

Trade Policy Reform in India

June 29, 2009

Kanhaiya Singh



Structure



- Growth history
- Reforms
- Review of Trade Reform
- Trade Reform, Trade and Trade Balance
- Current Debate on Globalization
- Role of Behind the border constraints
- Problems
- Agenda

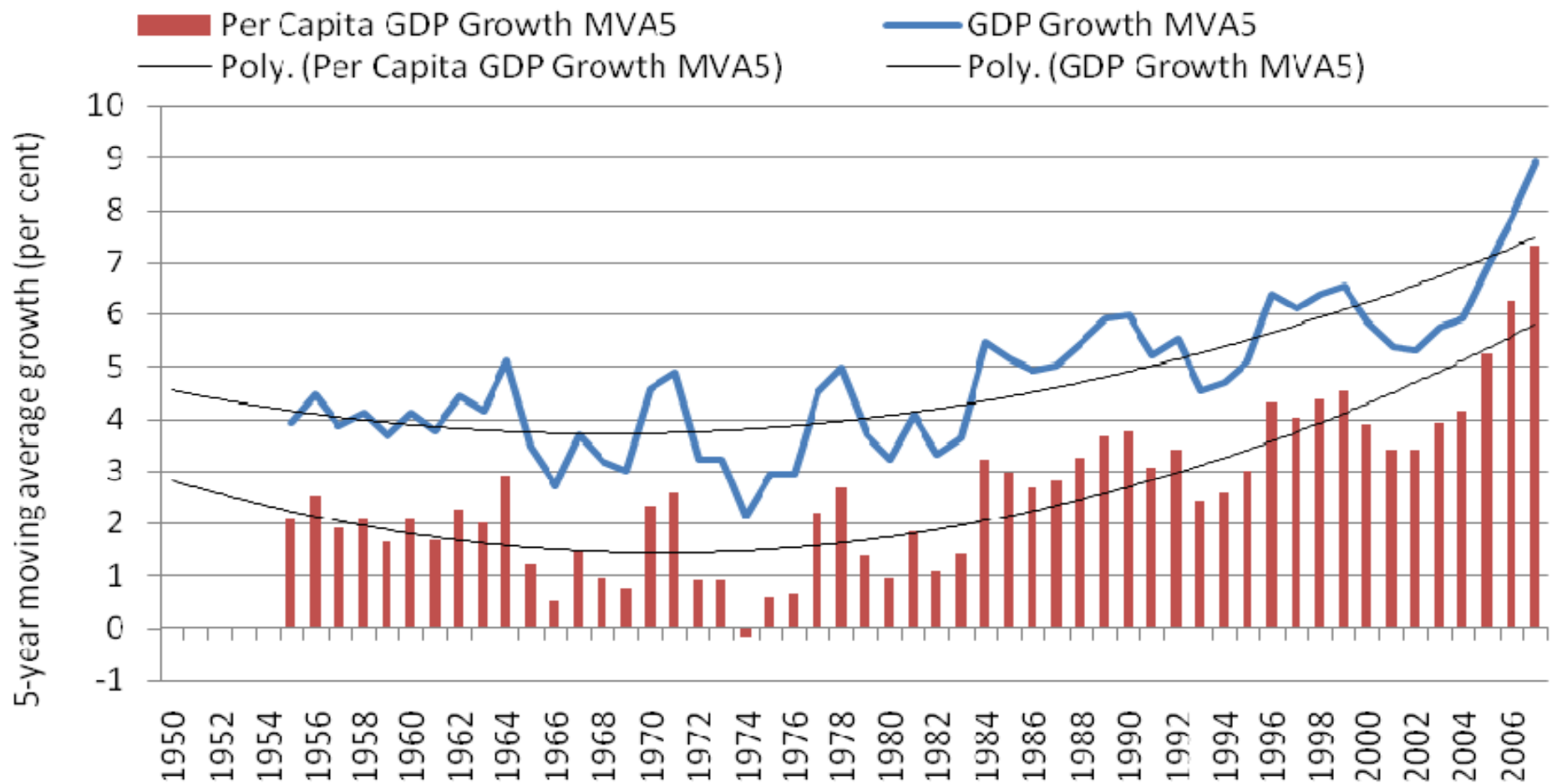




India: Gains of Economic Reforms

Substantial gains in per capita income

Proportion of poor in total population has declined from 36 percent in 1993-1994 to about 27 percent in 2003-04





Reforms already accomplished

Reforms began during 1977 with widening of OGL list and exemption on wide range of goods for the first time.

1980-90:

limited reforms but far reaching effects

Beginning of export orientation

Industrial policy allowed broad banding for generic industries mostly automobiles and beginning of 100% export oriented units

Economy of Scale initiatives:

Expansion of capacities allowed for selected firms and a system of

MOU with public sector undertakings was adopted to increase operational efficiency



Reforms already accomplished

1990-2008

Major Reforms

The balance of Payment crises of 1991 led to adoption of International Monetary Fund (IMF) program based major reform package, which continue to move at graduated speed irrespective of the change in governing parties.

Almost full political support for reforms of major political parties

Almost all sectors have been touched to different scales: Trade, Financial, Fiscal, Monetary, Industry, Insurance, and even labor laws to some extent for name sake.

State Monopoly and License Raj has been abolished

Reserved list for small-scale industry has been pruned from thousands to just about 14 as of October 2008 giving way to economy of scale and efficiency.



Reforms already accomplished

Trade Reforms:

Commendable reduction in tariff and non-tariff barriers, no more a protected regime

Pervasive import license system has been completely removed including textiles and clothing

Quantitative controls are completely removed

Tariff have been unilaterally reduced to peak rate of 10 per cent

Exchange control removed in favor of managed float



Institutions

- Tariff Research Unit in Ministry of Finance
- Directorate General of Anti-dumping & Allied Duties Ministry of Commerce & Industry
- Directorate General Safeguards, Department of Revenue
- Tariff Commission, Ministry of Commerce & Industry



Policy making & effect of research

- Committee based policy program: recommendations are not binding
- In case of Trade: Prof Chelliah Committee on tax reform has been the guiding force
- Prof Bhagawati and others have been advising during post 1991 trade reform
- Government sponsored examination of policy and programs through research institutes: RIS, NIPF, NCAER, ICRIER

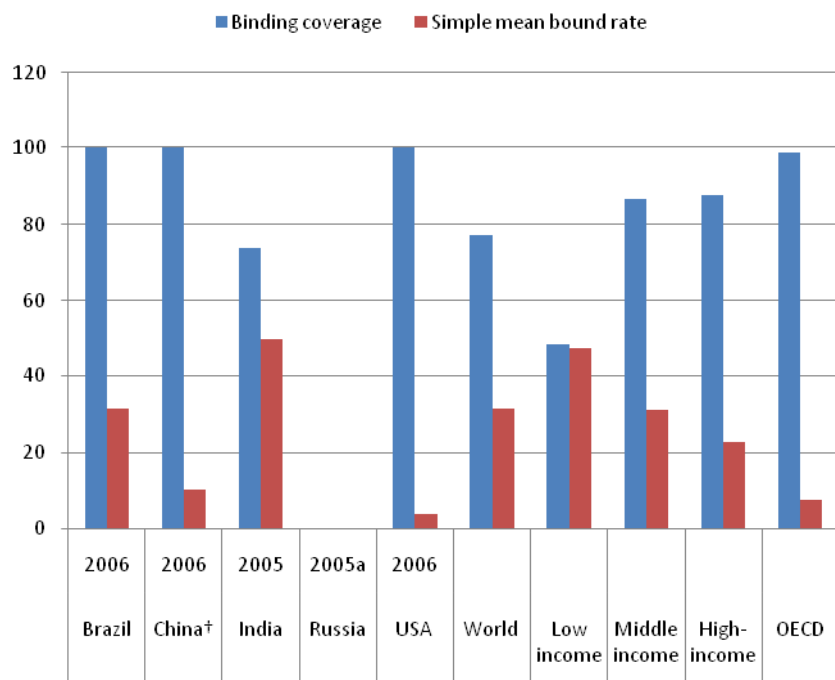


Tariff Reform in Comparison to Other Countries

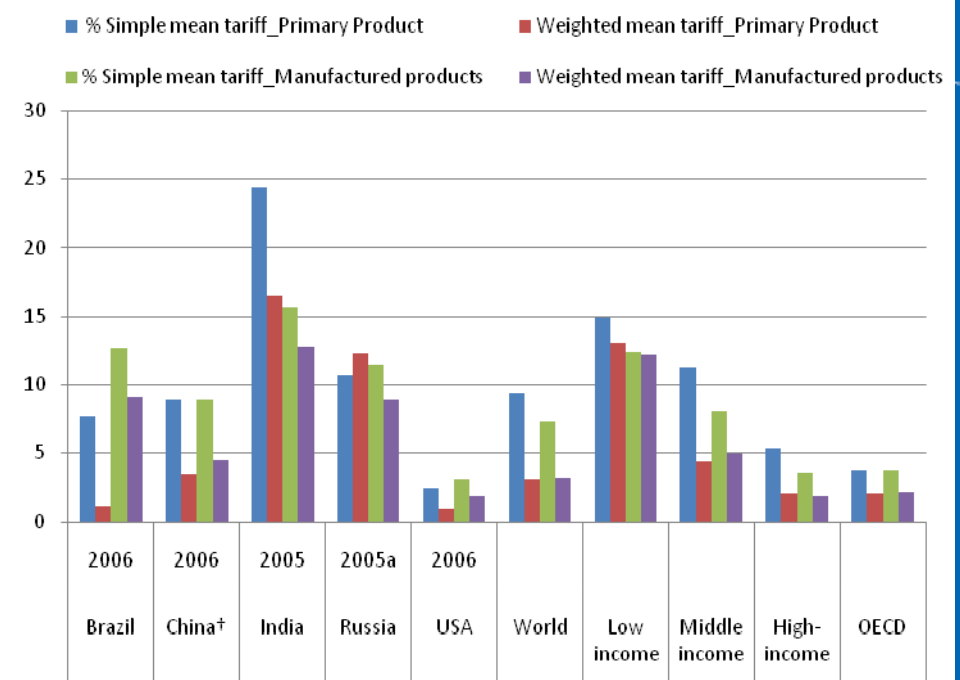
India has opted for lesser number of tariff line with higher bound

While several others including USA, Brazil and China have preferred lower bound rate but protection for all of their products

Bound Rate



Applied Rates Rate

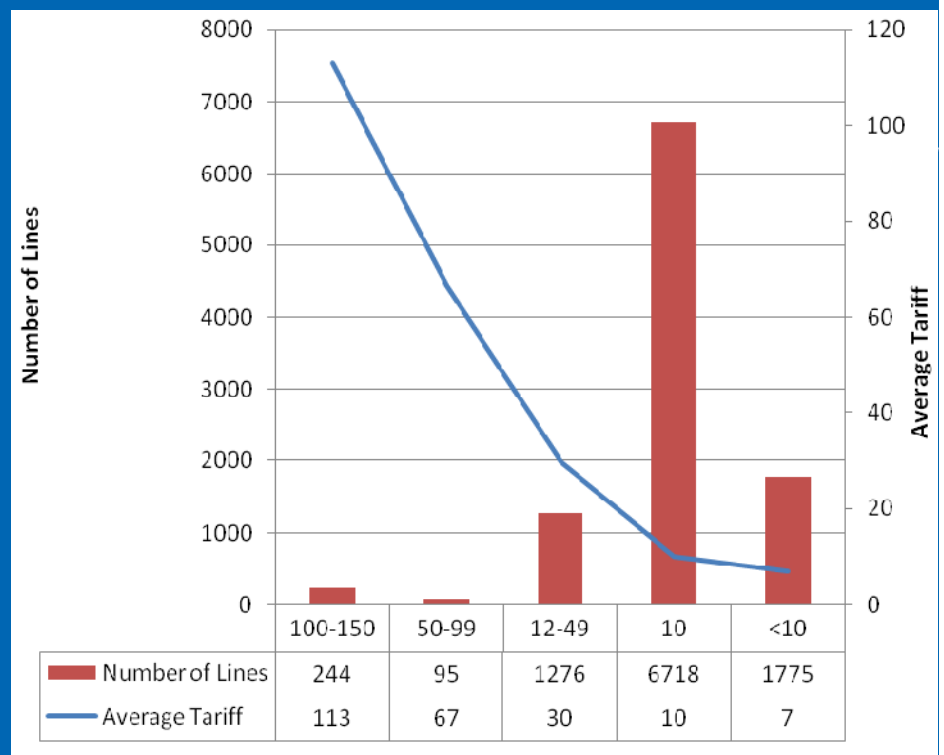
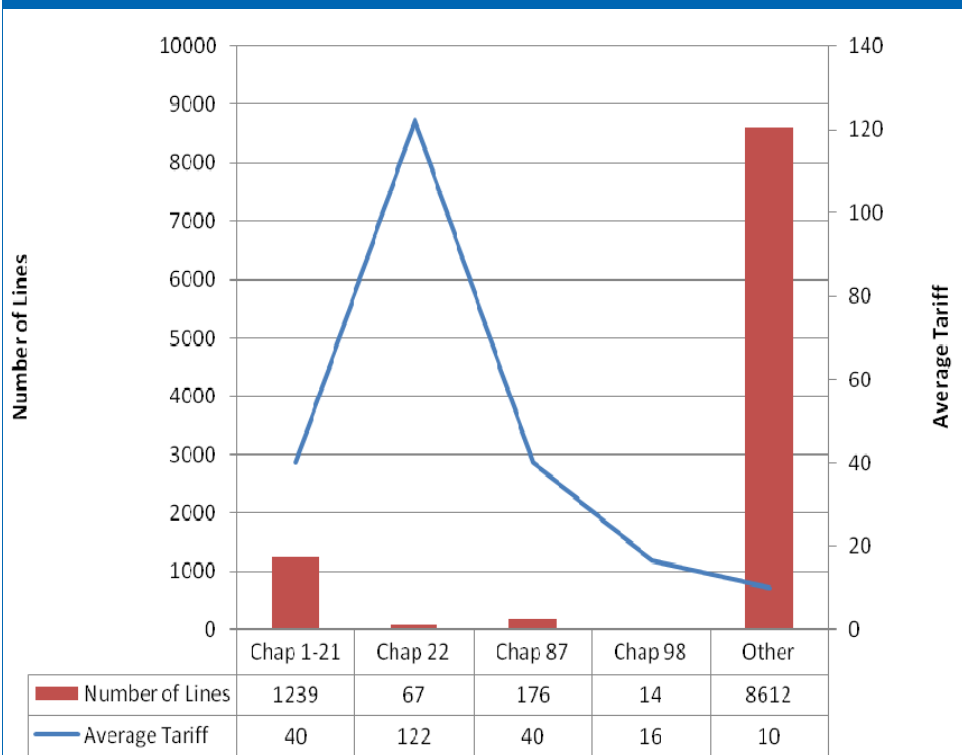




Tariff Reform: Current Status

Agriculture sector trade reform is too sensitive

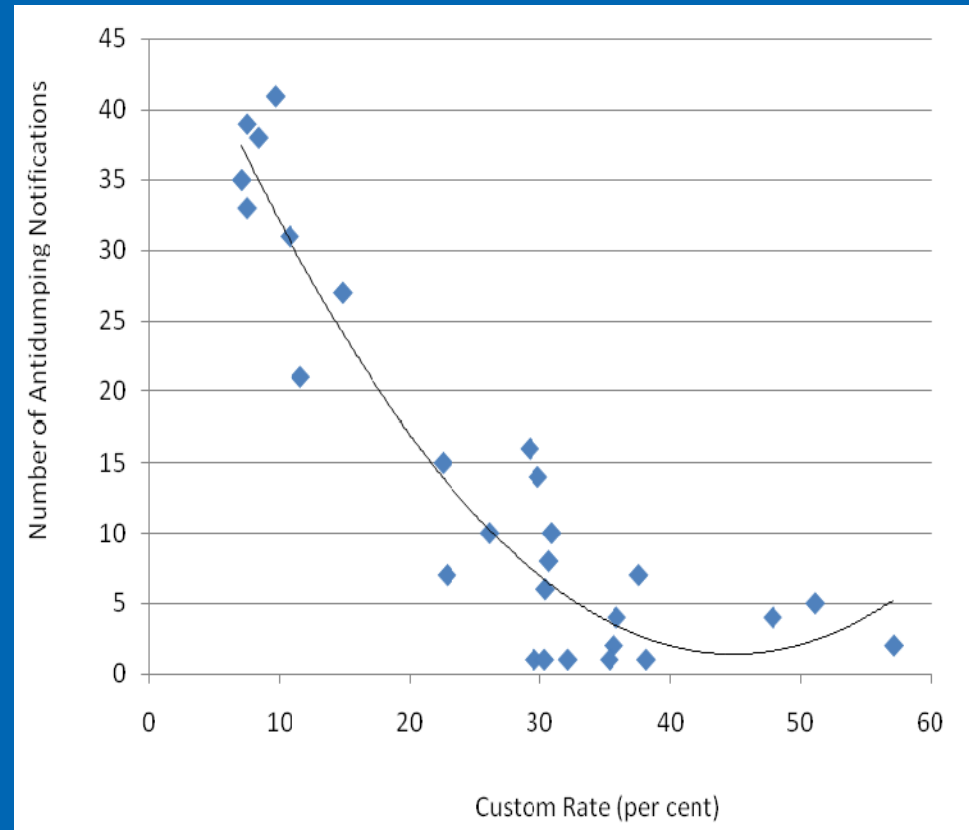
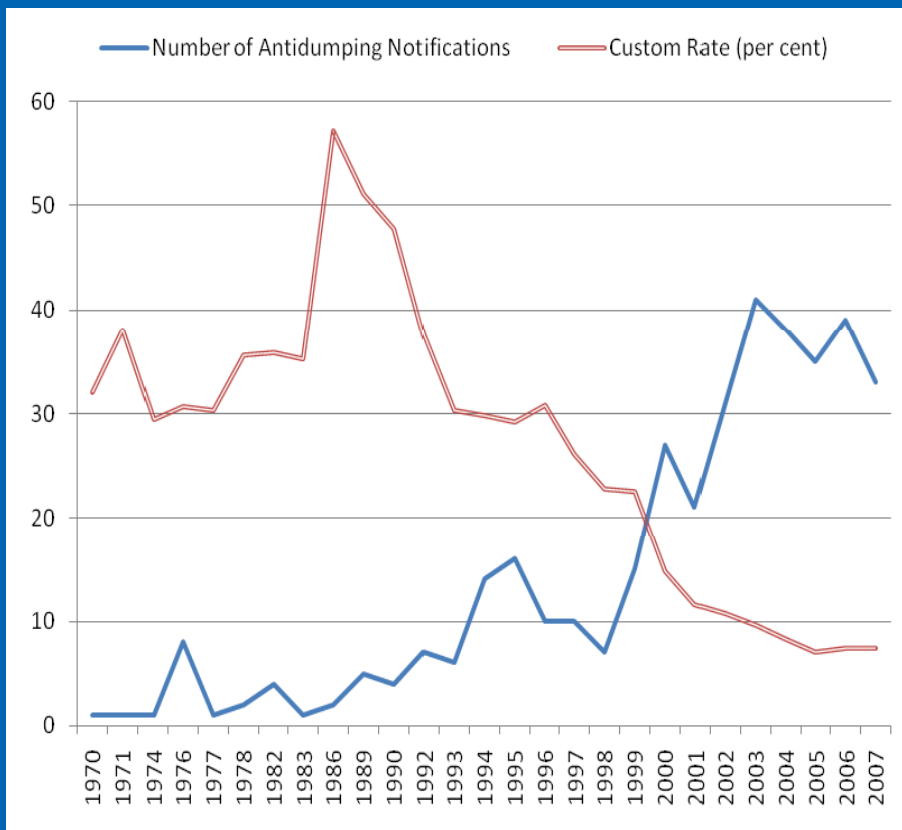
What about other areas





Tariff Reform and Anti-dumping measures

India's anti-dumping measures are often criticized but it is linked to tariff reforms and of late restrained

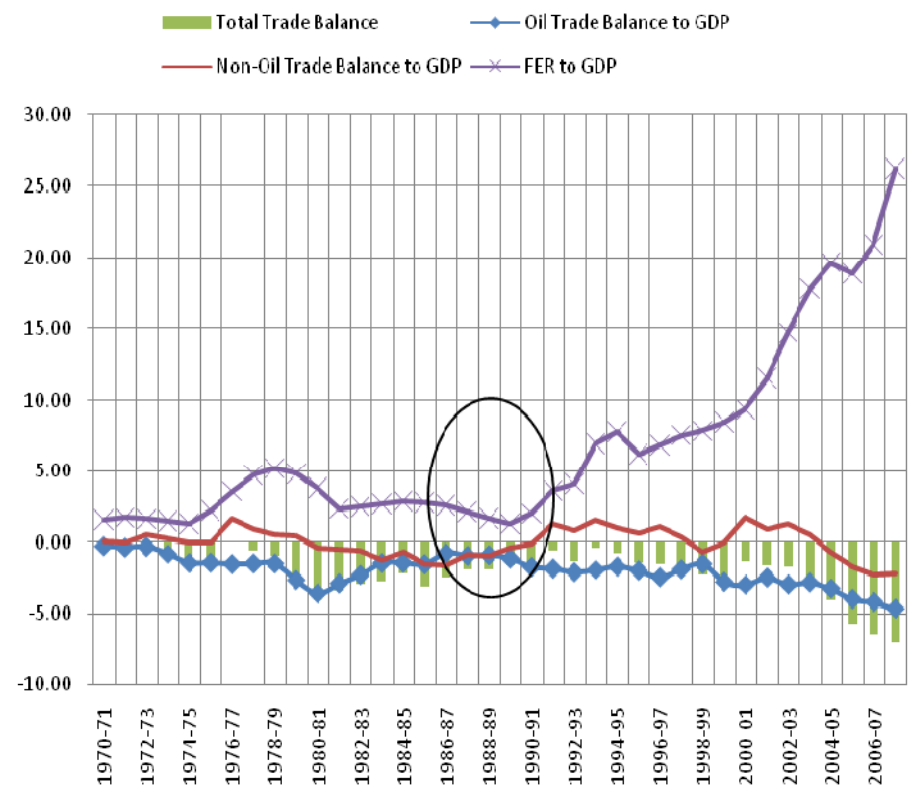
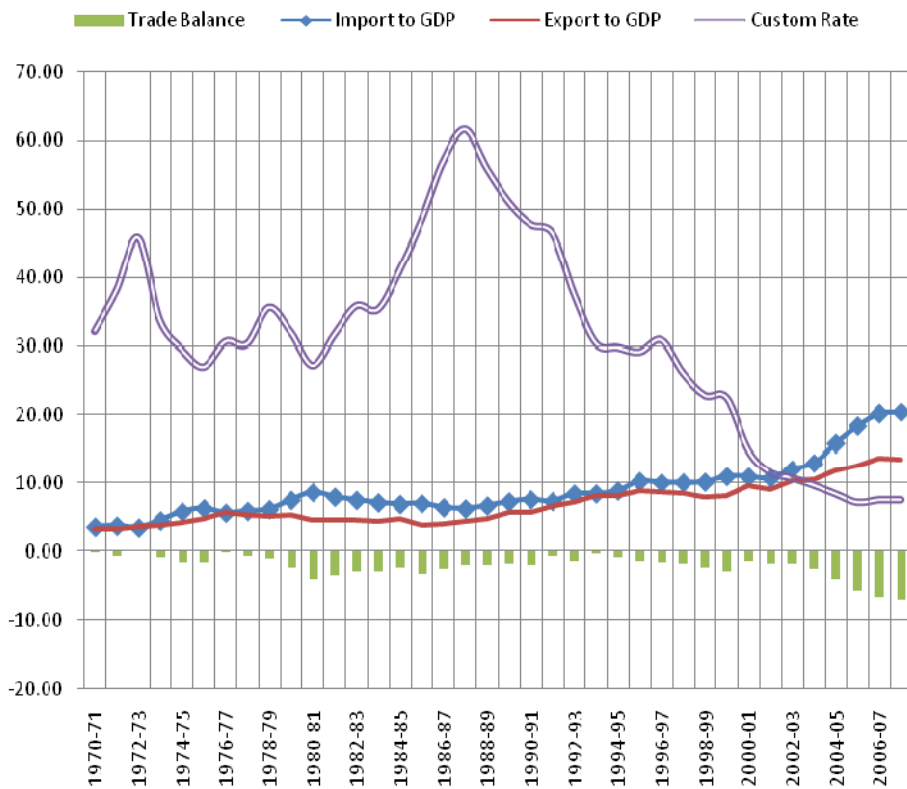




Tariff Reform, Trade and Trade Balance

Effective rate of duty has gone below 10%

But it does not seem to have helped export growth

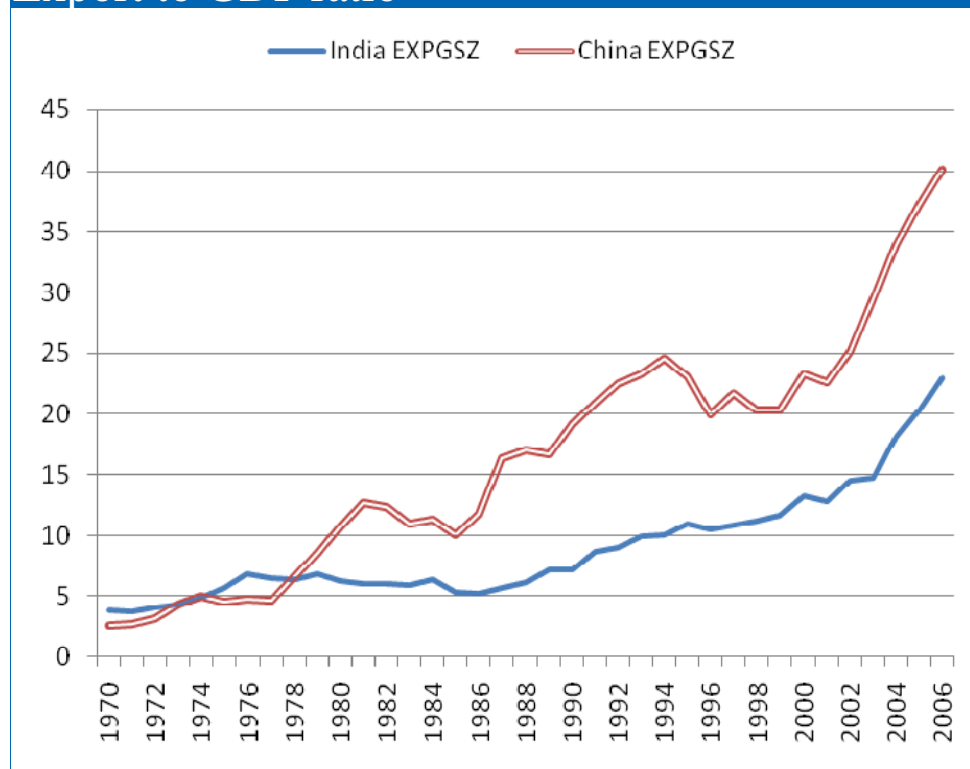




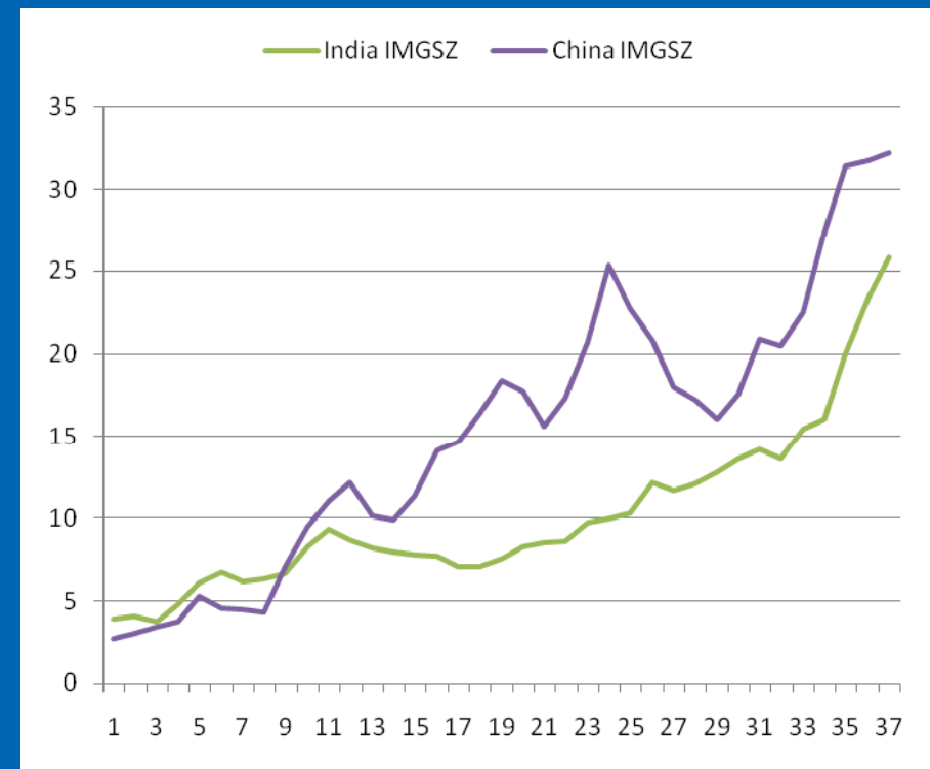
Reform and Trade performance in comparison to China

- China's Import appears to be export driven where as India import does not look the same way: needs more work
- Current literature is ambiguous

Export to GDP ratio



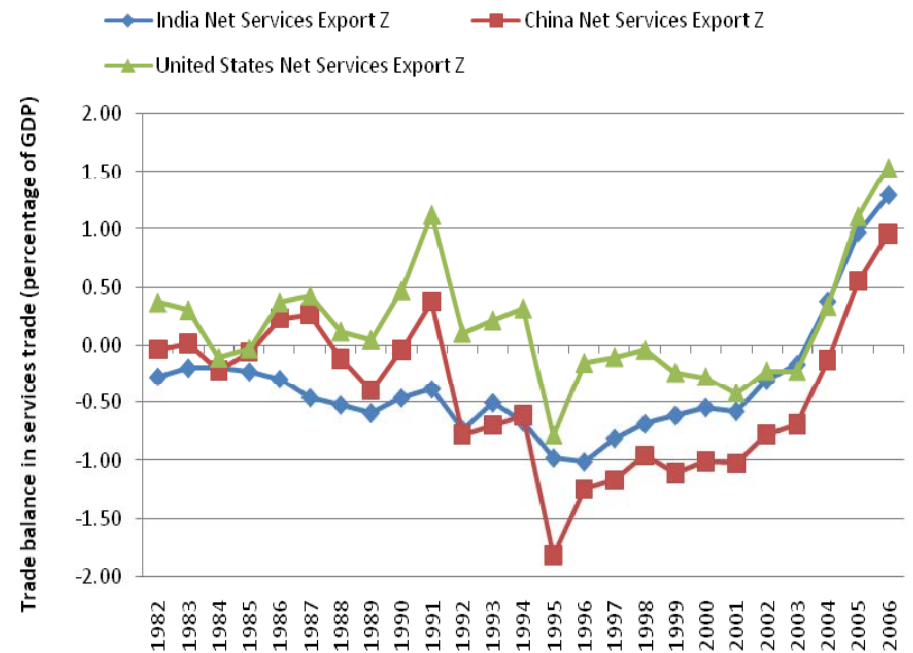
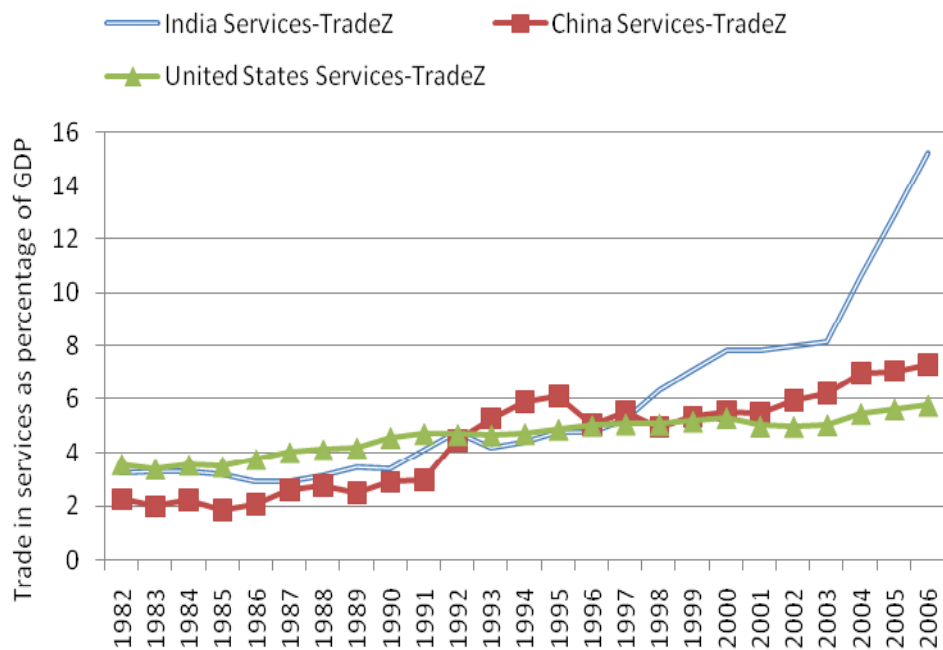
Import to GDP ratio





Trade in services: The source of confrontation (!)

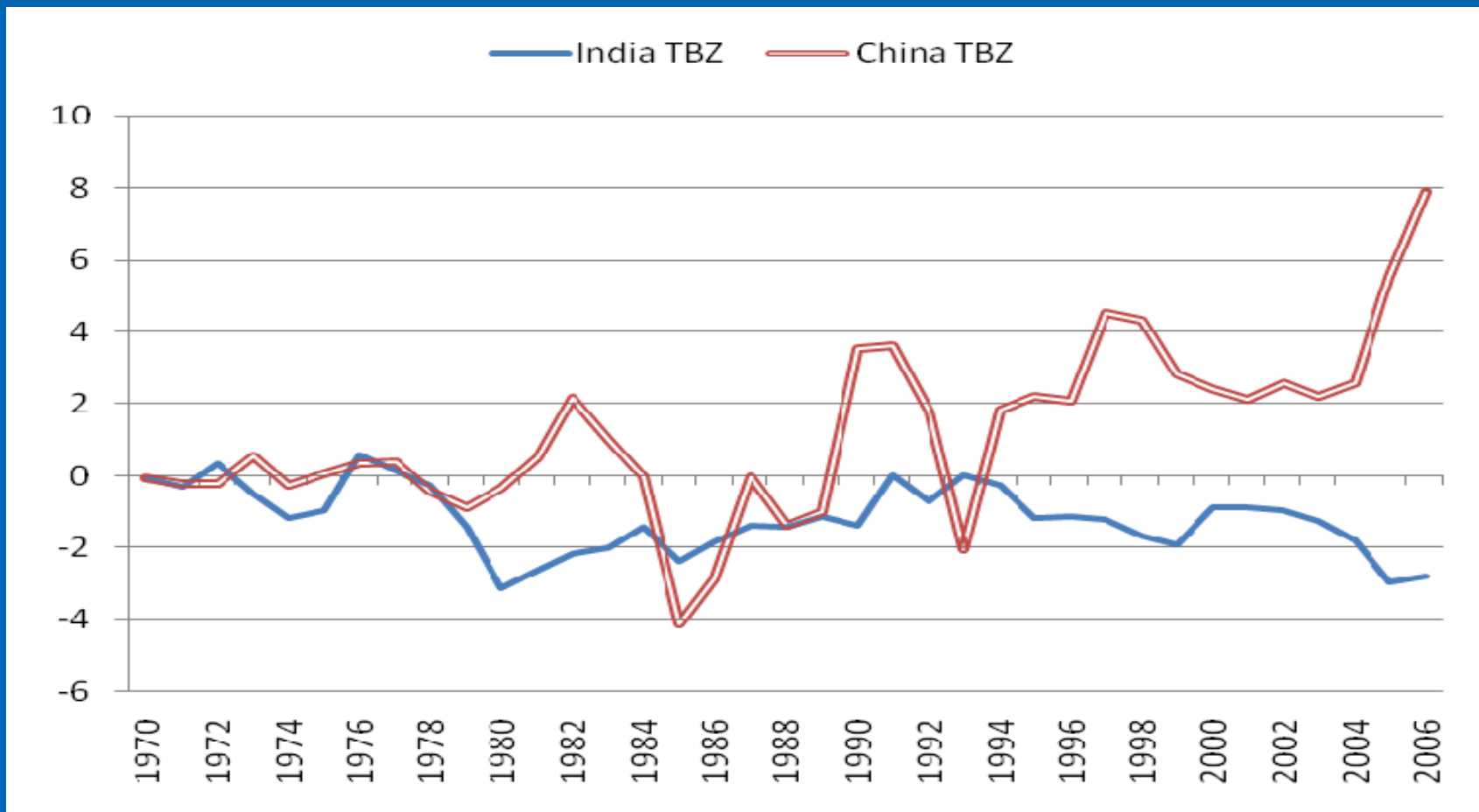
Is it to big an issue?





Reform and Trade Balance in comparison to China

Why this difference?





The current debate on Globalization: Return of protectionism!



Role of efficiency in production and strategic Innovations

Effects of Rise of Out-sourcing business

Protective reactions of the United States and other developed countries and fate of globalization

Strategy for India like countries

Paul A. Samuelson 2004: Where Ricardo and Mill Rebut and Confirm Argument in JEP

“Will inventions A or B lower or raise the new market-clearing real wage rates that sustain high-to full employment in both countries”

What happens when of geographical specialization were to reversed

When can Americans feel that autarky real wage is better than gains of trade?

Fear may be unfounded or real

Difficult for any other country to match the pace of innovations in the USA and the resulting productivity

Restrictions on dispersion of cutting edge technologies can still influence the process of innovation and productivity growth in other country





The current debate on Globalization: Return of protectionism!

- Jagdish Bhagawati Lecture: The consensus for free trade among economists – has it frayed? WTO: 8 October 2007 lecture and number of references cited
- “But Blinder missed out on the fact that outsourcing on the wire (i.e. without the provider and the user having to be in physical proximity as with haircuts), which is Mode 1 of supplying services in the General Agreement on Trade in Services (GATS) in the Uruguay Round agreement in 1995, was the mode that the US and other rich countries were keenest about: they saw that they would be the big winners, as no doubt they are. For all the call-answer services and other low-skill services now imported from countries such as India, there are many more high-skill and high-value services by rich-country professionals in architecture, law, medicine, accounting, and other professions.”



Catching up Possibilities and potential threat to USA (rudimentary estimate)

		2006 values	Assumed growth rate	Years to catch up over 2006
GDP per capita, PPP (constant 2005 international \$)	China	4501	8.8	34
	India	2393	4.4	113
	USA	42610	1.8	
GDP per capita (constant 2000 US\$)	China	1598	8.8	47
	India	634	4.4	1725
	USA	37791	1.8	
GDP, PPP (constant 2005 international \$ Trillion)	China	5.9	9.8	12
	India	2.7	6.1	51
	USA	12.8	2.9	
GDP (constant 2000 US\$ Trillion)	China	2.1	9.8	26
	India	0.7	6.1	95
	USA	11.3	2.9	

Basic data: World Bank



The current debate on Globalization: Behind the Border constraints

Leave the global debate behind and concentrate on strengthening own house

Kalirajan and Kanhaiya Singh 2007: A comparative analysis of China's and India's recent export performances, , *Asian Economic Papers*, 2008, vol. 7, issue 1, pages 1-28

- The policy reforms in India do not appear to be effective in reducing 'behind the border constraints' to export during the sample period, though policy reforms seem to be effective in China
- The analysis shows on an average approximately 86 percent of potential exports has been realized by China, while only about 68 percent of potential exports have been realized by India



Behind the border constraints and factors that can lead to better competitiveness



Physical Infrastructure (Power, Road, Irrigation, Water, Railways, Aviation, and Ports)



Financial Infrastructure (Banking, Stock market, other intermediation)



Macroeconomic Stability (Inflation, debt, deficits and interest rate structure)

Health and primary education

Higher education and innovation potential

Research and development and readiness to innovate and adopt new technologies

Labor market abundance and flexibility of choice

Market perfection (degree of competition in delivery and quality)

Market size

Governance, efficiency and confidence in public and private sector functioning



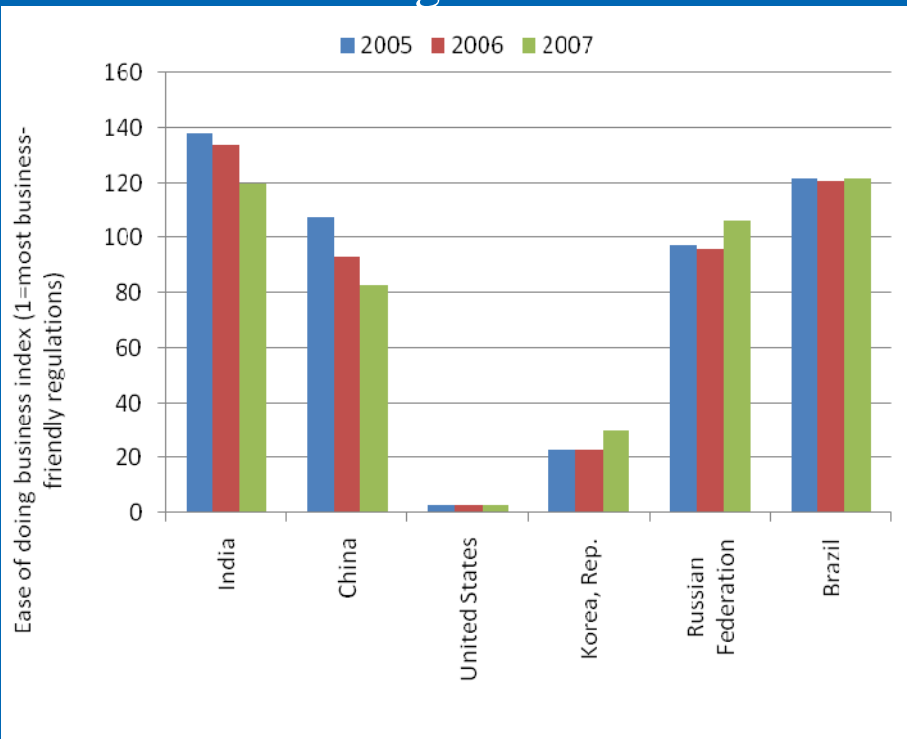
Institutional efficiency (legal, security, and transparency)



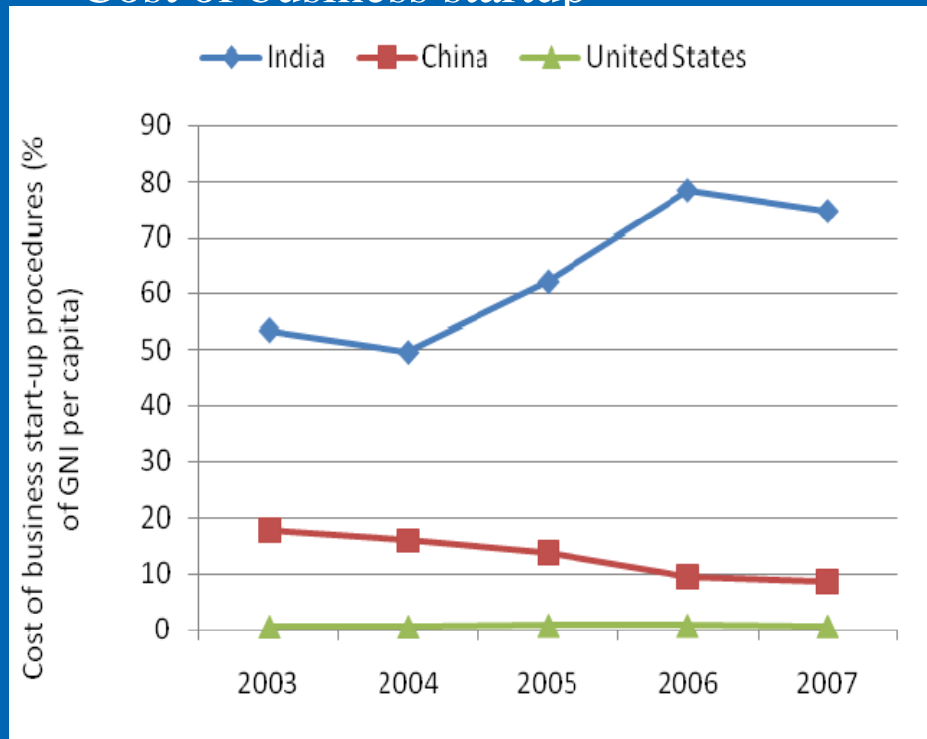


Behind the Border Conditions

Business Condition: Ease of doing business index



Business Condition: Cost of business startup

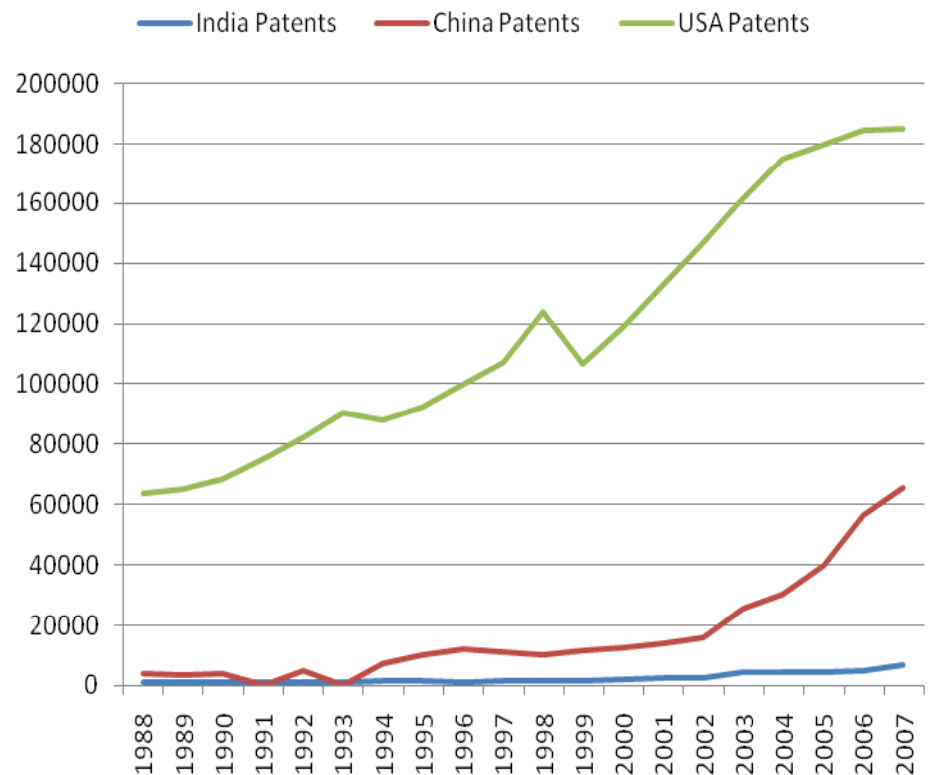
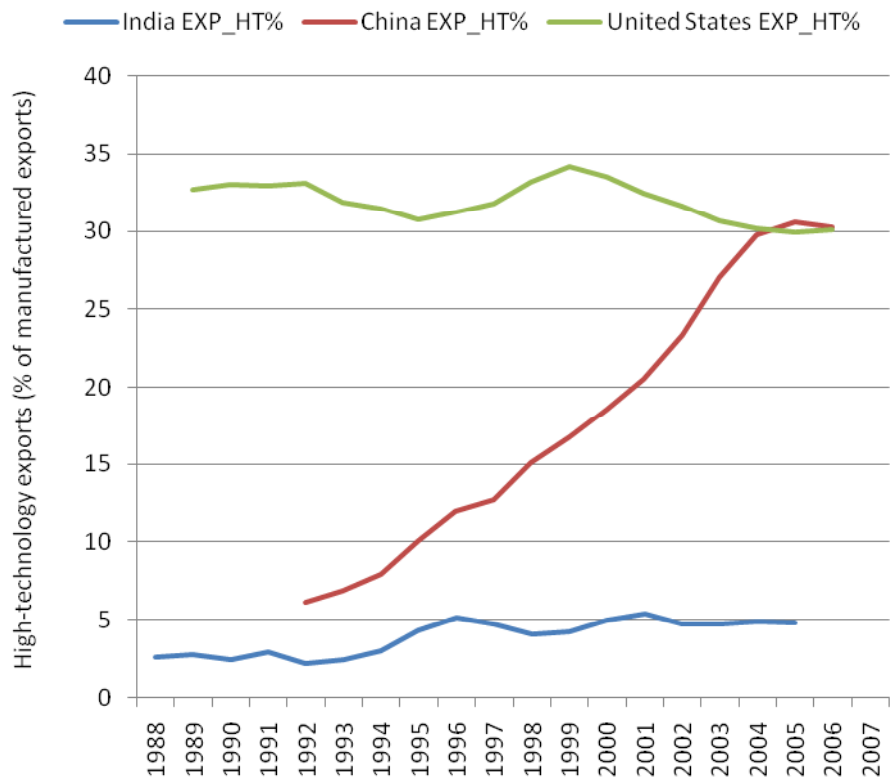




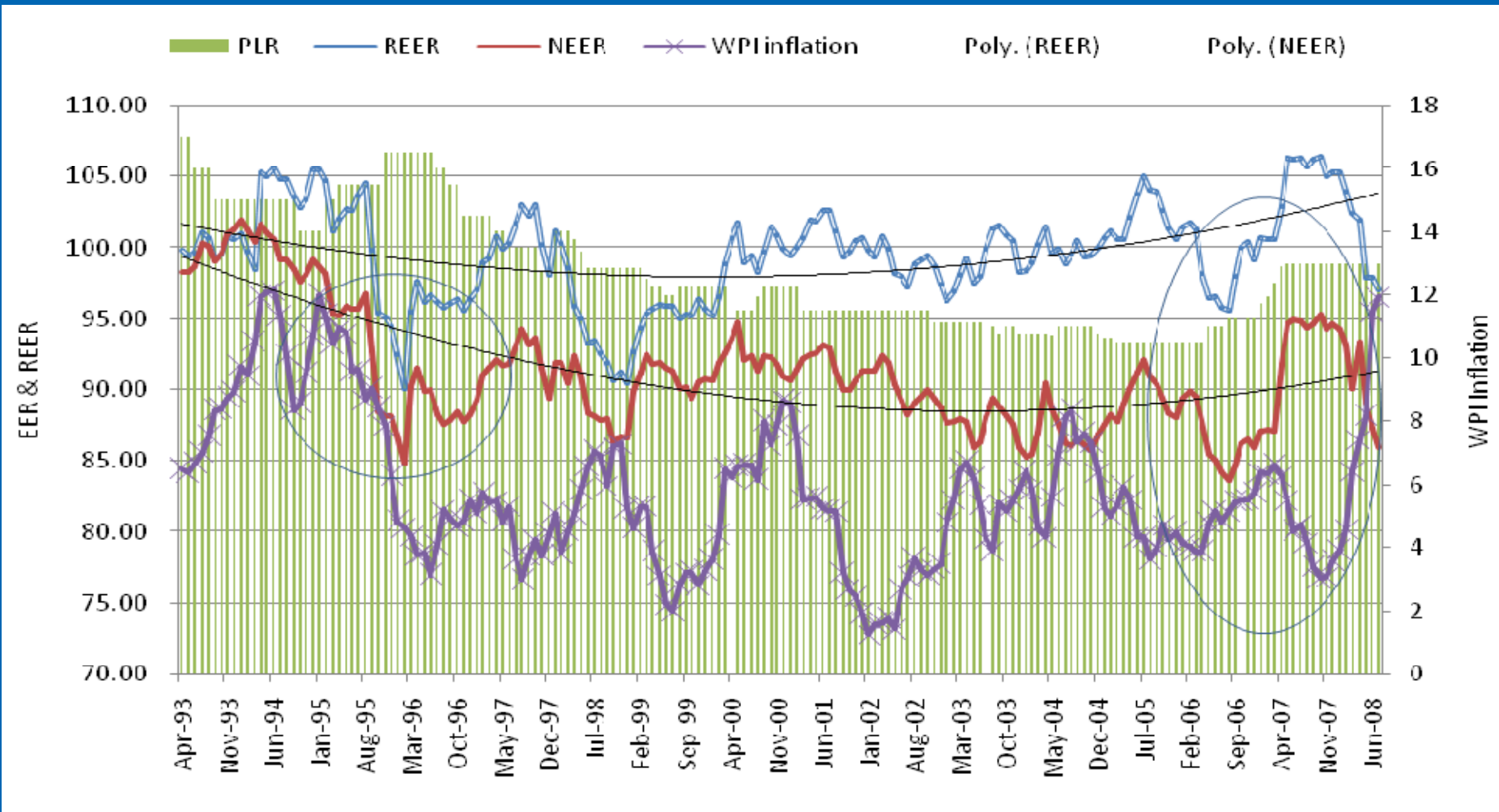
Behind the Border Conditions: Technology development

Specialization of China in manufacturing and construction has taken world by surprise

India is far behind and this fact must be a part of all policy decisions including trade



Macroeconomic conditions: inflation interest rate and exchange rate





Key Problems



Complex tariff structure and ad-hoc system



Poor infrastructure

Politically sensitive reforms on hold: labor law, insurance, police, financial sector

Over-burdened judiciary

Vote-bank politics

High Fiscal deficit and debt to GDP ratio





Agenda



- Identify the important “behind the border” trade constraints and set priorities
- Tax structure impacting trade: Mechanism and methods to avoid exporting of taxes
- Export Incentives: duty draw backs
- Rationalization of exemptions
- Isolate politically sensitive and tariff lines and Rationalizing rest of the tariff structure, the former to be taken up later
- Identify technology and export promoting tariff lines as two different groups and rationalize them accordingly



Thank You

