi, B.K (11-12 April, 2002), 'Temporary Entry of Natural Persons as Service Providers: Issues and Challenges in Further Liberalisation under the Current GATS Negotiations', Joint WTO- World Bank Symposium on Movement of Natural Persons under the GATS, WTO, Geneva

¹²⁸ For details see S/C/W/75, 'WTO Background Paper on Presence of Natural Persons'

¹²⁹ IMF, 'Balance of Payment Yearbook'

Table 6.3:



Source: IMF BOP Statistics.

5. There is a need to separate temporary and permanent movement of labour, away from the domain of immigration and employment regulations. The concept of ‘GATS Visa’¹³⁰ or ‘Service Provider Visa’ could be limited for a specific period and would be easy to obtain.¹³¹ It would cover both independent service suppliers and intra-corporate transferees, feature aspects like right of appeal and be backed by a bond, with sanctions for abuse. It could also address issues related to the review of delays in processing, right of challenge against grounds of rejection by various visa granting authorities, etc. If the concept of GATS Visa fails to incorporate less skilled workers, particularly to persons in sectors such as construction, tourism, distribution services, etc, within its coverage, the perceived gains from liberalization will be limited.¹³² In an important finding¹³³, Walmsley and Winters, if temporary visa system were introduced in rich countries permitting movement of labour up to 3% of the total labour force, world incomes would rise by nearly \$160 billion

6. Quantitative restrictions on the movement of labour are fairly common in different jurisdictions. There is greater need to specify the criteria for the application of ENTs in the schedule of commitments themselves. In many respects they constitute, ex ante safeguards defined on sectoral and country basis and constitute a severe threat to the effectiveness of existing commitments. There is a greater need to specify the criteria for the application of ENTs in the schedule of commitments themselves.

¹³⁰ Chanda, R. (2002), ‘Movement of Natural Persons and the GATS Major Trade Policy Impediments’, in Hoekman, B., Mattoo, A. and English, P. eds, *Development, Trade and the WTO*. Washington, D.C. : World Bank

¹³¹ Specifically the provision for ‘GATS Visa’ could also considerably help Indian software companies in relocating their professional without inviting the invocation of visa caps such as the limit on L-1 visa sought to be introduced under the Rosa DeLauro law¹³¹ in the United States

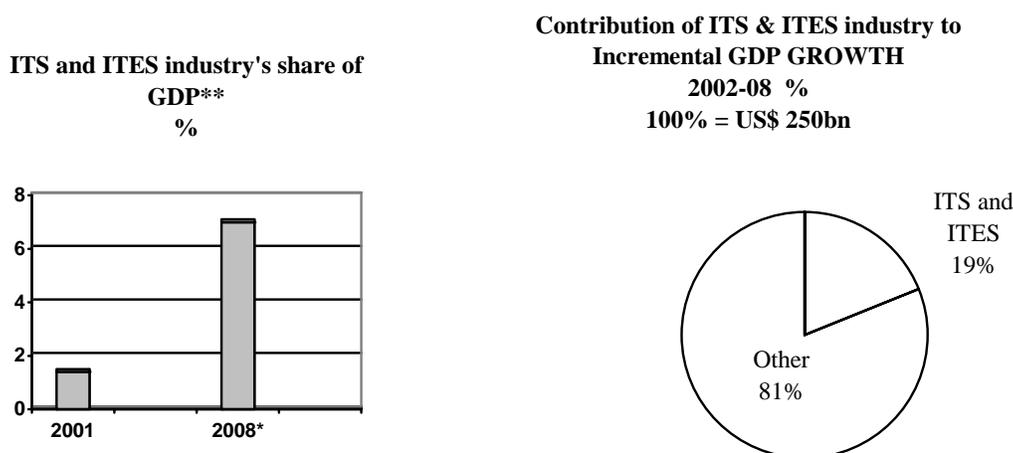
¹³² Mike Waghorne (2003), ‘Mode 4 and Trade Union Concerns, in *Moving People to Deliver Services*, Aaditya Mattoo and Antonia Carzaniga’, Eds, A co-publication of the World Bank and the Oxford University Press, Washington, D.C.

¹³³ Walmsely and Winters (2002), *An Analysis of the Removal of Restrictions on the Temporary Movement of Natural Persons*, Mimeo, University of Sheffield.; see also Alan Winters.

Computer and related services

Data on the software and services sector indicate that annual revenue was approximately \$10.1 billion in 2001-2002 up from U.S \$ 0.8 billion in 1994-05. Domestic software has grown at 46 % while software exports have grown at 62 % over the last five years. Software exports alone accounted for 20.4 % of India's overall exports during 2002-2003 in comparison with 16 % during 2001-2002.¹³⁴ In the software services industry alone, direct job creation is forecast to reach 2.2 million and indirect job creation to another 2 million by 2008.¹³⁵ It is estimated that Information Technology Services (ITS) and IT Enabled Services (ITeS) would account for 7 % of India's GDP and 30 percent of India's foreign exchange flows.¹³⁶ (Table 6.4) At the core of the IT industry is the computer industry, comprising computer hardware software and computing services. Using poverty elasticities listed above this would imply a reduction in poverty of about 0.47% in 2001 which is comparable with sectors such as textiles.

Table: 6.4 ITS Sector and GDP in India



Source: NASSCOM-McKinsey Report

Computer and related services is one of the most liberalized sectors in India. While India has scheduled commitment to allow FDI up to 51 % under the GATS, it has autonomously liberalized this sector completely with very few explicit barriers. Under the existing investment regime, FDI up to 100 % is allowed under the automatic route in all segments of the software sector, including consultancy services and related installation of computer hardware, software implementation, data processing, data base and other services. The only explicit restriction is in the case of business to business (B2B) e-commerce which is subject to approval by the Foreign Investment Promotion Board. As the IMF study has suggested the index of liberalization of this sector is very high.

As far as hardware is concerned, India has a very low PC penetration which is estimated as 6 PCs per 1000 people. A stimulation of growth in this sector could help considerably in

¹³⁴ NASSCOM (2003), 'NASSCOM Strategic Review', available at www.nasscom.org.

¹³⁵ NASSCOM-McKinsey Report (2002), 'Strategies to Achieve the Indian IT Industry Aspiration',

¹³⁶ *Ibid.*

providing education and other services available for the middle class and lower income people. This would address the MDGs directly.

The significance of BPOs

If a high-technology company can save money by operating a factory or a call center in a relatively lower-cost country — perhaps an English-speaking nation like Philippines or India — then the company's efficiency, in the long run, will help sustain the company's power to create higher-level jobs in higher-cost regions such as the United States or Western Europe.¹³⁷ Relocating or moving functions such as call centres and customer support centres offering remote services, providing internet and web-enabled applications with a lower cost emerged as a new business model for enterprises in developed economies. IT sourcing consists of contracting a service provider to completely manage, deliver and operate one or more IT functions such as data centres, net works, desktop computers and software applications. IT-eS include a variety of service and other business process outsourcing (BPO) including billing, finance, credit appraisal, pay roll administration, training, telemarketing, order entry and so on. According to a recent report, the largest single business process being out sourced is in the field of human resources.¹³⁸ IT Research company Forrester estimates that the US BPO market will be worth \$146 billion in 2008 and it is estimated that major proportion of the jobs would be moving to India and China. According to Datamonitor estimates, there are currently over 250 contact centres and 51,000 agent positions in India devoted to offshore outsourcing. As additional capacity is needed, the number of contact centres and agent positions will grow at a compound annual growth rate (CAGR) of 9% and 19% respectively to reach 387 contact centres and 121,000 agent positions by 2007. Therefore, the potential for employment generation of BPOs in India is unprecedented. The growth and success of outsourcing in India is often attributed to the easy availability of work force trained in software development, appropriate ICT environment and the time zone difference.¹³⁹ Outsourcing is also considered to be win-win business strategy and studies have reported that outsourcing of backend processes to India has actually resulted in cost savings and generation of wealth even in developed countries.¹⁴⁰

It is claimed that the section of society which gets BPO jobs are not the extremely poor or even the poor. While that may be true the multiplier effects in terms of increasing the consumption of goods produced by the poor for this sector may be high. This is because this sector consists largely of medium skilled people which a high marginal propensity to consume.

The IT- enabled services and business processes grew by 59 percent during 2002-2003 to earn a total of US\$ 2.3 billion.¹⁴¹ NASSCOM estimates that the revenue in IT-enabled services would grow to US \$ 16.94 billion by 2008. NASSCOM has estimated that the ITeS has employed 106,330 people in the year 2002 and is expected to generate 1.1 million jobs by 2005.¹⁴² IT enabled service exports are growing rapidly, creating a boom in not only major

¹³⁷ Miller, J.C. (18 October 2003), 'In the Wake of a Failed Cancun', Washington Post

¹³⁸ Gartner (2003), 'The Economics of IT Services and Outsourcing In Europe'; www3.gartner.com

¹³⁹ UNCTAD (2003), 'E-Commerce and Development Report', Chapter 5

¹⁴⁰ Economic Times (3 December 2003)

¹⁴¹ Nasscom, available at : <http://www.nasscom.org>

¹⁴² *Ibid*

IT centres such as Bangalore or the NCT of Delhi, but even in small cities such as Coimbatore.¹⁴³

Future developments

Perceiving a threat in relatively skilled/high-skilled professional jobs going overseas to lower wage countries through BPO, certain countries including the United States have sought to place restrictions through legislation.¹⁴⁴ In the areas of transportation, health science and education, it is seen that government procurement of IT and computer services is significant. It is reported that U.S federal spending on outsourcing alone has accounted for \$18.5 billion worth of contracts.¹⁴⁵ However, there are no disciplines in GATS regulating such restriction by governmental agencies. The GATS commitments and obligations do not extend to procurement of services by government agencies¹⁴⁶. Therefore, it would be in India's interest to examine whether such practice could be regulated under the disciplines of GATS, particularly under mode 1 or that appropriate disciplines are introduced to address such a situation without bringing the issue under the coverage of government procurement, the desirability of which is contentious.¹⁴⁷

Tourism

Tourism, broadly defined, is regarded as the world's largest industry and one of the fastest growing, accounting for over one third of the value of total world-wide services trade.¹⁴⁸ Tourism development has also resulted in international investment and substantial foreign exchange earnings.

According to World Tourism organization, tourism as a whole employed one in ten workers world-wide, making the sector the world's largest employer.¹⁴⁹ Tourism has three types of effects on employment: direct effects resulting from expenditures by tourists; indirect effects, such as the employment generated for the firms which act as suppliers to tourism related industries; and induced effects on the economy as a whole resulting from expenditures deriving from the direct and indirect employment effects. Apart from providing employment, tourism sector provides additional income or contributes to a reduction in poverty by increasing the range of activities available to individuals and households.

The Travel and Tourism Industry is estimated to contribute to 2% of Gross Domestic Product of India in 2003, i.e. US \$ 10.5 billion. In 2003 the employment in the Travel and Tourism sector is estimated at 23, 839, 800 jobs, which would constitute 5.8% of the total employment. The poverty effects of this employment would be significant as the skill requirement in tourism is not very high. A 7.9% growth is expected per annum in tourism related GDP. This using the above mentioned poverty elasticity figures would mean 0.04% in poverty alleviation. The World Travel and Tourism Council (WTTC), has forecast that the

¹⁴³ Frontline (2003), 'The BPO Boom, Special Feature: Industry in Chennai', Vol.20, Issue 25

¹⁴⁴ For a detailed examination of protective policies in the government's sourcing of service see,

¹⁴⁵ <http://www.banknetindia.com/banking/it2.htm>. The report is based on a study conducted by Datamonitor.

¹⁴⁶ Article XIII of GATS exempts all services purchased by the governmental agencies for governmental purposes and not with a view of commercial resale from MFN, market access and national treatment obligations.

¹⁴⁷ Botsworth, M. (2000), 'Comment', in Sauve, P. and Stern, R.M eds, GATS 2000: New Direction in Services Trade Liberalisation, Washington, D.C, Brooking Institution Press and Harvard University.

¹⁴⁸ UNCTAD (1998), 'International Trade in Tourism-Related Services: Issues and Options for Developing Countries', TD/B/COM.1/EM.6/2

¹⁴⁹ World Tourism Organization(1998), 'Tourism Economic Report'

total amount of economic activity in the travel and tourism sector would grow at the rate of 9.7% for the period up to 2013. [Table 6.5].

Table 6.5 Gains from Travel and Tourism in India (2003 and 2013 projected)

| India | 2003 | | | 2013 | | |
|---|-----------|-------------|--------|-----------|-------------|--------|
| | INR bn | % of Tot | Growth | INR bn | % of Tot | Growth |
| Personal travel & tourism | 748.3 | 4.5 | 7.9 | 3,286.1 | 5.4 | 8.7 |
| Business travel | 91.5 | --- | 0.7 | 465.4 | --- | 10.4 |
| Government expenditure | 32.5 | 1.0 | 3.8 | 101.8 | 1.0 | 5.1 |
| Capital investment | 412.9 | 7.0 | 6.8 | 1,616.7 | 7.4 | 7.5 |
| Visitor export | 156.1 | 3.9 | 8.2 | 806.4 | 3.6 | 10.5 |
| Other export | 78.4 | 2.0 | 15.6 | 463.9 | 2.1 | 12.0 |
| Travel & tourism demand | 1,519.7 | --- | 7.4 | 6,736.3 | --- | 8.8 |
| T&T Industry GDP | 5294 | 2.0 | 6.1 | 2,153.4 | 2.2 | 7.9 |
| T&T Economy | 1,274.6 | 4.8 | 6.5 | 5,180.2 | 5.3 | 7.9 |
| T&T Industry | 11,093.1 | 2.7 | 1.0 | 12,659.9 | 2.7 | 1.3 |
| T&T Economy Employment (<i>In Thousands</i>) | 23,839.8 | 5.8 | 1.3 | 27,684.9 | 6.0 | 1.5 |

Source: World Travel and Tourism Council (2003)

India has shown a steady increase in the number of international tourism arrivals in 2003. Statistics prepared by the World Tourism Organization have shown that the international tourist arrivals in India have increased by 12%. The individual inbound country forecasts made by the World Tourism Organization indicate that the tourist arrivals in India will increase to 8.9 million in 2020.¹⁵⁰ Regarding outbound forecasts, it is estimated that the increase would be approximately 5.7 million per year between 1995-2020.¹⁵¹ Despite this vast improvement in inbound tourism arrivals and tourist receipts, India's share in international tourism remains at 0.38%. This is not commensurate with India's unique advantage as a destination noted for a rich natural and cultural heritage and high level of entrepreneurial activity. The reasons for the low share in international tourism could be many and varied.¹⁵² To give one such illustration, the World Travel and Tourism Council has identified restricted policies in civil aviation sector as an important factor which has adversely affected the promotion of tourism sector in India. Other reasons include lack of infrastructure, uncompetitive taxes (e.g. entertainment tax, sales tax, etc), issues related to hygiene, security and other concerns.¹⁵³

In regard to WTO, India has undertaken commitments in the Tourism sector during the Uruguay Round. India's commitments in the GATS relating to the Tourism Industry relate

¹⁵⁰ World Tourism Organization, 'Tourism 2020 Vision', Vol.6

¹⁵¹ *Ibid.*

¹⁵² See Planning Commission (2002), 'Tourism, Chapter 7.5 of the Tenth Plan Document', Government of India, New Delhi

¹⁵³ Fook, A. (2001), 'The Changing Structure of International Trade in Tourism Services: The Tour Operators' Perspective', Presented on a symposium on Tourism Services organised by WTO on Website http://www.wto.org/english/tratop_e/serv_e/symp_tourism_serv_feb01_e.htm

primarily to four sub sectors in W/120 including Hotels and Restaurants, Travel Agencies and Tour Operators, Tourist Guide Services, and Other. India has bound commitments allowing foreign equity participation of up to 51% in hotels, lodging, travel agency and tour operator's services. However, India has autonomously liberalized this sector and under the current FDI policy, foreign direct investment up to 100 percent is permitted under the automatic route (notification requirement to the Reserve Bank of India). Again using the index of liberalization of the IMF, this sector's scores are high.

Health Services

A sustainable approach to international trade in health services is expected to increase the economic contribution of the health sector to the national economy.¹⁵⁴ Health services have been identified as an important area in which countries including India could become major suppliers of services, either by attracting patients from abroad (mode 2) or by temporarily sending their health professionals abroad. Moreover, provision of adequate health services be it through liberalization or otherwise is in itself an important millennium development goal.

For India, liberalization in health services under mode 2 is also important, as link could be established between health, tourism and natural resources. Under this mode, the consumer of the traded service travels to the country of the service provider to avail of the service. In the above context some state governments in India have already started popularizing the concept of mixing leisure together with tourism. The areas where India has unique advantage will include traditional and alternate forms of medicine such as Unani, Ayurvedic and Homeopathic. Health tourism is an important business in states such as Kerala, Goa, etc. Reportedly, patients from developed countries such as the US and the UK can get bypass surgeries or transplants done at one-fourths or one-fifths the cost and in high quality super specialty hospitals in developing countries such as India.¹⁵⁵ It is estimated that around 50,000 patients come to India from Bangladesh and spend over US \$ 1 million per year on the specialized treatment diseases.¹⁵⁶ It was reported that a number of British nationals are coming to India for treatment as the waiting period under the National Health Service (NHS) in Britain was considered too long (BBC, 2003)¹⁵⁷ Another important issue relating to health service is nursing care. In a joint study by UNCTAD and WHO, it was estimated that if around 3 percent of 100 million elderly persons living in OECD countries retired to developing countries, they could bring with them possibly \$30 to \$50 billion annually in personal consumption and \$10 to \$15 billion in medical expenditure.¹⁵⁸ One major barrier to the movement of consumers is the lack of portability of health coverage, either private or public, across national borders.¹⁵⁹

¹⁵⁴ Benavides, D. 'Trade Policies and Export of Health Services: A Development Perspective', A WHO Publication

¹⁵⁵ WHO (1997), 'Task Force on Health Economics, Technical Briefing Note, Measuring Trade Liberalisation Against Public Health Objectives: The Case of Health Services', WHO, Geneva. See also Aiyar, S.S.A (1999), 'India's Economic Prospects: The Promise of Services', Occasional Paper No.9, Center for the Advanced Study of India, University of Pennsylvania

¹⁵⁶ Rahman, M.(2001), 'Bangladesh-India Bilateral Trade: An Investigation into Trade in Services, Centre for Policy Dialogue', Dhaka. Also see CII Mckinsey study on the need to stimulate investment further to increase the variety of specialist services.

¹⁵⁷ BBC (2004), 'NHS faces foreign op payouts', <http://news.bbc.co.uk/go/pr/fr/-/1/hi/health/3155940.stm>

¹⁵⁸ UNCTAD Secretariat (1998), 'International Trade in Health Services- A Development Perspective', in Zarilli, S. and Kinnon, C. editors, Geneva, United Nations and WHO

¹⁵⁹ UNCTAD (1999), 'International Trade in Health Services: Difficulties and Opportunities for Developing Countries', Geneva, United Nations

However, the poverty reduction implications of liberalization in health services are discernible more in respect of mode-4 than in other forms of service delivery. India is one of the most prominent countries exporting health services.¹⁶⁰ From India's perspective, liberalization of services provided by mid-wives, nurses and other social services have a pro-poor impact. It is in India's interest to seek that other countries make commitments in mode 4 and further remove restrictions such as requirements of residency and nationality, and other quantitative restrictions. Normally ENTs do not apply to skills that are in short supply and therefore would exclude highly skilled professionals. Of the sector-specific ENTs, 48 are scheduled in Business Services. 28 of these entries are scheduled in Professional Services, with medical, dental, and midwife services being the most prominent category (20 entries). An additional 16 tests have been inscribed under "Health-Related and Social Services" making health services the area with the most scheduled ENTs. This would demonstrate that ENTs are a major barrier in exporting health services, particularly for skilled services in which India has comparative advantage.

In the case of India, there is little evidence to suggest that domestic public health care has been affected on account of international migration (temporary or permanent). The total export of skilled labour, including doctors, constitutes only 0.13% of the total supply of graduates in 1991.¹⁶¹ Nonetheless, there is a greater need to increase the health budget which could target the rural areas and could consequently improve the health conditions of the poor.

Telecommunications

Goal 8 of the MDG has identified the crucial importance of Information and Communication technologies (ICT) in economic and human development. Access to ICT allows speedy dissemination of knowledge and information and holds major promises in improving health care, delivering education and in achieving various development goals. Considering the importance of ICT, Target 18 of Goal 8 MDG has specifically laid down: "In co-operation with the private sector, make available the benefits of new technologies, especially information and communications."

Teledensity as an MDG

The goal of achieving the tele-density of 15% by 2015 would be realizable, only if the involvement of the private sector, mainly in the mobile telephony services, is substantial. Earlier government owned monopolies controlled 90% of all land lines. In a recent study by Indian Credit Rating Agency (ICRA), the cellular connections were set to take over land line connections. It forecast the cellular subscriber number growing to 120 million by 2008. Pursuant to the liberalization in the sector and the entry of private players, the tariffs came down drastically. Gartner Dataquest estimated that Indian cell phone market would expand at a compounded annual growth rate of 46% during the period 2002- 2006.¹⁶² The trend will have a positive bearing in appreciably improving the tele-density in India. Further with the opening up of the sector, the waiting period for new connections has been significantly reduced. In this regard issues related to interconnection¹⁶³ facilities and pricing policies by

¹⁶⁰ Chanda, R., 'Trade in Health Services', Working Paper No.70, ICRIER, New Delhi

¹⁶¹ Ministry of Labour, 2003, op.cit

¹⁶² Department of Telecommunications, Government of India. See also Annual Report 2002-2003, New Delhi.

¹⁶³ The WTO Reference Paper on Telecommunications require that interconnection must be non-discriminatory, transparent and conditions and rates; of a quality no less favourable than that provided for its own like services or for like services of non-affiliated service suppliers or for its subsidiaries or other affiliates.

incumbents were facilitated to a large extent by the stable regulatory environment in India which was guided by the commitments undertaken by India in the telecommunication sector.¹⁶⁴

Table: 6.6 Performance of Telecommunication Sector

| New Telephone Connections | | | |
|----------------------------------|-----------------|-----|----------------|
| Parameters | 2001 | | 2002 |
| | April- December | | April-December |
| | | | % variation |
| Basic Telephone connections | 2.6 | 1.9 | -24.7 |
| (including WLL) | 1.9 | 3.3 | 73.7 |
| | 4.5 | 5.2 | 17.3 |

| Tariffs | | | |
|---|----------------------|------------|-----|
| | As on march 14, 2002 | Early 2003 | |
| NLD Peak Hour Tariffs (1000 km and above) | 21.60 | 9.60 | -56 |
| ILD Peak Hour Tariffs | 40.80 | 21.60 | -47 |

Source: TRAI

The Telecom operators are fixing their own tariff rates within the ceiling given by TRAI and this position is dynamic in nature.

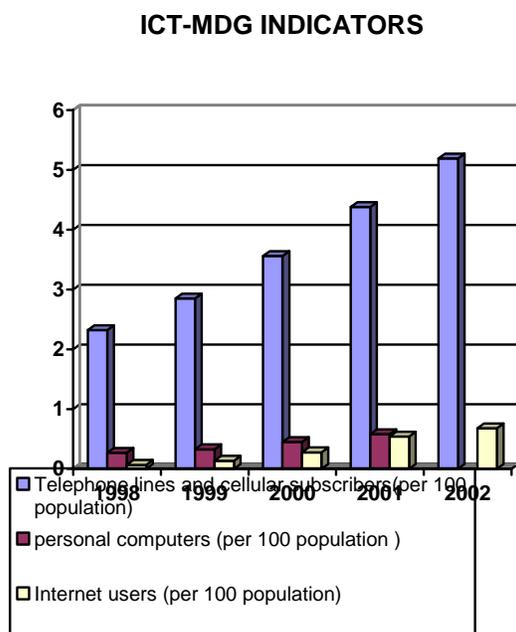
Warren (2000) has estimated the impact of liberalization on telecommunications penetration as measured by the number of lines of mobile and fixed lines per 100 habitants. It is estimated that the number of users of basic service in India increased from 9.5 million in 1991 to 40 million users by the end of 2002.¹⁶⁵ Estimates made by the Telecom Regulatory Authority of India (TRAI) shows that the penetration has increased to 5.19 at the end of 2003 as a result of liberalization (Table 6.7). The comparison of the telecommunication penetration rate is provided below.

¹⁶⁴ The Telecom Regulatory Authority India (TRAI) provides the regulatory framework in the form of setting and reviewing telecom tariffs

¹⁶⁵ Kathuria R., Singh H. V. and Soni A. (2003), 'Telecommunication Policy Reforms in India and the WTO', A World Bank Publication.

Table 6.7

Teledensity and ICT MDG Indicators



Teledensity - Country Comparison

| Country | 1995 | 2001 | Compound Average Growth |
|----------------|------|------|-------------------------|
| India | 1.1 | 3.6* | 22.3 |
| Brazil | 8.5 | 21.8 | 17.6 |
| China | 13 | 13.8 | 26.9 |
| Indonesia | 1.7 | 3.7 | 14 |
| Pakistan | 1.7 | 2.4 | 5.8 |
| United Kingdom | 50.2 | 58.8 | 2.7 |
| United States | 60.7 | 66.5 | 1.5 |
| Sri Lanka | 1.1 | 4.3 | 25 |

Source: ITU, 2002 and UN Statistics Division

Employment Effects

Although the above figures show that there is a healthy growth in tele-density rates, the growth is not substantial enough. It is considered that since many developing countries have low tele densities, roughly 70% of telecom investment is directed toward building wire line and mobile networks, which are highly labour intensive and help maintain or raise employment levels.¹⁶⁶ This would have direct poverty alleviation effects. Studies indicate that in India, the Department of Telecom expanded its work force over the 1996-2000 period in the wake of expansion of networks and opened up thousands of public call offices¹⁶⁷ all over India.

As on December, 2002, there are 1.3 million PCOs in India, of which 2,00,000 PCOs were working in rural areas. These public call offices have the potential of serving as ‘public- tele-info-centres’ offering a variety of multi-media information centres.¹⁶⁸ The Government is also encouraging the upgrading of public call offices into Public Telephone Information Centre (PTIC) by equipping it with a personal computer or similar device and by providing internet facility. There is also appreciable involvement of less skilled labour in promotional and advertisement work in the telecom and construction sector. In fact some estimates

¹⁶⁶ Petrazzini B.A. and Lovelock P. (1996), ‘Telecommunications in the Region: Comparative Case Studies’, Paper presented at the International Institute for Communication Telecommunication Forum, Sydney, Australia

¹⁶⁷ Available at indiabudget.nic.in/2003.htm

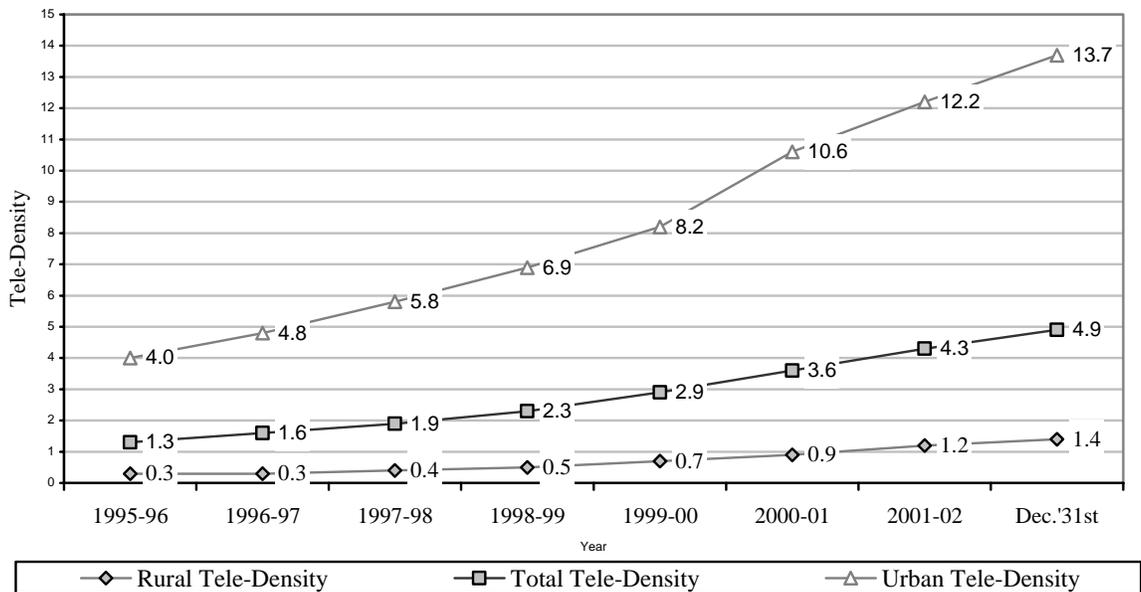
¹⁶⁸ Bose, D.K. (2003), ‘Rural India: Wired Up’, ViewPoint, Online Magazine, Vol(4), November, 2003

suggest that two thirds of the employment of this high skill sector may consist of low skill and medium skilled people pointing to their high potential for poverty alleviation.¹⁶⁹

USO as a poverty alleviation measure

Liberalisation and resultant foreign competition could have an adverse effect on the poor, if adequate safeguards are not taken. The National Telecom Policy, 1999 (“Policy”) has, accordingly, placed emphasis on universal service obligations in order to ensure that telecommunication services are available and affordable to a greater fraction of population. It was also an important consideration that the service suppliers do not concentrate in more profitable market segments thereby ignoring rural populations. The Policy also has laid down specific time bound targets that require telecom coverage of all villages and provision of reliable media to all exchanges by the year 2002, tele-density of 4 in rural areas by the year 2010 and internet access to all district headquarters by the year 2000, provision of high speed data and multi media capability, using modern technology including ISDN to all towns with a population greater than 2,00,000 by the year 2002 and provision of telephone on demand by the year 2002. It is seen that if the current trend of growth is sustained, it would be realistic to achieve this target.[Table 6.8] Recognizing that universal service obligations may not be fulfilled under normal commercial considerations, the Policy stipulates raising of resources through universal service levy, which would be a percentage of the revenue earned by the operators under various licenses

Table 6.8 Tele-density (Number of Telephone per 100 population) since1995-96



¹⁶⁹ Footnote on Satyam computers

Audio Visual Services

The Audio Visual service sector¹⁷⁰ is one of significant economic importance and unquestionable cultural importance to India. Apart from the cultural significance of the sector, it has economic potential in terms of generating employment and wealth and in creating opportunities of economic diversification into non-traditional sector. India is the largest film producing country in the world producing on an average 800 feature films and 900 short films in different local languages and dialects. The Indian film industry provides direct or indirect employment to around 5 million people.¹⁷¹ The Indian radio and terrestrial broadcasting network is also one of the largest in the world. On account of the technological revolution—adoption of digital technology and expansion in cable and satellite-- the audio visual industry experienced significant growth in urban and rural areas. In 2001 the film and television industry alone experienced a growth of 30%.¹⁷² This sector has a high multiplier effect as people employed in this sector would be low skilled and would have a high propensity to consume.

The FICCI- Arthur Anderson study projected that the Indian entertainment Industry including television broadcasting, cable television, television software, music, radio and live entertainment would grow to Rs 293 billion (approx. US\$ 6.2 billion) by the end of 2006.¹⁷³ It is estimated that the export of video films and software have touched USD 280 million in 2001.¹⁷⁴ The recent grant of ‘industry status’ to the film industry is expected to stimulate further growth in the sector Another study* suggests that India and the United States are the only two countries in the world that do not need a mechanism to support their local film or television industry. This statement goes to prove the strengths of Indian audio visual industry and the need to identify and eliminate market distorting practices in other WTO Member countries.

The markets of export interest to India include the countries in the former Soviet Union and countries which have a sizeable Indian Diaspora. Countries including the United States, EU, Canada, Australia, Middle East countries such as U.A.E, Kuwait, Qatar, South Asian countries such as Singapore, Hong Kong, Malaysia, African countries such as Nigeria, Kenya, Tanzania, Uganda, and neighbouring countries such as Pakistan, Bangladesh and Sri Lanka are some of the important export markets in respect of audio visual services. The Indian audio-visual industry has been able to export its services in different part of the world. For example, ZEE TV is the largest company in the Indian sub-continent and is now available in more than 100 countries around the world. In the U.K alone its regular audience is estimated at 700,000.¹⁷⁵

¹⁷⁰ Forms a subsector within “Communication Services” under the UN CPC Classification. It includes a range of services including motion picture, videotape, television and radio programming production and distribution services; sound recording services, motion picture and video projection services, radio and television broadcasting services, talent agency services, coaching services and other services.

¹⁷¹ Ministry of Information and Broadcasting, Government of India (2002), Annual Report, Part 3

¹⁷² UK Film Council (2002), ‘Report on Indian Media and Entertainment Industry’, London

¹⁷³ Joint Study of FICCI and Arthur Anderson India Pvt. Ltd(2001), ‘Indian Entertainment Industry: Envisioning for Tomorrow’

¹⁷⁴ *Ibid*

¹⁷⁵ UK Film Council (2002), ‘Report on Indian Media and Entertainment Industry’, London

Recommendations

- Many important WTO Members still maintain high restrictions to protect and promote their indigenous culture (under the concept *l'exception culturelle*) and to prevent competition from other members. Therefore the commitments to liberalisation are not high. The restrictions include local content requirements, restrictions on movement of artists, producers, directors, technicians, etc; restrictions on co-productions; restrictions on screening of foreign movies; high level of piracy of Indian origin films; high entertainment taxes, etc.¹⁷⁶
- Another problem identified has been in the field of getting access to distribution channels and information systems.¹⁷⁷ The restriction maintained by Pakistan against Indian films and television channels has been cited as yet another barrier.
- Many Indian producers have evinced keen interest in entering into co-production agreements with foreign players. A co-production treaty could provide a better framework for collaborative effort in the film sector and could provide employment opportunities for skilled and less skilled workers. India should press its trading partners to allow greater market access for commercial presence in film/videotape production and distribution. The numbers employed in this and related activities are already very large.

Financial Services Sector

The financial services industry comprises companies involved in the provision of insurance, banking, securities, asset management services, financial advice and information services. In India, a major part of the banking sector is dominated by state owned banks. Considering the fact that financial system constitutes the basic infrastructure of the economy and that private banks may not cater to the needs of the rural sector, India adopted the policy of nationalization of banks. Therefore despite the effects of liberalization in the banking sector, the public sector banks still control 80% of the total bank assets. A study by World Bank¹⁷⁸ finds that energy services (electricity-gas), banking and insurance as well as transport services are critically important inputs in the production of other sector's output.¹⁷⁹ Further, several sectoral studies indicate that restrictions on trade in services reduce welfare leading to a loss to consumers that is greater than the increase in producer's surplus and government revenue.¹⁸⁰ On the basis of an econometric study after controlling for other determinants of growth, it was seen that countries that fully liberalized financial and telecommunication services have on an average grown at 1.5 percentage points higher than other economies. This using the previous growth poverty elasticities would show that poverty would reduce by 0.4% per annum. This is comparable to poverty reductions in all the major service sectors studied here.

¹⁷⁶ Mukherjee, A. (2002), 'India's Trade Potential in Audio-Visual Services and GATS', Working Paper No. 81, ICRIER, New Delhi

¹⁷⁷ UNCTAD (2002), 'Report of the Export meeting on Audio-Visual Services: Improving Participation of Developing Countries', TD/COM.1/56

¹⁷⁸ Azad (1999). See also World Bank, 'Global Economic Prospects (2002)', Chapter 3, Trade in Services: Using Openness to Grow, Washington D.C

¹⁷⁹ Romer. P (1994), 'New Goods, Old Theory and the Welfare Costs of Trade Restrictions, Journal of Development Economics', Vol.54

¹⁸⁰ Hoekman and Braga (1997)

Liberalisation in Financial Services sector is likely to contribute more to economic growth than any other services sector.¹⁸¹ A massive growth retail portfolio of major banks in India is indicative of this trend. The focus on personal and housing loans by private sector banks such as ICICI Ltd and HDFC, has helped middle income families in owning homes. Another illustration is that of automatic teller machines (ATMs).¹⁸² India undertook commitments under the Fifth Protocol, whereby limitation on the licenses for new and existing banks were raised and it was clarified that licenses issued for ATMs installed by foreign banks would not be included in the ceiling specified.¹⁸³ According to a recent study, India and China have registered a combined rate of growth of 34% in the installation of ATMs, which is indicative of the fact that personal financial transactions have become easier and more efficient.

An open financial services sector is likely to improve India's macro economic policies and encourage the government to rely on more effective prudential regulation. Liberalisation in financial services has also entailed relaxation by the Reserve Bank of India (RBI) of less efficient prescriptive controls on interest rates and credit lending and greater use of market based instruments for influencing economic activity. However, the advantages of lower interest rate have not trickled down to the small scale sector and the farm sector. Therefore, the RBI has asked the banks to cut rates offered to the priority sector.

It is seen that the universal service obligations (USO) maintained in the banking sector has resulted in establishment of bank branches in rural areas over a period of time. It is estimated that 70% of the total branches are set up in rural and semi-urban areas. A recent study shows that a 1% increase in rural *per capita* banked reduced rural poverty by 0.39% and increased utility by 0.33%. Along with priority sector lending, domestic banks in India are also required to allocate 40% of their total credit to the priority sector (i.e. agriculture and SSI firms). The foreign firms are also required to allocate 32% of their total credit to the priority sector. These measures appeared to have played a major role in alleviating rural poverty.¹⁸⁴

¹⁸¹ World Bank, 'Papers submitted on the conference on Financial Structure and Economic Development', Washington, D.C, 2000. Available at:

http://www.worldbank.org/research/projects/finstructure/papers_22000.htm

¹⁸² Indian Infoline (2002), 'ATM... here, there,...every where', Available at <http://www.indiainfoline.com/pefi/feat/atms.html>

¹⁸³ See India's Schedule of Commitments under GATS.

¹⁸⁴ Burges and Pandey(2003), 'Do Rural Banks Matter? Evidence from the Indian Social Banking Sector'

4.7 Industrial Products

India's exports are concentrated in traditional and low-skill manufacturers which include: (1) leather; (2) rubber articles; (3) cork and wood manufactures; (4) paper and paper board; (5) textiles, clothing, travel goods and footwear; (6) non-metallic mineral products excluding precious stones; (7) iron and steel; (8) fabricated metal products; (9) sanitary and plumbing equipment; (10) transport equipment other than road motor vehicles; (11) furniture and parts thereof; (12) miscellaneous manufactured goods; (13) commodities and manufacturers not classified elsewhere other than live animals and non-monetary gold. India mainly imports high skill manufactured products, including computers and office equipment, machinery and transport equipment, semi-manufacturers, aircraft and associated equipment, scientific instruments, watches, photographic equipment.

India is seeing a comeback of the Indian manufacturing sector in the global marketplace. Along with autocomponents, technological improvements and cost reductions obtained by Indian steel companies through the 1990s, in response to liberalization, appear to be bearing fruit. Pharmaceuticals and textile and apparel industry also have huge potential.

The small scale sector along with cottage and handicrafts have been contributing to more than half of the merchandise exports of India. The small scale sector itself contributes to 6.8% of the Gross Domestic Product. The cottage and handicrafts sector, which mostly employs artisan and rural people, contributes significantly in the generation of employment and poverty alleviation. Recognising the role of the small scale sector in boosting export potential of India, the Government of India has been implementing various promotional measures for promoting the growth of small scale firms. The small scale sector units are also afforded additional protection by reserving them the right of exclusive manufacture of certain enlisted products.¹⁸⁵ Many key export products for India such as shoes and leather products, paper and paper products, wood and wood products, toys, auto parts and components, electronic equipments and components, glass and ceramics, mechanical engineering excluding transport equipment are on the reserved list. However, the domestic policies of the Government of India point to the direction that the special protection given to the small scale would be gradually phased out. The pre-Budget Economic Survey (2003) submitted to the Parliament recommended for the phase out the reservation to the small scale sector with a view to preparing them to achieve competitiveness. Pursuant to the annual Budget 2003-04, 75 items were removed from the reserved list.

As a result of the economic liberalization, the import tariffs applied by India have substantially come down. In its budget for the year 2003-04, India has reduced the peak rate of basic customs duty (BCD) to 25%. In respect of non-agricultural products, India has bound 69.8% of lines. India bound products such as textiles and clothing which were previously unbound. As a result of India's commitments, the final average bound tariff is expected to be 34.3 % in 2005 (irrespective of what happens in the Doha Round). Products on which bindings are not made include: leather products (HS 42), footwear (HS 64), headgear (HS 65), and base metals (HS 83). India is also a signatory to the Information Technology Agreement (ITA) covering computers, telecommunication equipment, semiconductors, semiconductor manufacturing equipment, software and scientific instruments. The offer made

¹⁸⁵ The reservation is provided under the Industries (Development and Regulation) Act, 1951.

by India under ITA, included zero import tariffs rates on 217 items at the HS system, which is to be completely implemented by the year 2005¹⁸⁶.

Table: 7.1 India's Tariff Bindings in Non-Agriculture Products

| Import market | Binding coverage (percent) | Simple average | Standard deviation | Maximum | Last year of implementation | Duty free(percent) | Dutiable(percent) | |
|---------------|----------------------------|----------------|--------------------|---------|-----------------------------|--------------------|-------------------|-------------------------|
| | | | | | | | Total | Of which non ad valorem |
| India | 69.8 | 34.3 | 11.8 | 150 | 2005 | 2.5 | 67.3 | 6.1 |

Source: Ministry of Commerce

The Doha Ministerial Declaration calls for reductions or as appropriate elimination of tariffs including reduction or elimination of tariff peaks, high tariffs, and tariff escalation as well as non-tariff barriers, in particular on products of export interest to developing countries. The product coverage for negotiations is agreed to be comprehensive and without a priori exclusions. As part of the negotiations, a number of formulae have been submitted by the WTO Members based on which the Chairman of the Negotiating Group on Market Access has prepared a document entitled 'Draft Elements of Modalities for Negotiations on Agricultural Products (NGMA formula)¹⁸⁷.

In the NGMA formula, there is a proposal to eliminate tariffs in the broadly defined sectors of export interest to developing countries, with the precise definition of the sectors to be decided by the participants through negotiations. The proposed sectors are fish and fish products, leather goods, textiles and clothing, footwear, stones and gems, electronics and electrical goods, motor vehicle parts and components.

Tariff structures of many developed countries have displayed significant escalation favouring domestic processors for a large number of above-mentioned commodities. A number of studies have confirmed that tariff escalation has continued after the UR for a large number of sectors, particularly, fish and fish products, textile and textile products, leather and rubber products, foot wear and to some extent wood and wood products. Essentially, the results confirm that tariff escalation is still a major constraint for export industries of India.

¹⁸⁶ Tariffs were brought down to zero on 95 HS six digit tariffs by the year 2000 and on 4 more tariff lines by 2003. On the remaining tariff lines, 2 tariff lines are to be zero rated by the year 2004 and the balance tariff lines by the year 2005.

¹⁸⁷ WTO, TN/MA/W/35/Rev.1 dated 19 August, 2003

Table: 7.2 **Tariff Rates in the Unites States in Certain Products**

| Goods | Tariff rates |
|---------------------------|---------------------|
| Clothes | 10-30% |
| Shoes | 10-30% |
| Linens | 10% |
| Silverwares, Plates, etc. | 7% |
| Jewellery | 3% |
| Bicycles | 11% |

Source: From the Harmonised Tariff Schedule of the United States available at: <http://www.usitc.gov/taffairs.htm>.

Even if tariffs are reduced by developed countries, tariff peaks seem to be the major hurdle in market access for certain sectors, where India has significant export potential (Table 4.5). A study by UNCTAD (1999-2000) concludes, “both frequency and levels of tariff peak rates remain a matter of concern. Over 10 percent of tariff universe of Quad countries, corresponding to an aggregate 4,000 tariff lines will continue to exceed 12 percent *ad valorem*. All four countries maintain high variance in tariff rates. One fifth of the peak tariffs of the US, one quarter of those in EU and Japan, and about one tenth of those of Canada exceed 30 percent.”

However, as stated above, India has not undertaken any bindings on the above products and may also be required to eliminate tariffs on these products over a period of time. Therefore the relative advantages of tariff elimination has to be studied vis-à-vis these selected products. It has also to be examined whether any other products, which are of export interest to India, could be identified and proposed for tariff elimination during the negotiations (subject to the premise that tariff elimination on the above products is beneficial to India).

Another major issue is that of specific duties. A large number of developed countries are used to the practice of imposing specific and complex duties rather than *ad valorem* duties. The total number of commodities for which customs duties are given in the form of specific duties is very large for developed countries, for instance, EU (1780 tariff lines) and U.S (1455 tariff lines). In most cases, non-*ad valorem* consist of one single specific tariff. A study by UNCTAD (1999-2000) has computed *ad valorem* equivalence of specific duties for 18,000 commodities of different countries for the year 1996. The study shows that *ad valorem* equivalence of large number of products, whose customs duties are defined in the form of specific duties in national customs tariff schedules, is very high. The customs tariff database of the United States shows that the average tariff are for commodities with non- *ad valorem* duties is almost three times higher than the average tariff rate of the commodities whose customs duties are defined in the *ad valorem* rates.

We will concentrate in this report on the ‘Textiles and Clothing’ sector due to its importance in the light of quota abolition post 2004.

4.8 Textiles and Clothing

The textile and apparel industry is one of the leading segments of the Indian economy and the largest source of foreign exchange earnings for India. This industry accounts for 4% of the GDP, about 14% of the national industrial production and about 35% of the total national export earnings.¹⁸⁸ Textiles and Clothing is the largest manufacturing sector in India. This sector provides employment to about 38 million people and is the largest employer after agriculture.¹⁸⁹ India accounted for 3.45% of world textile and clothing trade and ranked 8th in 2001. Although India's current share of the global textile and apparel trade is small, the Government of India in the National Textile policy 2000 envisages that India's textiles and apparel exports will reach \$50 billion by 2010, of which the share of garments will be US\$25 billion.

Post-Uruguay Round Liberalisation and Poverty

Liberalisation has directly affected this sector as exports constitute roughly 50% of the total production of textiles and garments. Diao, Somwaru (2001) results indicate that a 1% increase in apparel trade shares is associated with a 3.3% increase in income per person. From the table below, we find that exports increased by about US\$642 m between 1998 and 2001, which would imply that GDP from this sector would have increased by about US\$2119mn. This when multiplied by the poverty elasticity would show that roughly 286,000 people would have moved out of the poverty level in the course of these four years. However, these calculations are not normalized for inflation and so once that is taken into account, the overall effect will be that much lower.

Table 7.3 Readymade Garment Exports (\$million)

| 1998-99 | 1999-00 | 2000-01 | 2001-02 |
|---------|---------|---------|---------|
| 4365 | 4765 | 5577 | 5007 |

Source: Economic Survey 2002-03

Table 7.4 Number of Persons employed, Annual Per capita incomes and exports in Textiles Industry for periods 1995-96, 1996-97 and 1999-2000

| | 1995-96 | 1996-97 | 1999-00 |
|-----------------------------------|---------|-----------|---------|
| Annual number of persons employed | 711337 | 671983 | 1517051 |
| Annual per capita income (US \$) | 999.37 | 1013.20 | 1201.42 |
| Exports of textiles (US \$ m) | 3807 | 8457 | 9272 |
| | | (1998-99) | |

Source: Annual Survey of Industries, 1995-1996, 1996-1997 and 1999-2000, Factory Sector, Economic Survey 2002-03

¹⁸⁸ Tenth Five Year Plan document

¹⁸⁹ US International Trade Commission (March 2001)

It can be seen that post-liberalisation, exports of textiles have increased by 143%. Correspondingly, the employment has increased by about 113%. However, per capita incomes have increased by only about 20% in this sector, thus indicating the ‘reserve army’ theory by Winters. Post 1994, demand for labour increased, but due to the huge supply of excess labour, the employment increase has not transformed into a commensurate income increase.

Employment in the garments industry has increased by much more than in the textiles industry. This can partly be attributed to growing imports of apparel by US and EU. Elasticity of employment in the readymade garments sector has been increasing since 1993-94 as can be seen from the table below. The exports in the ready made garment industry increased by 111% from 1994-00. The corresponding employment increase in this sector during this period was by 165%. . It can be observed that export growth has been translating into employment and income growth in this sector.

Table 7.5 Comparison of Employment and Exports in Ready Made Garment Industry for periods 1993-94 and 1999-00

| | Employment | Growth in Employment 1994-2000 | Value of Export (US \$ m) | Growth in Exports 1994-2000 |
|----------------|-------------------|---|--------------------------------------|--|
| 1993-94 | 881156 | | 2256.92 | |
| 1999-00 | 2337072 | 165% | 4765* | 111% |

Source: Compendium of Textile Statistics, 1999; Annual Report 2000-01 and Past Issues, Ministry of Textiles, Government of India. Employment and Unemployment in India, 1993-94, and 1999-2000, NSSO, Department of Statistics, Govt of India.

*figure adjusted according to Economic Survey

Most of the employment in this sector is being generated by the export market and a large part of the employment is casual. This is a poverty sensitive sector of trade as it employs a number of rural and urban poor. Also, they are exposed to changes in international production and trade patterns and policies, due to the large percentage of production exported. Daily wages in agriculture are seen to be lower than that in the textiles and garment industry and hence an increase in employment in this sector will probably have higher poverty alleviation effects. The average daily wage earnings of workers in some of the plantation and textile occupations are listed below.

Table 7.6 Average Daily Wage Comparison

| Industry | Average Daily Wage Earnings (\$) |
|--|----------------------------------|
| Tea Plantation | 0.61 |
| Coffee Plantation | 0.53 |
| Cotton Textiles | 1.70 |
| Jute Textiles | 1.96 |
| Textile Garments including wearing apparel | 1.05 |

Source: Occupational Wage Survey 1993-99, Govt.of India

Informal Sector Employment

Trade liberalization has consequences for both the formal and informal sectors. Informal sector employment has been rising faster than formal sector employment, leading to increasing casualisation of labour.

Table: 7.7 Growth Rate of Employment and Exports in the Unorganised Textiles Sector by Industry Group 1984-1990, 1989-1995 and 1994-2001¹⁹⁰ (entire period)

| Industry Classifications | 1984-1990 | 1989-1995 | 1994-2001 |
|---------------------------------|-----------|-----------|-----------|
| Textiles Employment Growth | -13.39 | -7.75 | 8.84 |
| Cotton Textiles Export Growth | n/a | 900 | 58.5* |
| Wool and Silk Employment Growth | 4.72 | 2.2 | 8.79 |
| Wool and Silk Export Growth | n/a | 95 | 64* |

*Growth in Exports figures available only for 1995-99

Source: 56th National Sample Survey Round and Previous NSS Rounds, Ministry of Statistics, Government of India

Formal Sector Employment

Kambhampanti and Howell (1998) analyse the effects of trade reform on formal sector employment in the cotton industry in India. They find that trade reforms reduced the employment in the formal sector through a reduction in the number of firms and a shift towards more capital intensive technologies. Thus, it has reduced the number employed in the sector and presuming that informal wages are below formal ones, hurt some of the workers. Furthermore, the reform did not affect the wages of those workers who remained, because these are determined in an institutional framework that is largely free of market forces. But it was found that increased capital intensity in the sector improved labour conditions for the workers remaining employed, through the enhancement of health and safety measures. The net effect on poverty depends on whether the losers of jobs found new ones and whether the gains to those remaining employed pulled their households out of poverty.

¹⁹⁰ Unni, J. and Rani,U.(21 March 2003) "Employment and Productivity in Unorganised Manufacturing", Paper Presented at the National Seminar on the Results of NSS 56th Round Survey, National Sample Survey Organisation, Ministry of Statistics ad Programme Implementation, Government of India, New Delhi.

Gender Sensitive Sector-Case Study

It is also important to study the effect of liberalization of this sector on the incomes and employment of women as this is a sector in which a large part of the employment is gender sensitive. Women's share of employment in the garment industry was around 65% in 1999-00. In this context, we see the case of Tirrupur garment industry, which has grown into an important cluster, whose garment export volume in terms of quantity now exceeds all other individual centres. A phenomenal growth of female labour was observed in the Tirrupur knitwear industry, from a low of 21% in 1985 to 34% in 1998. Also, it was seen that women were represented in greater number in the operative grade, while males tend to dominate more senior management positions. It was noted that post-liberalisation, there has been an increase in the casualisation of labour. However, the increase in casualisation is not necessarily welfare reducing. Judging by the economic profile of the women workers, it appears that the opportunity cost of their alternative employment is very low, so incremental employment would be welfare generating.

Table: 7.8 Employment Characteristics of Women Workers in Tirrupur Garment Industry

| Category | Proportion of Workers |
|-----------------------------|-----------------------|
| <i>Nature of Employment</i> | |
| Permanent | 3.7 |
| Casual | 96.3 |
| <i>Market Type</i> | |
| Export | 76.4 |
| Local | 14.8 |
| Ancillary | 8.8 |
| <i>Type of Export Firm</i> | |
| Direct Exporter | 22.6 |
| Subcontracting Units | 43.5 |
| Job Work | 33.9 |

Source: Annual Survey of Industries (1999-00)

Completion of ATC as of 01/01/05

Up to the end of the Uruguay Round, textile and clothing quotas were negotiated bilaterally and governed by the rules of the Multifibre Arrangement (MFA). This provided for the application of selective quantitative restrictions when surges in imports of particular products caused, or threatened to cause, serious damage to the industry of the importing country. On 1 January 1995 it was replaced by the WTO Agreement on Textiles and Clothing which sets out a transitional process for the ultimate removal of these quotas.

We now calculate the effects on poverty alleviation and employment from a phase out of ATC quotas post 2005. Poverty-growth elasticities were derived from data by Ravallion and Dutt 2002 and 55th Round NSS figures. These were derived to be 0.12 and 0.28 respectively. Also, Spinanger has calculated a 0.97% GDP increase for India in the 7 years post quota abolition. He includes the effects of China accession in this figure as well. Thus, using Ravallion and Dutt figures, poverty would reduce by 0.11% ($=0.97 \times 0.12$) with every percent increase in growth rate. Using the 55th round figures, poverty would reduce by 0.27%. With 260 mn people below the poverty line, this will bring around 0.31 m people out of poverty (around 0.7 m people using 55th round figures). Also, using the employment-export elasticity figures for readymade garments derived through Table 7.3 and the expected growth in readymade garment exports by 217.51% (Spinanger), employment in this sector is expected to rise by 324% ($=217.51 \times 1.49$) over a 7 year period. The direct welfare effects in this sector are very strong.

Market access, particularly in the developed country markets, for textiles and clothing is a matter of top priority for India. It has been estimated that tariff removal in these two sectors would have effects amounting to about half of the corresponding estimate for removal of all tariffs on manufactured goods for developing countries.¹⁹¹

On the basis of simulations using the GTAP model, the removal of developed country tariffs and quotas on textiles and apparel are expected to increase developing country exports by \$39.8 billion annually and increase developing country incomes by \$23.8 billion. Most of the income gains would be concentrated on tariff removal, implying that modeling shows almost all quota gains would accrue to developing country firms and government. Of these, about half the gains in garments and a quarter of the gains in textiles has been estimated to accrue to India. In contrast, developed countries would gain \$14 billion annually in consumer income gains and possibly a loss of \$3 billion from tariff elimination.¹⁹²

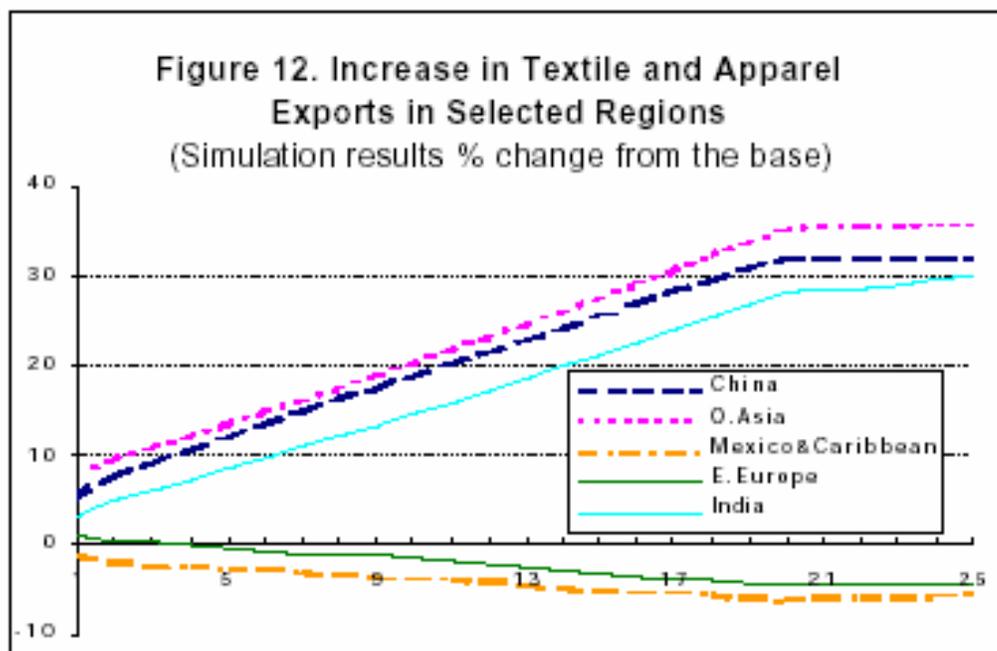
Using UN database, a cross sectional and time series regression to analyse the relationship between textile and apparel trade and income was done for 91 countries over 1962-98.¹⁹³ The estimation results indicate statistically significant positive results. Moreover the coefficient for the share of apparel trade is significantly larger than that of share of textile trade and total non-agricultural trade. The results indicate that 1 percentage increase in apparel trade shares is associated with a 3.3 percent increase in income per person, which implies the importance of apparel trade in economic growth. The prospect of a quota free world is analysed by using an intertemporal general equilibrium model. The simulation results show that world market shares for countries change in the post-quota period.

¹⁹¹ Cline, W. (2003), op cit

¹⁹² IMF, 2003

¹⁹³ Diao, Somwaru (2001), 'Impact of the MFA Phase out on the World Economy: An Intertemporal Global General Equilibrium Analysis'

Table 7.9 Increase in Textile and Apparel Exports in Selected Regions



Source: Diao, Somwaru

As can be seen from the figure above, textile and apparel exports increase more in the region of other Asian countries than that in India. However, from a welfare point of view, India gains more than the gains of the region. One of the reasons is that textiles and apparel contributed more to GDP in terms of value added in India. For this reason, exports of textiles and apparel create more employment opportunities and hence GDP rises more in India than that in the region of other Asian countries.¹⁹⁴

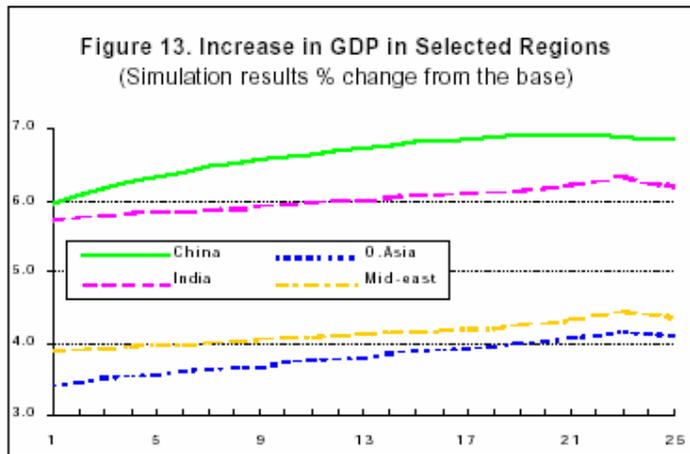
Table 7.10 Welfare Effects in the Simulation of some selected countries

| | Year-5 | | Year-10 | | Year-15 | | Year-20 | |
|------------|----------|------|----------|------|----------|------|----------|------|
| | US \$ bn | % |
| China | 19.50 | 3.76 | 21.96 | 4.24 | 22.95 | 4.43 | 23.67 | 4.57 |
| India | 7.30 | 2.39 | 8.39 | 2.75 | 9.30 | 3.05 | 10.67 | 3.53 |
| Other Asia | 7.53 | 1.34 | 8.43 | 1.50 | 9.13 | 1.62 | 10.22 | 1.81 |
| N.America | 0.86 | 0.01 | 4.24 | 0.06 | 7.22 | 0.10 | 11.53 | 0.16 |
| EU | 5.60 | 0.08 | 9.98 | 0.14 | 13.87 | 0.20 | 19.39 | 0.28 |

Source: Diao, Somwaru

¹⁹⁴ *Ibid.*

Table 7.11 Increase in GDP in Selected Regions



Source: Diao, Somwaru

Cline’s CGE model also shows welfare effects, albeit lower than the above study. Free trade in textiles and apparel shows welfare effects to the tune of \$0.57 bn for India, which is second only to the welfare effects arising from free trade in agriculture (\$0.82bn).

Dean Spinanger¹⁹⁵ has set up a computable general equilibrium model to portray the complex interaction between tariff and quota liberalisation with and without China. He says that India will especially profit from the improved Quota free access to textiles and clothing. The elimination of the ATC quotas only for old WTO members will induce a 2.10% increase in GDP for India. India does lose when the ATC is applied to China as well. However, after taking account of all the ramifications of the entire WTO accession package i.e. liberalisation to Chinese imports and exports, although the initial gains made are more than halved, it still profits more than any other country in the model after China i.e. by 0.97%. With respect to textile exports, India like virtually all other economies experiences losses. Elimination of quotas for all countries, including China is expected to lead to a 3.26% increase in textile exports. But, with greater China accession, the overall result would be a fall in textile exports by 1.04%. With respect to clothing exports, the massive shift to Chinese sources (167.84%) is overshadowed by an even larger increase in India’s exports (217.51%). India’s increase—which is applied to a level of exports roughly one seventh the size of China’s can be explained to some extent by the highly restrictive quota, which prevailed on top of a large domestic industry which could begin to tap into the global potential. However, Spinanger says that India’s internal policies may act as an obstacle to the full realisation of the gains.

Competitiveness of Indian Textiles and Garment Industry

A study of the various models above shows increasing welfare gains for India on the removal of the quotas in 2005. In this context it is necessary to discuss the competitiveness of India

¹⁹⁵ Spinanger, D. and Verma, S.(2003), ‘The Coming Death of the ATC and China’s WTO Accession: Will Push Come to Shove for India’s T&C Exports’, Winter, A. and Mehta, P eds., Bridging the Differences, Jaipur

with respect to other Asian countries, as post-ATC, India will face intense competition from other Asian countries in the supply of textiles and clothing.

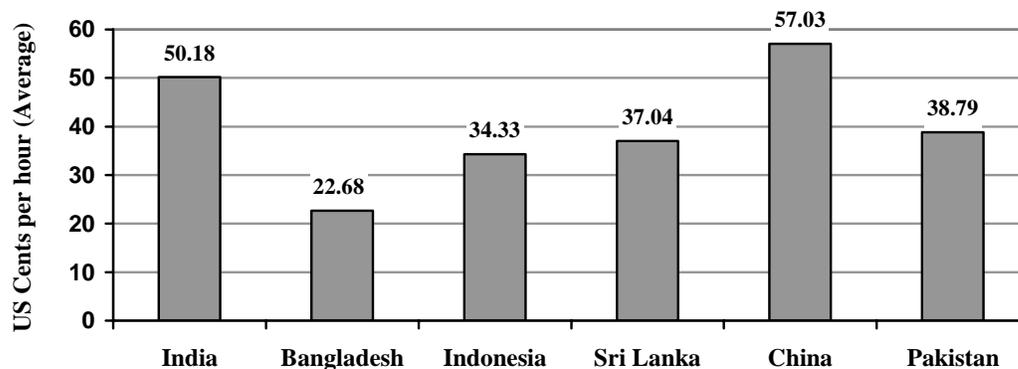
While identifying the key cost drivers and their impact on cost, the Gherzi study¹⁹⁶ reveals that the cost of raw material, energy, dyes and chemicals and wages are the most critical in the cotton textile value chain to remain competitive besides technology used for production. These constitute more than 85% of the manufacturing costs. The study indicates that China is the leader with cost advantages in almost all the factors of production and India is fast losing its traditional advantages of home grown cotton and low cost labour. In addition, the study pointed out that India's power and steam generation costs are significantly higher than the other countries in the study. Gherzi's analysis of the position of the competing countries vis-a-vis India can be seen from Table 7.10.

Table 7.12 Comparative Costs of Factors (indexed as 100)

| | India | China | Pakistan | Indonesia | Bangladesh | Sri Lanka |
|--------------------|-------|-------|----------|-----------|------------|-----------|
| Raw Material | 100 | 87 | 99 | 100 | 102 | 101 |
| Power | 100 | 68 | 74 | 41 | 39 | 88 |
| Dyes and Chemicals | 100 | 85 | 101 | 102 | 106 | 112 |

It is seen that India is no longer a low labour cost producer as compared to other reference countries and is marginally lower than China. However, its labour productivity ranks second after China among the reference countries.

Table 7.13 Comparative Costs of Labour



Source: Gherzi 2003

Gherzi's analysis further shows that China's low interest rates for technology upgradation are accelerating its investments in the textiles sector. China has the highest foreign direct investment flow which has helped to accelerate the growth of its textile industry.

The present Indian import duty structure adversely affects the cost structure of raw material and machinery. The high tariffs on capital goods, resulting in an inverted tariff structure could adversely affect the textile units looking for upgradation of new technologies and new capital investments. The Indian textile industry is one of the largest segments of the Indian capital goods segment and comprises more than 100 plants with a capital investment totalling

¹⁹⁶ Gherzi (2003), 'Benchmarking of Costs of Production of Textile Products in India Vis-à-Vis China, Pakistan, Indonesia, Bangladesh and Sri Lanka'

about \$350 million. Also, Indian cotton textile exports carry residual duties even after tax neutralisation measures. These residual duties adversely affect India's cotton textile exports competitiveness.

India lost its cotton cost advantage during 1995-00 as India's low cotton productivity leads to higher cotton prices and hence seriously affects its competitiveness. Despite highest acreage in the world under cotton cultivation, India ranks only 3rd as a producer because of the low yield of 300kgs/hectare; compared to Pakistan which has achieved cotton yield of 620 kg/hectare. China has built a very strong raw material base. With cotton yield of around 1000 Kg/hectare it has become the largest cotton producer in the world. Also, serious quality issues of Indian cottons lead to lower yarn realisation and hence it is losing its competitive edge against Chinese and other international cottons.

In transportation, India has better rail and road network as compared to other reference countries. However, it is poor in waterways.

China's export financing is more attractive making exports more competitive.

The production of apparel in India was until recently reserved for the SSI sector. Apparel units with larger investments were allowed to operate only as export-oriented units. As a result, India's apparel sector is highly fragmented and is characterized by low levels of technology use. Benefits from economies of scale are not materialized. Industry's competitiveness was harmed by GOI tax, labour and trade policies that favor the small production units relative to the larger ones. This has discouraged investments in large scale manufacturing technologies.

This clearly indicates that if India aspires to become a leader in global textiles trade, it needs to address the issue of the gradually rising raw material (raw cotton) cost, quality issues and at the same must bring down the power cost drastically and also invest more in technology upgradation.

According to a 1999 US International Trade Commission study, the major growth areas for trade and foreign investment in India will be technical textiles (e.g., fabrics used in aerospace, marine, medical applications etc), home textiles and apparel. India has the potential to become a rapidly growing market for better quality apparel, particularly brand name fashion goods.

Since the quota regime is to be phased out, tariffs on textiles and clothing will be a key issue to tackle during the NAMA negotiations. The 'zero-for-zero' approach for sectoral elimination of tariff deserves consideration. The approach suggested was to achieve zero tariffs in three phases with developing countries such as India getting a longer time frame for elimination of tariffs. This approach is significant particularly in the light of the growth in apparel trade under regional and preferential trade agreements, which might adversely affect the Indian textile industry. Intra Asia apparel trade increased by 11%, Mexican and Latin American to North America by 20% and Intra-Europe by 20% between 1990 and 1998 (annual % change).¹⁹⁷ Led by cotton yarn, India's exports to non-quota countries have grown at an annual growth rate of 15.5% between 1991 and 1998. The share of the US and EU is

¹⁹⁷ US International Trade Commission (March 2001), 'India's Textile and Apparel Industry: Growth Potential and Trade and Investment Opportunities', Staff Research Study 27, Publication No.3401

roughly 84% of Indian garment exports and that of non-quota countries is 10.83%. In textiles exports, the share of US and EU is around 58% and that of non-quota countries is 39% (2000 figures).¹⁹⁸ Even though performance in the non-quota market is improving, there is a drop in quota market exports indicating a regional consolidation of trade.

Two of the world's major cotton consumers – the US and EU- are likely to be affected when quotas are removed in 2005, more so because of the cost-competitiveness of Asian countries. Players in the textile sector in these countries might have to shift their manufacturing activities to South East Asian countries like China, India, Pakistan or Bangladesh. Therefore there could be big opportunities for India. However, to protect the interests of their local industry, developed countries are expected to be going in for bilateral agreements with their neighbouring countries. A significant level of 'Country of Origin' shifts to low cost countries could take place for the purpose of apparel sourcing. This would further the prospect of regional trade. It is expected that due to its low cost structure, India will attract a lot of non-tariff barriers like anti-dumping duties and labour and economic trade barriers as measures to restrict free trade. Also, this competition may force the European Union to lower manufacturing costs for textile products to stay competitive, according to a new report released by the Directorate-General Trade of the European Commission.

What Should India Do?

The implementation of the Agreement on Textiles and Clothing (ATC) is expected to lead to an increase in world trade, with apparel being the primary category. In the post ATC era, if the Indian Textile industry were to remain competitive, it has to maintain quality, consistency and commitment to tight delivery schedules. There is a need to have large scale global capacities that have the capability of delivering and liaising with the very large scale buyers in the export markets. These would have the capability of realizing economies of scale, achieve world benchmarks in production efficiencies and keep costs down. To expand its product basket which is heavily biased towards cotton products, India needs to develop the sources for synthetic fabrics and blends to increase its share in apparel trade. R&D, design, market knowledge, logistics are becoming very important and critical functions. According to Gherzi, India should target for radical cost reductions in the following cost parameters, the combined effect of which will enable India to reduce its cost by at least 15% in spinning, weaving and processing:

- Reduction of cotton cost by 10% and increase clean cotton realisation by 2%
- Reduction of power cost by 3US cent per kwh
- Encourage steam generation by using coal
- Reduction of dyes and chemical cost by 10%
- Increase labour productivity by 10%

After 2005, the domestic and international markets will become more integrated. The intensity of competition in India for marketing of textiles and clothing is expected to increase with the entry of foreign suppliers and transnational brands. If competitive advantage is not gained by the textile and clothing industry, the market share gained in the domestic market may be diluted due to the entry of competitors. Also, for exporters without competitive

¹⁹⁸ Gherzi (2003), 'Benchmarking of Costs of Production of Textile Products in India Vis-à-Vis China, Pakistan, Indonesia, Bangladesh and Sri Lanka'

advantage, it will be extremely difficult to gain market share from established suppliers in the global markets.

The possibilities for 'made-in-India brand marketing', in non-traditional markets needs to be explored. Detailed market research will be needed to bring about market penetration. Also, e-commerce has to be used to keep abreast in the garment sector which is the most prone to fashion changes. As a result of the Government of India initiatives, many Indian textile and apparel firms have modernized and expanded their operations in an effort to improve their competitiveness in home and foreign markets. Furthermore, some large Indian firms, lacking capital and marketing expertise, have sought joint ventures with foreign firms to enhance their competitiveness in the global market.

Application of Trade Remedy Measures on Textiles Products

Trade defence measures have been frequently employed to reduce import competition. The WTO Agreements permit exceptions to allow governments to take actions in response to foreign practices which are deemed have harmed the domestic industry. If injury is by fair trade, a government can invoke the escape clause to restrain imports; if the injury is caused by "unfair" trade, a government can respond by taking antidumping or countervailing (anti-subsidy) actions. Of the various trade defence measures, it is seen that anti-dumping is the most widely used action, particularly in the case of textiles. Antidumping laws enable countries to impose duties on foreign products that are found to have been dumped and to have caused material injury to the domestic industry.

Staged tariff reductions and elimination of quotas maintained under the MFA Agreement present better market access opportunities for textile products from developing countries. However, the number of antidumping and anti-subsidy actions filed against a wide range of textile products in the recent past would indicate that the perceived benefits of free trade are far from reality. This fear was orchestrated in a recent IMF/ World Bank study¹⁹⁹ which concluded that, "the back loading of effective liberalization under the ATC is particularly unhelpful, as it turns what could have been a gradual adjustment process into a shock at the end of the transition period....This raises the concern that political pressures might spark greater recourse to other forms of protection once quotas are phased out, with trade remedy actions becoming a new 'line of defence.'" Considering the above issues, the Decision on Implementation adopted in the Doha Ministerial Conference reaffirmed the commitment of the WTO Members to exercise particular consideration before initiating antidumping investigations on textile and clothing exports from developing countries which were previously subject to quantitative restrictions under the ATC Agreement for a period of two years following the integration of the product.

Antidumping actions have the effect of impeding market access for those products where poor and developing countries have comparative advantage. Antidumping duties prevent the expansion of sectors where developing countries have competitive strengths and tend to curtail the earnings of workers. Statistics show that textiles constitute the second largest sector (20%) after steel and engineering products in terms of antidumping actions.²⁰⁰ Staiger

¹⁹⁹ International Monetary Fund/ The World Bank(26 September 2002), "Market Access for Developing Country Exports- Selected Issues"

²⁰⁰ Ministry of Commerce and Industry (2003), 'Annual Report of the Directorate General of Antidumping and Allied Duties', New Delhi.

and Wolak²⁰¹ have attempted to assess the trade impact of AD actions with particular emphasis on the filing and investigation results. It was found that many of the antidumping filings could be termed as ‘process filers’ which had a significant effect in hindering foreign exports during the investigation phase itself. A study²⁰² by Prusa has shown that antidumping duties on an average have caused the value of imports to fall by 30-50%. Specifically, a 10% duty causes imports from subject countries to fall by 1.9% in volume during the first year following the AD investigation. The impact is smaller in subsequent years, but is still significant. Another study by Prusa on the impact of antidumping actions in the United States further reveals that antidumping actions distort trade patterns even if duties were never imposed affirming the concept of chilling effects on imports.²⁰³ The study found that cases threatened with high duties (but are ultimately rejected) are likely to experience a fall in imports at least by 20 % during the investigation period.

AD actions are likely to influence the pricing policies of exporting firms as well. A potential threat of an AD action could force a firm to sell the product at a much higher price than it would have sold under normal circumstances. An exporting firm’s pricing behaviour to avoid an antidumping duty could result in sub-optimal use of its competitive advantage.²⁰⁴ This could also be termed as the chilling effect of ‘threat’ of antidumping investigations.

Developing countries have tended to face a disproportionate incidence of antidumping investigations in industrial country markets. Prusa computed an intensity of AD metric by calculating the number of cases per dollar of imports.²⁰⁵ The study shows that although the filing intensity by traditional users have come down, the number of activities on targeted sectors like textiles have gone up. On the other hand, if the intensity index is calculated on number of action per share of world exports, India experiences the highest intensity.²⁰⁶

²⁰¹ Staiger, R.W and Wolak, F.A. (1994), ‘Measuring Industry Specific Protection: Antidumping in the United States’, *Brooking papers on Economic Activity, Micro-economics* Staiger and Wolak’s regressions focus on trade in the first year following the filing of the petition and are therefore best interpreted as estimates of the short run effect.

²⁰² Prusa, T.J. (1999), ‘On the Spread and Impact of Antidumping’, Working Paper No. 7404, NBER Working Paper Series.

²⁰³ Prusa, T.J. (1996), ‘The Trade Effects of U.S Antidumping Actions’, Working Paper No. 5440, NBER Working Paper Series.

²⁰⁴ Blonigen, B.A. and Prusa, T.J. (2002), ‘Cost of Antidumping: Devil is in the Details’, NBER Working Paper Series; see also Prusa, T.J. (1994), ‘Pricing Behaviour in the Presence of Antidumping Law’, *Journal of Economic Integration*, 9(1994)

²⁰⁵ Prusa, T.J. (2003), ‘The Growing Problem of Antidumping Protection and What It Means for the Asia-Pacific Region’, New York

²⁰⁶ Chu, T. ‘The Reasons for and the Impact of Antidumping Protection’, Presentation made at the USITC. Available at: www.usitc.gov

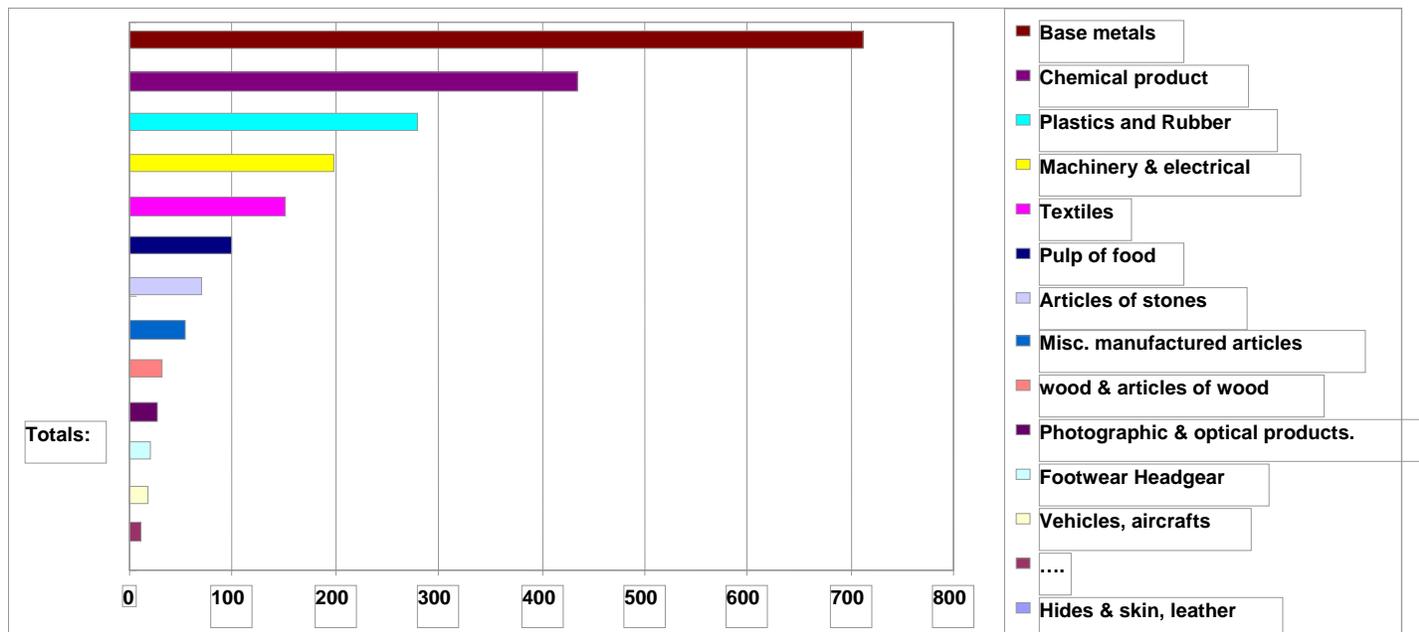
Table 7.14 Country Comparison of intensity in targeting of Anti-Dumping Actions

| Rank | Affected Economies | AD cases | Share | Intensity | Affirmative |
|------|--------------------|----------|-------|-----------|-------------|
| 1 | China, P.R. | 308 | 14.3 | 3.3 | 69 |
| 2 | Korea, Rep. of | 160 | 7.4 | 4.8 | 52 |
| 3 | United States | 115 | 5.3 | 0.4 | 58 |
| 4 | Chinese Taipei | 109 | 5.0 | 4.0 | 63 |
| 5 | Indonesia | 91 | 4.2 | 4.7 | 43 |
| 6 | Japan | 88 | 4.1 | 0.6 | 73 |
| 7 | India | 82 | 3.8 | 5.4 | 54 |
| 8 | Thailand | 81 | 3.8 | 3.4 | 59 |
| 9 | Russia | 77 | 3.6 | 2.1 | 71 |
| 10 | Germany | 70 | 3.2 | 0.3 | 46 |
| 11 | Brazil | 68 | 3.1 | 3.5 | 75 |
| 12 | South Africa | 46 | 2.1 | 4.3 | 52 |
| 13 | Ukraine | 46 | 2.1 | 7.1 | 83 |

Source: USITC

The following section attempts to provide an examination of the impact of trade defence measures, particularly AD activity, determinations and outcomes on the textile sector.

Table : 7.15 Quantitative use of Anti-Dumping Actions: Sectoral Cross-section



Source: Prepared by UNCTAD India, based on WTO, Antidumping Database.

The concern raised in the IMF/World Bank Study (referred to above) has been reflected in trade defence measures adopted by various WTO Members against textiles and clothing. Messerlin estimated that the equivalent tariff rates for textile products (natural and synthetic) was about 18.9% in 1999.²⁰⁷ In the European Union, while only eight textiles proceedings (including antidumping and anti-subsidy) were initiated against other developing countries between 1995 to 2000, the number of proceedings initiated against India itself has risen substantially during 1995 and 2000 [Table 7.16]. According to available information, during the eight years of operation of the WTO Agreement, nearly 20 % of the antidumping investigations initiated by the EU have been in the textile sector. The textiles products against which anti-dumping actions were initiated by the European Union include: unbleached cotton fabrics, cotton-type bed linen, polyester texturised yarn and polyester stapled fibre. The European Commission has also proposed anti-subsidy duty on Indian cotton bed linen products. In some cases, it is seen that anti-subsidy investigation are initiated in conjunction with antidumping investigations. The examples of such dual trade defence actions include the antidumping and anti-subsidy investigation on polyester textured yarn (PTY) (see Table). The details of the antidumping/ anti-subsidy actions filed against Indian textile products are provided below:

Table: 7.16 1995- 2003 Antidumping/ anti-subsidy investigation in textile sector by the EU

| | Type of action | Product | Year |
|----|-----------------------|---------------------------|-------------|
| 1 | Antidumping | Synthetic staple fibres | 1994 |
| 2 | Antidumping | Bed Linen | 1994 |
| 3 | Antidumping | Polyester textured yarn | 1994 |
| 4 | Antidumping | Cotton fabrics | 1994 |
| 5 | Antidumping | Polyolefin sacks and bags | 1995 |
| 6 | Antidumping | Unbleached cotton fabrics | 1996 |
| 7 | Antidumping | Synthetic fibre ropes | 1996 |
| 8 | Antidumping | Bed Linen | 1996 |
| 9 | Antidumping | Unbleached Cotton fabrics | 1997 |
| 10 | Antidumping | Synthetic fibre ropes | 1997 |
| 11 | Antidumping | Polyester textured yarn | 1998 |
| 12 | Anti-subsidy | Polyester textured yarn | 1999 |
| 13 | Anti-dumping | Polyester stapled fibers | 1999 |
| 14 | Antidumping / Review | Bed Linen | 2001 |
| 15 | Anti-subsidy | Polyester textured yarn | 2002 |
| 16 | Anti-subsidy | Bed Linen | 2002 |

Source: UNCTAD India

The United States, on the other hand, has been less active in taking antidumping or countervailing duty investigations on products such as textiles and clothing, although the number of transitional safeguard (pursuant to Article 6.2 of ATC) actions taken by the U.S has by no means been inconsequential.[Table 7.15]. It is seen that a number of Latin American countries have also taken frequent recourse to transitional safeguard measures.

²⁰⁷ Messerlin, P.A. (2001), 'Measuring the Cost of Protection in Europe: European Commercial Policy in the 2000s', Washington , D.C., Institute of International Economics

Statistics show that the major proportion of the actions have been taken in the latter part of last decade and very few actions have been initiated after 2000. A few antidumping actions were also taken by countries such as Brazil (on jute bags), Turkey (PSF), South Africa (Acrylic blankets) and Venezuela (readymade garments), South Korea (combed yarn) against Indian textiles and clothing. Although, it is fair to state that India has taken 14 actions in the textile sector against various exporting countries, the trade impact of actions taken against Indian products is much higher.²⁰⁸ In other words, India is a much less intensive user of AD in the Textile sector, to borrow the findings of Prusa.

Table 7.17 Transitional Safeguard Investigations by the United States against India

| Sl No. | Type of Action | Product involved | Outcome | Year of Action |
|--------|--|---|-----------------------------------|----------------|
| 1 | Unilateral restraint under Article 6.10 | Woven wool shirts and blouses | Restraint withdrawn in 1996 | 1995 |
| 2 | Unilateral restraint under Article 6.10 | Women's and girl's wool coats | Restraint withdrawn in April 1996 | 1995 |
| 3. | Unilateral restraint under Article 6.10. | Men's and boy's wool coats other than suit type | Measure rescinded | 1995 |

Source: UNCTAD India

In the case of India, the impact of trade defence action on cotton fabrics and bed linen has been highly pronounced. The European Communities have initiated four antidumping investigations on cotton-type bed linen from India since 1994. In view of the back-to-back anti-dumping investigations, India's share in imports of bed linen have declined from 16 % in 1997 to 9.7 % by the end of 2002 in terms of volume and from 14.7 % to 8.1 % in terms of value.²⁰⁹ Therefore, there is a strong case for incorporating necessary checks and balances against such frequent uses in the treaty provisions. The change in import value and volume on certain developing countries including India is provided below:

²⁰⁸ Ministry of Commerce and Industry (2003), 'Annual Report of the Directorate General of Antidumping and Allied Duties', New Delhi

²⁰⁹ Texprocil (2003), 'Annual Report', Mumbai.

Table: 7.18 Affection Import Value on Account of usage of Anti-Dumping Actions

| Product | Before Action | Following action | After termination | Remarks/Countries Targeted |
|--------------------------|--------------------------|-----------------------------|------------------------------|--|
| Synthetic fabrics | 1993 | 1995 | 1997 | |
| Value | 50.24% | 52.89% | 56.53% | Investigation terminated in 1996; India, Indonesia, Pakistan, Thailand |
| Volume | 66.64% | 63.57% | 70.44% | |
| Cotton fabrics | 1993 | 1998 | 2000 | |
| Value | 55.83% | 38.58% | 42.36% | Duties lapsed in 1998; China, Egypt, India, Indonesia, Pakistan, Turkey |
| Volume | 59.04% | 37.60% | 40.44% | |
| Bed linen | 1993 | 1994 | 2000 | |
| Value | 49.00% | 47.56% | 41.31% | Definitive duties ended in 2001 ²¹⁰ ; Egypt, India, Pakistan, Thailand |
| Volume | 51.84% | 50.90% | 44.65% | |

Source: International Textiles and Cotton Bureau.

The figures would show that the import shares of targeted countries demonstrated significant declines after the initiation of antidumping investigations. The imports share could not recover to pre-initiation levels, even after the proceedings had lapsed.

On an *a priori* view, it is seen that purpose of filing and initiation on textile products is only to obtain the protection afforded during the investigation process itself. Considering the fact that none of the investigations disclosed any case of unfair trade practices and/or observable levels of injury to the domestic industry, at the outset or at any stage of the investigation they could be termed as ‘harassment actions’ which nonetheless had its effect of restraining import competition for a considerably long period. This is supported by the pattern of filing itself [Table 7.15]. The coincidence of the date of filing and the product scope of the following investigations would point to the importance of strategic considerations in antidumping.

²¹⁰ However, the proceedings were only suspended in case of India.

Table 7.19**Patterns in Filing of Anti-Dumping Actions in EU**

| Product | Synthetic fabric | Cotton fabric | Bed linen |
|--|-------------------------|----------------------|------------------|
| Complainant | Eurocoton | Eurocoton | Eurocoton |
| Complainant's status | Industry Assn. | Industry Assn. | Industry Assn. |
| Complaint lodged | September 93 | September 93 | September 93 |
| EC Investigation initiated | 20.1.94 | 20.1.94 | 25.1.94 |
| Imports from targeted countries ²¹¹ (ECU m) | 251.4 | 478.7 | 246.5 |
| Import share, targeted countries | Volume | 66.6% | 43.9% |
| | Value | 50.2% | 32.3% |
| Result of investigation | No action | No action | No action |
| Investigation dropped | 19.2.96 | 19.2.96 | 9.7.96 |
| Time taken in investigation (years) | 2 | 2 | 2 ½ |
| Whether product under QR | Yes | Yes | Yes |

Source: International Textiles and Cotton Bureau.

Antidumping authorities have wide discretion regarding when to apply “facts available”. When the interested party fails to provide the information within the time specified the investigating agencies can make findings on the basis of information available to them. Minor errors or omissions in voluminous and complex responses would be enough to prompt authorities to disregard all the rest of the data provided by the respondents and outside information or figures submitted by the domestic industry. It is seen that responding to complex exporter questionnaires which may require computer generated formats and detailed information on price and cost structure within the time specified may not be easy for small exporters. Therefore there is a need to discipline the excessive use of “facts available”. The recourse to ‘facts available’ also opens up the risk of the investigating authorities calculating the exporter’s normal value on the basis of constructed cost methodology, generally based on the information provided by the companies seeking protection.²¹²

It is seen that when the exporters are too many, the anti-dumping agencies in various jurisdictions employ sampling methods and select certain companies for in-depth examination. The agencies use the findings from the sample as the basis to calculate whether or not the entire group has been dumping goods. It is seen that exporters who are not included in the sample, but are still co-operative, tend to be penalized more since the dumping margin is calculated on a weighted average basis, and not on the basis of the data specific to that exporter alone.

²¹¹ Based on product coverage of first investigations and import data for 1993, i.e., the year preceding the investigations. For later investigations, the product coverage and the targeted countries were changed (for which please see paragraph 13 of this paper and the table at Annex).

²¹² Finger, M., and Wangchuk, S. (2001), ‘Antidumping as Safeguard Policy’, World Bank publication

Box 7.1 EC- Bed Linen Saga

Bed Linen exported from India was first targeted by the European Community for antidumping investigations in 1994. Without finding any case of dumping EC terminated the AD action on 9 September 1996. On 10th September, 1996 Eurocoton, the petitioner in the previous investigation filed a case for fresh investigation. A new investigation was initiated and provisional anti-dumping duties were imposed by EC Commission in June 1997 and final duties in November 1997. India challenged EC determination before a WTO panel in October, 1999 which ruled on most of the substantive aspects (including the famous “zeroing”, i.e. treating negative dumping margins as zero) in India’s favour. On 1 December 2000, the European Community notified the DSB of its intention to appeal certain issues of law covered in the Panel report. The Appellate Body also upheld most of the findings in India’s favour. Further to this and in compliance with the WTO rulings, EC issued a Regulation in August 2001 reducing anti-dumping duties and suspending collection thereof. These measures could have got terminated after six months provided no interested party had requested for its review. However, Eurocoton initiated a partial review of proceeding in 2001, which again triggered the third round of investigation. India challenged the proceeding before a WTO Compliance Panel, which ruled that the EC’s measures were not inconsistent with EC’s WTO obligations. Aggrieved by the Panel’s ruling India challenged the measure before the Appellate Body which ultimately ruled in India’s favour in March 2003. In the meantime the EC has also initiated anti-subsidy proceedings on cotton-type-bed linen in November 2002.

Source: UNCTAD India

The response by the exporting firms to antidumping actions/duties could be in various forms. It is stated that small firms normally reacted by laying-off workers. The retrenchment of workers in the textiles sector pursuant to the series of measures taken by EC against cotton type bed linen is one such example. In a study by Oxfam, it was reported that 5,000 workers were laid off in a Textile Company (Anglo-French) in Pondicherry itself pursuant to the antidumping investigation on bed linen.²¹³

In the above context, improved rules and tighter guidelines for the implementation of AD legislation would greatly help in limiting the use of trade defence actions other than intended by the WTO Agreement. In particular, clear treaty provisions against back to back investigations and tighter disciplines in the use of ‘facts available’ could help the textile exporters significantly.

²¹³ Oxfam International (2002), ‘Rigged Rules and Double Standards: Trade, Globalization the Fight Against Poverty’, London

4.9 India and the G20

Some studies carried out by the World Bank using CGE models have suggested that the maximum welfare and poverty reduction gains from liberalization would accrue to developing countries if they were to pursue a path of autonomous liberalization irrespective of what the developed countries do.²¹⁴ However this analysis has been challenged and countered by two recent studies. The OECD using the GTAP model²¹⁵ has shown that about 79% of the total welfare and poverty reduction gains from trade liberalization would accrue to developing countries if developed countries were to liberalise their trade and reduce their protection vis-à-vis developing countries. Another study²¹⁶ has shown if poverty has to be made the centre stage of Indian trade liberalisation strategy, then alternative trade liberalisation scenarios will have to be considered.

Cline's CGE modelling shows that free trade (which he has defined as Uruguay round commitments) in agriculture, T&A and manufactures would lead to welfare gains equal to \$2.22 bn to India. It would be useful to consider alternative liberalisation scenarios in this regard. '2 tier liberalisation scenario' applies free trade to manufactures, but only a 50% cut in tariffs, export taxes and subsidies and input subsidies for agriculture and for textiles and apparel. This addresses the reality that these 2 areas are highly protected. Results from simulations show that this scenario would achieve about two-thirds of the free trade potential for developing countries and almost three-fourths for the industrial countries. India would achieve 81.1% of free trade potential. The greatest shortfalls from the free-trade potential in this scenario are in the main agricultural exporters (Australia-New Zealand, Canada, US and Argentina. However, if the protection is cut down to 40% of its initial level, India gains by more than under free trade. This is because, India's initial agricultural protection is so high, that it is far above an optimal tariff protection level and so in the case of a larger cut in tariffs (to 60%), increase in welfare to consumers outweighs any loss of terms of trade. Simulations of "asymmetric trade liberalization" (where developing countries do not change protection at all and developed countries grant free trade in all sectors and eliminate agricultural inputs and export subsidies) show that developing countries can still achieve about 65% of the total welfare gains from complete free trade. However a number of developing countries such as Indonesia, Philippines, Thailand, China, and Sub-Saharan Africa, Eastern Europe and Central America actually increase their welfare levels beyond those which may be available under total free trade. It is found that only 35% of developing countries' potential free trade gains can be attributed to their own liberalisation, while 65% stems from liberalisation by industrial countries.

These results contrast sharply with those in other CGE studies (especially IMF and World Bank) which show that 59% of developing countries' potential gains stem from removal of their own protection and only 41% from elimination of protection by developed countries. In the case of asymmetric liberalisation, India achieves only 59.1% of its free trade potential. The results of "differential trade liberalization" (free trade by developed countries except for limited reductions in protection and subsidies to half their initial levels in agriculture, textiles and apparel, and developing countries cut their protection by half while providing free trade to imports from other developing countries) shows that the welfare gains to developing

²¹⁴ World Bank(2003), GEAP

²¹⁵ OECD (2003)

²¹⁶ Cline, W.(2003), op.cit

countries would be 110% of the total welfare gains that could be obtained from global free trade.

This contrast between conventional World Bank perceptions and these simulations have important policy implications. Adverse criticism on the G20 grouping was centred around the perception that its stand was self defeating because according to the World Bank estimates most of the developing country potential gains in agriculture come from their own liberalization.²¹⁷ However, if these simulations²¹⁸ are correct, then the G20 strategy to break open the developed countries' agricultural market in a single minded way is recognition of the overwhelming positive welfare gains that would accrue to them. It is also recognition of the fact that liberalizing export markets in developed countries is more important than liberalizing their own in terms of welfare gains.

Where does India stand in these welfare gains? The same simulation shows that differential liberalization would actually yield higher welfare benefits for India than global trade liberalization. The welfare effects would be 119% that of global free trade. Similarly the figures for Brazil and China are also higher than that of global free trade.

India is not a major agriculture exporting country, but it is a net food exporter and its exports of agricultural products are more likely to increase in the next few years as shown in the agriculture section. India's position in the G20 was based on the premise that it was not sensible to accept an agreement that would consolidate the position of the two subsidizing superpowers, with very modest gains and some backward steps (broader definition of blue box to include U.S interests) and then wait for another 15-18 years to launch a new WTO round, having frittered away its precious bargaining chips.²¹⁹

India also has a maximalist agenda in the G20. In fact its trade offensive on mode 4, textiles including trade remedy measures, pharmaceuticals and a number of other products is better served within the framework of a grouping such as the G20. An analysis of exports from India to the 4 major countries in the G20 shows that there has been a very high rate of growth. What is interesting to observe is that there is a high degree of complementarity not substitutability between the products traded between these four countries.

China accounted for more than 25% of Indian exports of iron and steel (\$ 502 million), an increase of almost 30 times over the previous year. China is the destination for 8% of exports of marine products (\$ 116 million); almost 3% of cotton exports (\$63.56 million) and \$ 155 million of exports of organic chemicals. Except cotton which registered a decline, the other sectors grew at about 40% over the previous year. Exports to South Africa and Brazil were roughly the same, at around \$ 480 million.

Exports of cereal to South Africa almost doubled over the previous year to \$ 147 million which was more than 10% of the total exports. Among the three countries, exports of apparel and clothing to South Africa were the maximum at \$ 47 million. Other major exports were of marine products, organic chemicals and in the mineral fuels classification, with the latter two recording impressive gains over the previous year.

²¹⁷ The Economist (6 October 2003)

²¹⁸ Cline, W., op.cit

²¹⁹ Barbosa, R.A. (2003), "Why the Group of G20 was suddenly formed", papers for the Cordell Hull Institute's Roundtable on Trade Policy

More than half of Brazil's imports from India were in the mineral fuels classification (\$ 256 million), which increased about 40 times over the previous year. Apart from pharmaceuticals, the other major sector was organic chemicals. The combined exports of the growing pharmaceutical sector were nearly 7% of the total exports of \$1400 million. Pharmaceutical exports grew by 67% in China; 33% in South Africa and by 14.5% in Brazil.

Among other commodities, whose contribution to total exports is somewhat less, Indian exports to China in ores and plastics were significant. Indian exports of raw hides and skins to South Africa were significant. India exported man made filaments and chemical products to Brazil. Both Brazil and South Africa imported auto components, electrical machinery and boilers etc.

Table: 8.1 Rate of Growth of Indian Exports

| Destination of exports | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| World (total) | - 4.50 | 10.85 | 21.01 | - 1.65 | 20.29 |
| China | -40.50 | 26.19 | 54.22 | 14.51 | 107.52 |
| South Africa | -1.54 | -26.39 | 8.85 | 13.61 | 37.13 |
| Brazil | -7.03 | 1.30 | 67.14 | -3.11 | 118.73 |

Source: Ministry of Commerce & Industry's web site

Increasingly, RTAs are being agreed between countries of different regions, as can be seen from negotiations between India and MERCOSUR. This is an indicator that "economic distance" is no longer perceived as a factor affecting the competitiveness of products originating in distant trading partners impeding trade. Available evidence suggests that regional integration between developing countries has promoted trade and export diversification allowing for increasing exports of manufactured goods to regional markets, and that inter-industry trade have evolved in the context of regionalism. Furthermore, South-South RTAs have tended to be more trade creating than trade-diverting.²²⁰

It is clear that there exists a substantive trading interest among the major nations comprising the G-20, extending beyond coalition on issues relating to agriculture exports in the WTO negotiating table. Improved market access would stimulate growth in these countries. Increased trade between these countries, on the basis of their comparative advantages, would increase the level of incomes and employment, and also have both direct and indirect impacts on poverty alleviation in India. There is also understanding that the demographic composition of populations in Developing Countries lend themselves viable to be used as the active and demand driven markets in years to come. The rising population and young median age in developing countries could lead to their characterisation as major markets in themselves and hence the impetus to focus benefit realisation between South South countries. There is also the important finding of recent research that has shown that trade agreements between geographically contiguous countries do not necessarily lead to maximum welfare benefits. It is also important to bear in mind that the G20 will no longer accept the role of supporting actors in discussions that relate to their development prospects. The big four countries

²²⁰ Majluf L.A, Swimming in the Spaghetti Bowl: Challenges for the Developing Countries under the "New Regionalism"

account for over 5% of global export of goods and over 6% of global export of services.²²¹ Moreover the realization and acceptance by G20 that countries like India with a huge farm population of over 300 million farmers maybe immediately and heavily penalized should agricultural tariffs come down sharply, particularly for staple crops has been very important for India.²²² Domestic markets would be invaded by cheaper imports, and millions of family farmers would be unable to sell their surpluses, thus S&D treatment for market access is a rather logical and ethical option.²²³ What India has to examine and weigh is whether the G20 can also successfully deliver on its other market access requirements such as mode 4, textiles, and other non-agricultural sectors. India may also have to offer GSTP to other developing countries particularly the least developed countries.

²²¹ WTO web site

²²² Barbosa, 2003, op.cit

²²³ *Ibid.*

4.10 Conclusion

In the light of some mixed evidence, it appears that absolute poverty has declined in the period of trade liberalisation in India, by almost one percent per year. While scholars differ on the exact extent to which poverty may have declined, it is generally agreed that the headcount ratio of poverty has decreased. The other MDGs however have not shown the healthy decline that could be expected from the current high rates of growth of trade and GDP in India. Meeting other MDG targets besides income, may require greater and direct intervention in areas such as nutrition, literacy and health care. The low growth poverty elasticities in India also suggest that government expenditure on health care, nutrition, education and other MDGs will have to increase in order to alleviate poverty. Trade liberalisation and its concomitant growth can help significantly, but it will not take India out of poverty.

Adjustment costs of trade may have considerably been mitigated on account of the more sequenced approach that India has taken to trade liberalisation. The study shows that if poverty is to be made the centre stage of Indian trade liberalisation strategy, a differential strategy which calls for full reduction of tariffs on the part of developed countries and only partial liberalisation of Indian tariffs would yield maximum welfare gains. A differential strategy would involve a) India reduces its tariffs to UR levels vis-à-vis all developing countries b) It reduces its tariffs to 50% of the UR levels vis-à-vis developed countries and c) Developed countries cut their subsidies and textiles tariffs by 50%. This differential strategy for trade liberalisation negates claims that autonomous trade liberalisation would yield maximum trade and welfare gains for India. It also vindicates the stand of G20 which calls for deeper liberalisation on the part of developed countries.

Though trade liberalisation has had multiplier growth effects in agriculture, services and textiles, their poverty implications have been modest. The service sector boom in India in the post UR period shows that India has a competitive advantage in several of these service sectors. The potential for poverty alleviation from services trade liberalisation has been largely ignored. While services may not directly employ people below poverty line, liberalisation has made a number of services accessible at economic prices to a large number of people, including the poor, in India. It must be noted that the provision of a number of services such as power, telephones, health, education etc are by themselves an MDG and are thus considered important in the context of poverty alleviation strategies. It is thus essential to lock in commitments on services liberalisation so that there is no backlash as can be observed in the case of BPOs in India. Also from a poverty alleviation point of view, it is important to schedule universal services obligation, as has been done in India in the case of financial services and telecommunication. Universal Service Obligation would help ensure that rural and backward areas also benefit from the liberalisation of services. It is also important to obtain assured market access commitments especially in the case of mode 4. Remittances in the case of India have had a very important role to play in poverty alleviation as can be seen from the case of Kerala.

As far as agriculture is concerned, the UR resulted in significant trade gains as well as some poverty alleviation for India. However barriers such as tariff peaks, tariff escalations, domestic support and export subsidies continue to restrict effective market access of Indian agricultural products to developed country markets. Even though international agricultural markets are distorted, India continues to be competitive in important commodities. Looking

ahead at future trade liberalisation scenarios in agriculture, it is interesting to observe that the poorest states of India, i.e. Bihar and Orissa have a high RCA in rice. In fact the poverty alleviation potential of these states should rice markets be liberalised would be higher than for India as a whole. Thus trade liberalisation in this sector would be particularly beneficial to the poorest states of India.

Assuming that there is full trade liberalisation in agriculture, India being a net food exporting country is likely to see significant macro welfare gains and this has been demonstrated through several modelling exercises. Given the fact that most of India's poor are dependant directly on agriculture as a source of income, a rationalisation of international food prices is likely to raise agricultural wages and lift several rural poor above the poverty line in the long run. The multiplier effects of wage rise in the agricultural sector are also likely to be very high as people at lower income levels have a much higher propensity to consume out of additional income.

India has linked reduction of subsidies by developed countries with its own tariff reduction. Poverty alleviation with multilateral liberalisation would be actualised to a greater degree if adequate interventions and reforms at the domestic level are made to address supply side constraints, both infrastructural and welfare distorting market restrictions. Capacity building initiatives are required to help Indian farmers integrate better into the international market and also meet the exacting regimes of non-tariff barriers such as SPS measures. India may also need to examine the market potential of niche markets and niche products, as the returns to such products tends to be higher. India also has serious problems with the allocation of TRQs which needs to be addressed.

This study has not attempted to divide the rural population of India into net food producers and net food consumers, as data on this was lacking and not possible to obtain within the short period of time. However, even net food consumers would benefit from the wage effects of food price rises. Whether wage rises would compensate for food price rises remains to be seen. Macroeconomic simulations from Cline show that such effects would be positive in balance.

Textiles, like agriculture and services have a high potential for poverty alleviation. This is also a sector, like services, which has a very exposure to international markets as nearly more than half of the textiles and garments produced in India are exported. International prices, market signals as well as trade distortions have critical effects on poverty from this sector.

This is a high growth sector and some simulations show a very high growth potential (especially in garments) with the removal of ATC quotas and with tariff reductions in this sector. The gains are likely to be higher before China integrates into the ATC pointing to India's lower competitiveness. Even in comparison with other major garments exporting countries India's competitiveness needs to be improved. This is also a sector where more than 50% of the employment is that of women and therefore expansion of this sector would have a significant effect on the conditions of living of women.

The large number of trade defence measures in this sector casts serious doubts on whether ATC will deliver the desired degree of trade liberalisation. Repeated antidumping investigations against Indian bed linen has led to unemployment, closure of factories, and increased poverty in some isolated cases. It is very important that some essential disciplines

especially with respect to curtailing the scope of back to back investigations be introduced in order to ensure that the poverty alleviation potential of this sector is fully realised.

The National Textiles policy of India has set very high targets on quality, exports, productivity and on timely delivery. Power costs are likely to be a major handicap for Indian textiles and garments which needs to be addressed urgently as shown by the study. India's current level of exports is only one seventh of China's despite a very high potential for trade.

The study on the whole shows that trade liberalisation if properly structured and prioritised could have a high potential for poverty alleviation. However, poverty alleviation would be much higher if appropriate domestic measures accompanied trade liberalisation. The importance of developed countries providing appropriate market access to India to ensure higher welfare gains also cannot be overstressed. A less explored area which needs further and detailed investigation is the potential for south-south trade which needs further investigation.

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