WORKING PAPER NO. 172

# IMPACT ON INDIA OF TARIFF AND QUANTITATIVE RESTRICTIONS UNDER WTO

*Bishwanath Goldar*

NOVEMBER 2005

**INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS**
Core-6A, 4th Floor, India Habitat Centre, Lodi Road, New Delhi-110 003
Website: www.icrier.org

# IMPACT ON INDIA OF TARIFF AND QUANTITATIVE RESTRICTIONS UNDER WTO

*Bishwanath Goldar*

NOVEMBER 2005

## Table of Contents

**FOREWORD** ........ **I**

**1. INTRODUCTION** ........ **1**

**2. TARIFF REFORM** ........ **4**

**3. LIBERALIZATION OF TEXTILES IMPORTS** ........ **6**

**4. REMOVAL OF QRS IN 2000 AND 2001** ........ **12**

**5. CONCLUDING REMARKS** ........ **16**

**REFERENCES** ........ **18**

## List of Tables

TABLE 1: INDIA'S URUGUAY ROUND BOUND RATES, PREVAILING TARIFF RATES IN THE BASE PERIOD AND APPLIED RATES IN 1995-96, AVERAGES FOR SELECTED SECTIONS ........ 1
TABLE 2: EXTENT OF QR (%) ON TEXTILES IMPORTS, 1988-89 TO 1999-00 ........ 7
TABLE 3: EXPORTS AND IMPORTS OF TEXTILES, 1987-88 TO 2003-04 (MILLION $) ........ 7
TABLE 4: TEXTILE IMPORTS, 2002-03 AND 2003-04 (RS MILLION) ........ 10
TABLE 5: PRODUCTION OF TEXTILES ........ 11
TABLE 6: IMPORTS OF 300 'SENSITIVE ITEMS', 2000 TO 2003 (US $ MILLION) ........ 14
TABLE 7: IMPORTS AND EXPORTS OF SELECT ITEMS FREED FROM QR IN 2000/2001 (RS MILLION) ........ 15

## Foreword

This paper assesses the impact of India's unilateral tariff reductions and lowering of Quantitative restrictions since 1991. It then evaluates the WTO commitments on non-agricultural market access in the light of these reductions. This short paper based on hard quantitative analysis is a valuable addition to the literature on the impact of tariff reductions and NAMA issues in WTO.

We are very grateful to the Sir Ratan Tata Trust for supporting our research on WTO issues.

**Arvind Virmani**
Director & Chief Executive
ICRIER

November 2005

## 1. Introduction

In the Uruguay Round negotiations, India agreed to reduce tariff on a large number of commodities and remove quantitative restrictions (QRs) on all commodities, except for about 600 commodities at ITC-HS (International Trade Classification, Harmonized System) 8-digit or 10-digit level or their sub-groups for security or other reasons (under Article XX and XXI of GATT, 1994).

India committed to make adjustments in the tariff rates for 3373 commodities at 6-digit HS level or sub-groups of 6-digit HS level, constituting about 65 per cent of the total number of tariff lines (Mehta 1999; Mehta and Mohanty, 1999). The "offer rates" or "bound rates of duty" for these 3373 commodities were in general significantly lower than the "base rates"(see **Table 1**). For industrial products, India's commitment was to bring down the average tariff rate from about 71 per cent in the pre-Uruguay Round period to about 32 per cent in the post-Uruguay Round era (Mehta, 2001).

**Table 1: India's Uruguay Round Bound Rates, Prevailing Tariff Rates in the Base Period and Applied Rates in 1995-96, Averages for Selected Sections**

| **Section/Description** | **Import-weighted average MFN rate** | | |
|---|---|---|---|
| | Prevailing in the base period (1.9.86 or 1.1.90) | UR bound rate | Applied rate, 1995-96 |
| IV Prepared foodstuff; beverages, spirits and vinegar | 103.3 | 146.1 | 62.6 |
| VI. Products of chemical and allied industries | 105.4 | 34.6 | 51.4 |
| VII Plastics and articles thereof; rubber and articles thereof | 131.1 | 39.7 | 75.8 |
| XI Textiles and textile articles | 94.1 | 64.3 | 57.8 |
| XIII Articles of stone, plaster, cement, asbestos, mica | 115.1 | 37.9 | 58.9 |
| XV Base metals and articles of base metal | 114.2 | 38.5 | 56.7 |
| XVI Machinery and mechanical appliances; electrical equipment | 89.2 | 32.4 | 54.6 |

Source: Mehta (1999).

As regards removal of QRs, India had removed most but not all QRs on manufactured intermediate goods and machinery in 1991. But, nearly all consumer goods remained subject to import licensing, in practice an import ban, and the import of nearly all agricultural products was subject to import licensing or controlled by parastatal import monopolies (canalizing agencies) (Pursell and Sattar, 2003). In May 1995, about two-thirds of tradable GDP (gross domestic product) was still protected by some kind of non-tariff import restrictions: 84 per cent of agriculture, 36 per cent of manufacturing and 40 per cent of mining and querying (Pursell, 1996). Within manufacturing, the relevant proportions were 10 per cent for machinery, 12 per cent for intermediate goods, and 79 per cent for consumer goods (Pursell, 1996). During the years 1995 to 2001, these restrictions on imports were gradually removed in a large measure in response to international pressures (Pursell and Sattar, 2003). The first of these pressures came from Uruguay Round negotiations on textiles and clothing, the second from a dispute brought against India at the WTO in the matter of imposing QRs on imports under the balance-of-payments clause of the GATT (Article XVIII (B)).

While the 1991 reforms removed QRs on most manufactured intermediate and capital goods, there was little change in the import policy for textiles and clothing, and the imports of these products remained practically banned. The situation began to change substantially in December 1994 when in separate treaties with the EU and the USA, India agreed to a comprehensive liberalization of import policies for textiles. This liberalization in imports of textiles was agreed to in part as quid pro quo for the ATC (Agreement on Textiles and Clothing) to phase out the MFA quotas, and in part in exchange for increased MFA quotas in the US and EU markets (Pursell and Sattar, 2003). The reform process began in early 1995 with the removal of QRs on imports of wool tops, synthetic fibers, textile yarn and some selected industrial fabrics. Simultaneously, selected textile fabrics (mostly woolen and synthetic fabrics), selected textile products ("made-ups") and a fairly long list of apparel items (about 125 of the 233 six-digit HS tariff lines in the apparel chapter) were made eligible to be imported against SIL (Special Import License) given to exporters. It was also agreed that these products would be free from import licensing altogether at specified future dates (1998, 2000 or 2002), and tariff rates would be reduced to levels of between 20 and 40 percent by 2000. Though most cotton fabrics and about half of the apparel tariff lines were omitted from the treaties, the EU/US agreements constituted, for India, a major commitment towards liberalization of textiles imports.

Turning now to the other international pressure mentioned above, since 1955, India had used the GATT balance of payments provision (Article VIII(B)) to justify her routine use of QRs. Soon after the Uruguay Round agreements became effective, India's unconstrained use of the balance of payments provision was challenged by the US, EU and other developed countries (Pursell and Sattar, 2003). It became difficult for India to justify QRs on grounds of balance of payments since there was a strong current account, substantial capital inflow and large foreign exchange reserves. In 1999-00, 2134 items (at 8-digit or 10-digit HS classification or sub-groups) were subject to QRs, of which 1589 items (1429 at 6-digit HS level) had QR on imports, being maintained under the balance of payments provision (Mehta and Mohanty, 1999). India reached mutual agreement with Australia, Canada, EU, New Zealand, Switzerland and Japan for elimination of QRs on these products in a phased manner by March 31, 2003. The US, however, did not agree to this plan, and persisted in the Dispute Settlement Body. The US won the case, and India had to eliminate QRs on all commodities (except the 600 odd items mentioned above).[1] QRs on imports were removed for 715 items at 6-digit HS level (or 772 items at 8 or 10 digit level) in *Export-Import Policy of 2000/01*, and for another 714 items on April 1, 2001.

[1] There is a perception in some quarters that India had to shed the balance of payments cover because of an obligation taken during the Uruguay Round. This is not correct. The cover was a derogation from the obligation under GATT 1947 itself and since the objective conditions for the grant of the derogation had disappeared, it would have necessary for India to give up the cover whether or not the new organization had come into existence. It is, of course, true that an Understanding on BOP was negotiated in the Uruguay Round, but that did not in any way materially change the core disciplines of Article XVIII of the GATT and would have made no difference in the outcome of the consideration of India's case for continued justification of the cover. Nonetheless, it seems reasonable to argue that if India's use of the BOP cover was not challenged, India might have continued with the QRs on the 1429 item for a longer period. Hence, the removal of QR on these items in 2000 and 2001 may be regarded an outcome of India's commitments under WTO.

The object of this paper is to examine how Indian industry has been impacted by India's commitments on tariff and quantitative restrictions under WTO. Assessment of the impact is made on the basis of the increases in imports of industrial products that took place as a result of import liberalization that India had to do because of her commitments under WTO. The increases in exports of the products freed from trade restrictions are also studied because import liberalization is expected to lead to increases in exports (removal of anti-export bias, pro-competitive effects, etc), and therefore the net exports need not fall and domestic production may not decline in spite of increased import penetration.

The rest of the paper is organized as follows. Section 2 discusses India's tariff reforms in the 1990s and later, and its impact on domestic industry. Sections 3 and 4 respectively deal with the impact of India's commitments for liberalizing imports of textiles, and the impact of removal of QRs on 1429 items at 6-digit HS (mostly consumer goods) in 2000 and 2001. The main findings are summarizes and some concluding remarks are made in Section 5.

## 2. Tariff Reform

India's customs tariff rates have been declining since 1991. The "peak" rate came down from 150% in 1991-92 to 40% in 1997-98. The downward momentum was reversed the next year with the imposition of a surcharge. This momentum resumed with the reduction of the "peak" rate to 35% in 2001-02 and 30% in 2002-03. "Peak" rate (applicable to all manufactured and mineral products except alcoholic beverages and automobiles) was reduced to 20% at the end of 2003-04.

The simple average tariff rate has accordingly declined from 81.8% in 1990 to 32.4% in 1999 and to 29% in 2002 (Virmani, et al. 2003). For industrial products, the import weighted average tariff has declined from about 91% in 1987-88 to 30% in 1997-98 (Nauroz, 2001). According to the estimates of Mehta (2003), the import weighted average tariff for Indian industries declined from 84% in 1993-94 to 30% in 1999-00 and further to 27% in 2001-02. Thus, both studies report a substantial fall in the average tariff for industrial goods in the post-reforms period.

A comparison of applied tariff rates for industrial products with the bound rates of duty for 2001-02 done by Mehta (2003) brings out that the applied rates in that year were significantly lower than the bound rates for a large number of items. Out of 3298 lines for which India has bound the rates of duty (mostly at 40% or 25%), 1040 lines had applied rate equal to the bound rate (for five lines, applied rate exceeded bound rate). In other cases, the applied rate was lower than the bound rate. For 588 items or lines, i.e. about 18% of bound lines, the applied rate was less than the bound rate by 15 percentage points or more. Between 2001-02 and 2004-05, the peak rate of duty has been brought down from 35% to 20%. Thus, at present, only a small proportion of items (if any) have applied rate equal to the bound rate. It seems therefore that for a majority of industrial products the current applied rate is significantly lower than the bound rate.

It is evident from the above that India has drastically reduced the level of tariff, particularly industrial tariff, in the period since 1991. This reduction should not, however, be attributed to India's commitment under WTO because the tariff rates have in most cases been brought down to a level well below the rates committed. It seems reasonable to argue that the tariff reform undertaken by India in the last 14 years was mostly done at India's own initiative (induced by the benefits expected from such reforms) and had little to do with India's commitment under WTO.

In a number of empirical studies, the impact of India's trade reforms, particularly tariff reforms, on domestic industry has been examined. To highlight the findings of some of the studies, Das (2003) finds that, on an average, the import penetration ratio in Indian industries did not increase in the period 1991-95 as compared to the period 1986-90, and there was only a marginal increase in the import penetration ratio in the period 1996-2000 despite marked reduction in the tariff and non-tariff barriers. Goldar and Kumari (2003) and Topalova (2003) find a significant favourable effect of tariff reforms on industrial productivity. Virmani et al. (2003, 2004) find that tariff reductions had a significant favourable effect on exports in a number of industrial sub-sectors, which is attributed to pro-competitive effects of tariff reform. It appears therefore that tariff reforms did not lead to a general surge in imports of industrial goods adversely affecting domestic industry.[2] On the other hand, there is some evidence to indicate that tariff reform contributed to higher industrial productivity and better export performance. But, these effects noted in the studies cited above cannot be ascribed to India's tariff commitments under WTO, since the tariff reform took place largely independent of the WTO commitments.

## 3. Liberalization of Textiles Imports

As discussed above, India agreed to remove quantitative restrictions on imports of textiles (also reduce tariff) as quid pro quo for the ATC, and in exchange for increased MFA quotas in the US and EU markets. This process began from 1995, and continued in subsequent years. In 2000 and 2001, QRs were removed on 1429 items (discussed further in Section 4) and these included a large number of textile items. Thus, by 2001, QRs on textile imports were completely (or almost completely) removed.

The estimates of QRs on textiles made in an NCAER study reveal that the extent of QR on imports of textiles in 1995-96 was substantially lower than that in1988-89 (see **Table 2**), and it declined further in subsequent years. The import coverage ratio for cotton textiles was 100% in 1988-89. It fell to 45% in 1995-96, and 39% in 1999-00. For readymade garments, the relevant proportion was 100% in 1988-89, 94% in 1995-96, and 62% in 1999-00.[3]

[2] Nambiar et al. (1999), however, hold a different view. According to them, since liberalisation, trade has shrunk India's manufacturing base in terms of value addition and employment. The intermediate and capital goods industries have suffered more than consumer goods. Manufacturing has shifted from high-skilled, capital intensive production to low-skilled labour intensive production.

[3] If adjustment is done for SIL, the extent of QRs on readymade garments was 70% in 1995-96 and 51% in 1999-00.

**Table 2: Extent of QR (%) on Textiles Imports, 1988-89 to 1999-00**

| Sectors | 1988-89 | 1995-96 | 1997-98 | 1998-99 | 1999-00 |
|---|---|---|---|---|---|
| Khadi, cotton textiles | 100.00 | 45.11 | 44.69 | 44.69 | 39.29 |
| Woolen textiles | 100.00 | 27.27 | 27.27 | 27.27 | 27.27 |
| Silk textiles | 100.00 | 73.33 | 73.33 | 73.33 | 73.33 |
| Art silk, synthetic fibre textiles | 100.00 | 41.93 | 41.75 | 41.75 | 37.69 |
| Jute, hemp, mesta textiles | 100.00 | 60.71 | 60.71 | 60.71 | 57.14 |
| Carpet weaving | 100.00 | 100.00 | 100.00 | 97.22 | 83.33 |
| Readymade garments | 100.00 | 93.90 | 90.99 | 85.95 | 61.59 |
| Miscellaneous textiles products | 100.00 | 65.37 | 64.29 | 57.18 | 43.18 |

Source: NCAER (2000).

How have these changes in trade policy impacted the domestic textiles industry? To find an answer to this question, it may be useful to examine the trends in imports and exports of textiles in second half of the 1990s and later, and also take a look at trends in domestic production.

Data on exports and imports of textiles in the period 1987-88 to 2003-04 are given in **Table 3**. A graphic presentation of the data is made in Figures 1 and 2. The actual values of imports and exports are compared with the trend value based on an exponential trend equation fitted to the data for the period 1987-88 to 1995-96.

**Table 3: Exports and Imports of Textiles, 1987-88 to 2003-04 (million $)**

| Year | Exports | Imports | Year | Exports | Imports |
|---|---|---|---|---|---|
| 1987-88 | 2696 | 144 | 1996-97 | 8026 | 359 |
| 1988-89 | 2689 | 186 | 1997-98 | 8487 | 409 |
| 1989-90 | 3373 | 203 | 1998-99 | 8303 | 457 |
| 1990-91 | 3969 | 247 | 1999-00 | 9126 | 538 |
| 1991-92 | 4192 | 137 | 2000-01 | 10657 | 597 |
| 1992-93 | 4448 | 149 | 2001-02 | 9665 | 748 |
| 1993-94 | 4891 | 229 | 2002-03 | 11036 | 970 |
| 1994-95 | 6533 | 330 | 2003-04 | 11909 | 1250 |
| 1995-96 | 7448 | 359 | | | |

Source: Reserve Bank of India, *Handbook of Statistics of the Indian Economy, 2003-04*


Fig. 1: Imports of textile yarn, fabrics, made up etc
1400
1200
1000
800
600
400
200
0
1988-89
1990-91
1992-93
1994-95
1996-97
1998-99
2000-01
2002-03
year
Value of imports (US$ mn)
trend

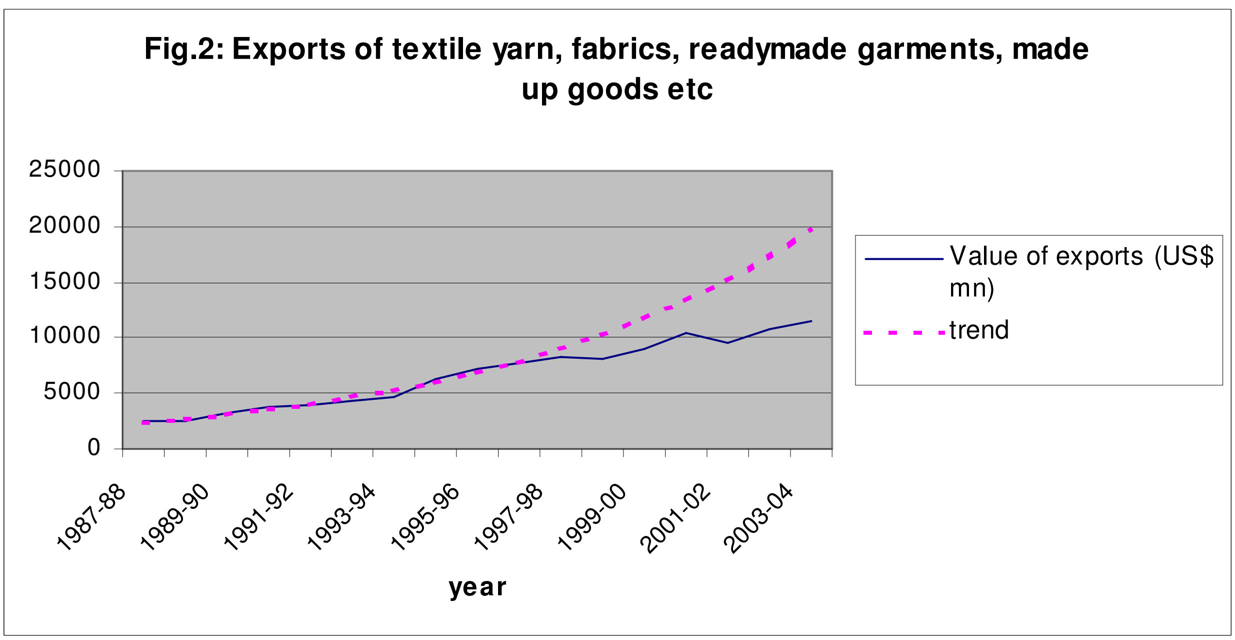
Fig.2: Exports of textile yarn, fabrics, readymade garments, made up goods etc
25000
20000
15000
10000
5000
0
1987-88
1989-90
1991-92
1993-94
1995-96
1997-98
1999-00
2001-02
2003-04
year
Value of exports (US$ mn)
trend

Analysis of import data reveals that textile imports in the second half of the 1990s did not deviate much from the trend, but in more recent years there has been a sharp increase in textile imports.[4] This sharp increase in imports of textiles in the years 2000-01 to 2003-04 seems to be attributable in the main to India's commitments under WTO. India's exports of textiles on the other hand have lagged behind trend (see Figure 2). The explanation may lie partly in a slow growth in the global textile exports. While global textile exports grew at the rate of about 14 per cent per annum during 1985 to 1995, the growth rate in the period 1995 to 2001 was only about 2 per cent per annum (based on data on World Exports given in *Economic Survey*, 2003-04).

In absolute value, the recent increase in aggregate imports of textiles is small in relation to that in exports and the total value of textiles production,[5] and therefore the effect of these increases in imports on domestic industry must have been modest. At the same time it needs to be recognized that in some products, the increase in imports may have been quite large in relation to the increase in exports and the size of domestic industry, and this might have adversely affected capacity utilization of domestic firms producing those products, compelling them to restructure.

Disaggregate data on textile imports (**Table 4**) reveal that in recent years there has been a substantial increase in imports of cotton yarn and fabrics, silk yarn and fabrics, manmade filament/spun yarn (including waste), textile yarn and fabrics of material other than cotton, silk, wool, and manmade filament, and madeup textile articles. By comparison, there has been much smaller increase in imports of readymade garments.

[4] This contradicts the conclusion drawn by Verma (2001) on the basis of analysis of trade data for the 1990s. Verma concluded that the growth rate of imports of textiles into India has been more rapid before the WTO came into existence than after India's commitment to reduce tariff came into effect.

[5] The increase in imports of textiles between 1999-00 and 2003-04 was about US$ 700 million, while the increase in textile exports was about US$ 2800 million. Total domestic production of textiles in 1999-00 was about US$ 26,000. Contrast this to increase in imports and exports in the period 1994-95 to 1999-00. The increase in imports was about US$ 200 million and that in exports about US$2600 million.

**Table 4: Textile imports, 2002-03 and 2003-04 (Rs million)**

| Item | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|
| Woolen Yarn & Fabrics | 102.88 | 139.97 | 178.01 | 1009.64 | 1679.29 |
| Cotton Yarn & Fabrics | 1074.77 | 1395.68 | 2322.56 | 4248.97 | 6520.14 |
| Man made filament/ spun yarn (inc. waste) | 9669.06 | 9843.74 | 13897.67 | 19224.16 | 19051.37 |
| Madeup Textiles Articles | 1144.52 | 1910.46 | 1719.48 | 1912.62 | 3732.18 |
| Other Textile Yarn, Fabrics & Madeup Articles | 10022.03 | 12084.64 | 14074.59 | 16475.4 | 19493.78 |
| Readymade Garments (Wovn & Knit) | 699.38 | 978.3 | 1725.28 | 1159.33 | 1726.5 |
| Raw Jute | 1393.09 | 795.01 | 956.78 | 1347.71 | 496.19 |
| Raw Silk | 4127.44 | 4732.61 | 6247.3 | 6471.53 | 6262.89 |
| Raw Wool | 4919.27 | 4578.13 | 6235.55 | 8018.27 | 8706.1 |
| Synthetic & Regenerated Fibres | 1842.99 | 2711.92 | 2721.49 | 3641.52 | 2685.11 |
| Silk yarn & fabrics | 619.75 | 910.21 | 1729.94 | 2930.39 | 5211.11 |
| Woollen and Cotton Rags etc. | 1016.78 | 1440.93 | 1070.9 | 838.96 | 1342.88 |
| Cotton Raw & Waste | 12539.28 | 11847.27 | 20536.15 | 12376.09 | 15700.14 |
| Total Textiles imports | 49171.23 | 53368.86 | 73415.7 | 79654.59 | 92607.68 |
| Overall Imports | 2155285 | 2283066 | 2451997 | 2972059 | 3539756 |
| % Textile Imports | 2.28 | 2.34 | 2.99 | 2.68 | 2.62 |

Source: Ministry of Textiles, Government of India

It would be noticed from **Table 5** that in the 1990s there was a significant increase in textiles production in India, but in later years the production has stagnated (or even fallen for certain product categories). Between 1990-91 and 1999-00, cotton cloth production grew at the rate of 2.3 per cent per annum; but, between 1999-00 and 2003-04, it has fallen at the rate of 1.2 per cent per annum.

The stagnation in the production of textiles industry in recent years (since 2000) does not seem to be due to increased imports of textiles. It probably has more to do with the problems of the industry (for a discussion on the problems, see D'Souza, undated), and the slowdown in growth of exports.

**Table 5: Production of Textiles**

| | Production of cotton yarn | Production of cotton cloth | Production of manmade fibre fabrics | Production of cloth |
|---|---|---|---|---|
| | (mn KG) | mn sq. meters | mn sq. meters | mn sq. mt |
| 1990-91 | 1510 | 15431 | 4874 | |
| 1991-92 | | | | |
| 1992-93 | 1569 | 16343 | 5099 | |
| 1993-94 | 1697 | 17790 | 5928 | |
| 1994-95 | 1696 | 17019 | 6400 | |
| 1995-96 | 1894 | 18900 | 7316 | 31460 |
| 1996-97 | 2148 | 19841 | 8253 | 34298 |
| 1997-98 | 2213 | 19992 | 9376 | 36896 |
| 1998-99 | 2022 | 17948 | 10897 | 35543 |
| 1999-00 | 2204 | 18989 | 11528 | 38626 |
| 2000-01 | 2267 | 19718 | 13370 | 40333 |
| 2001-02 | 2212 | 19769 | 13950 | 41390 |
| 2002-03 | 2177 | 19296 | | 41462 |
| 2003-04 | 2121 | 18062 | | 42109 |

Source: Textile commissioner, Ministry of Textiles, Government of India

It may be mentioned in this context that Indian exports of textiles have been facing a number of problems. These concerns find reflection in the 'Report of the Indian Government' in the WTO's Trade Policy Review for India, 2002. It has been pointed out that quantitative restrictions, especially in the textiles area, are one of the most important of the non-tariff barriers affecting India's trade. The major trading partners of India have not made any industrial adjustment nor have accorded any meaningful access to developing countries like India. The integration program implemented by the importing countries has not been in line with the spirit of the ATC. The major importing countries have continued to back load the integration process, and the bulk of integration would take place only at the conclusion of the transition period.

Some other problems faced by textiles exports are: (1) unilateral changes introduced by certain trading partners in their rules of origin, which have adversely affected exports of textiles, (2) repeated anti-dumping investigations on the textile products like cotton fabrics and cotton bed-linen, in which India enjoys a measure of comparative advantage, (3) adverse effect on export of textile because of ban on use of

Azo dyes, and (4) growing regionalization of textile trade on account of formation of Free Trade Areas and Preferential Trading Arrangements, and such localization of world textile trade adversely affecting India's textile trade.

## 4. Removal of QRs in 2000 and 2001

The impact of the QR removal for 1429 items in 2000 and 2001 is taken up for discussion next. In the list of these items published by the Ministry of Commerce at 8-digit or 10-digit HS, there are 1522 items. Out of these items, about 27% belong to textiles.

Total value of imports of the 1522 items in 1999-00 was about Rs 600 billion, constituting about 30% of the total value of imports of all commodities in that year. Due to a change in trade classification, some problem of incomparability arise in respect of import data for some of the items, making it is difficult to assess accurately the growth in imports in these items after the QRs were removed. However, taking into consideration the items for which data on imports could be obtained for 2003-04 and 1999-00, it is found that aggregate imports of those items grew by about 70%. The growth in total imports of all commodities in this period was by about 64 %. Thus, imports of the items freed from QR in 2000/2001 did not grow at a rate much faster than the growth rate of aggregate imports.

For a large number of items out of the 1522, the imports were nil or negligible in 1999-00 and there has been little increase in imports between 1999-00 and 2003-04 in spite of removal of QR. From a comparison of import data for the years 1999-00 and 2003-04, about 100 items could be identified, the value of imports of which increased by more than Rs 50 million between the two years. This is discussed further later in the paper.

Following the removal of QRs on imports in 2000/2001, the Indian government has been monitoring imports of 300 sensitive items. **Table 6** presents data on imports of these items for four years. In all the cases, the value of imports during April to December is considered.

It would be noticed from **Table 6** that in 2001 the increase in overall imports of the 300 items was 2.1% only. But, in 2002, the rate of increase was 22% and in 2003, it accelerated to 37%. Bulk of the increase was in edible oils, and fruits and vegetables. Leaving out edible oils, and fruits and vegetables from the 300 items, the imports of other items increased by about 250 million US dollar between 2000 and 2003 (April-December). This is only about one per cent of the increase in value of imports at the aggregate level.

Between 2000 and 2003, the increase in imports of automobiles and products of concern to small-scale industries (umbrella, locks, toys, writing instruments, glassware etc) was only by about 76 million US dollars. For cotton and silk, the import figures fluctuate from year to year. Between 2000 and 2003 there was an increase in imports by about 114 million US dollars. The six items of cotton and silk chosen for monitoring includes raw silk and silk yarn. But, this group does not show the sharp increase that has taken place in the imports of textiles in recent years. Analysis of import data for 1522 items mentioned above brings out that the imports of textile items belonging to the list increased from about Rs 600 million in 1999-00 to about Rs 7000 million in 2003-04. In terms of US dollar, the increase was by about 140 million US dollars. This is consistent with the estimates presented in **Table 3** and **Table 4** above.

**Table 6: Imports of 300 'Sensitive Items', 2000 to 2003 (US $ million)**

| | No. of items | Apr-Dec 2000 | Apr-Dec 2001 | Apr-Dec 2002 | Apr-Dec 2003 |
|---|---|---|---|---|---|
| | | | | | |
| Milk and milk products | 22 | 8.9 | 1.9 | 7.4 | 9.2 |
| Fruits and vegetables | 48 | 287.6 | 154.6 | 280.6 | 324.9 |
| Poultry | 13 | negligible | 0.1 | 0.0 | 0.0 |
| Tea and coffee | 32 | 6.1 | 5.9 | 17.8 | 10.2 |
| Spices | 35 | 28.3 | 45.3 | 63.7 | 44.9 |
| Food grains | 12 | 6.3 | 0.7 | 0.2 | 0.2 |
| Edible oils | 27 | 1021.5 | 1051.1 | 1345.7 | 1946.5 |
| Alcoholic beverages | 8 | 4.8 | 4.2 | 3.7 | 9.1 |
| Rubber | 11 | 6 | 21.1 | 10.1 | 33.9 |
| Cotton and silk | 6 | 319.3 | 446.1 | 323.9 | 433.4 |
| Marble and Granite | 14 | 1.6 | 4.1 | 8.9 | 12.8 |
| Automobiles | 32 | 12.3 | 10.5 | 53.7 | 59.8 |
| Products of concern to small-scale industries (Umbrella, locks, toys, writing instruments, glassware, etc) | 20 | 19 | 16.8 | 32.3 | 46.5 |
| Others (wheat floor, sugar, cigarette and salt) | 20 | 6 | 2.3 | 3.8 | 12.4 |
| | | | | | |
| Total | 300 | 1727.8 | 1764.8 | 2151.9 | 2943.6 |

It has been mentioned above that out of the 1522 (8-digit or 10-digit HS) items freed from QRs in 2000/2001, in about 100 items, the increase in imports was more than Rs 50 million. For 23 such items, some details of imports and exports are presented in **Table 7**. It would be seen from the table that in some cases, the increase in imports is compensated by greater increase in exports. But, in many cases, the increase in imports is larger than the increase in exports, for example, silk fabrics. In those cases, an adverse effect of import liberalization on the capacity utilization of domestic industry cannot be ruled out. If production data were available for the products listed in **Table 7**, this could have been verified.

**Table 7: Imports and Exports of Select Items freed from QR in 2000/2001 (Rs million)**

| HS | Description | Value of Imports | | | Increase in imports between 1999 and 2003 | exports 1999-00 | Increase in exports between 1999 and 2003 |
|---|---|---|---|---|---|---|---|
| | | 1997-98 | 1999-00 | 2003-04 | | | |
| 230650 01 | Oil cake and oil cake meal expeller variety of coconut or copra. | 0.0 | 1.1 | 397.3 | 396.3 | 0.1 | 2.0 |
| 291739 01 | Dibutyl phthalate | 0.0 | 10.1 | 290.0 | 279.9 | 9.5 | -9.5 |
| 291739 02 | Di-octyl phthalate | 33.1 | 53.7 | 404.0 | 350.3 | 0.7 | -0.7 |
| 400121 00 | Natural rubber in smoked sheets | 194.8 | 162.6 | 702.2 | 539.6 | 2.7 | 1711.0 |
| 500710 00 | Fabrics of noil silk. | 0.0 | 0.0 | 597.4 | 597.4 | 521.4 | 28.4 |
| 500790 00.90 | Other woven fabric of silk (excluding sarees) | 0.0 | 0.0 | 1706.0 | 1706.0 | 1953.0 | 517.7 |
| 600122 00 | Looped pile fabrics of manmade fibres. | 9.5 | 11.9 | 247.7 | 235.8 | 1.0 | 51.2 |
| 600210 00 | Other knitted/croachted fabrics of a width not exceeding 30 cm, containing by weight 5% or more of elastomeric yarn or rubber thread. | 0.9 | 14.4 | 338.1 | 323.7 | 12.1 | 628.9 |
| 630900 00 | Worn clothing and other worn articles. | 0 | 0 | 2786.2 | 2786.2 | 13.0 | 212.0 |
| 680221 01 | Marble blocks /slab/ tiles, polished | 1.9 | 8.5 | 421.1 | 412.6 | 1142.1 | 4.7 |
| 690810 01 | Ceramic mosaic cubes | 0 | 0.3 | 111.7 | 111.4 | 12.8 | 102.2 |
| 690810 02 | Ceramic mosaic tiles | 0.09 | 0.42 | 76.25 | 75.8 | 223.0 | 134.9 |
| 690890 01 | Ceramic mosaic cubes | 0 | 1.4 | 107.1 | 105.7 | 6.1 | 26.3 |
| 690890 02 | Ceramic mosaic tiles | 0.02 | 3.2 | 60.1 | 56.8 | 8.7 | 278.1 |
| 820790 01 | Metal working hand tools. | 10.5 | 315.7 | 496.9 | 181.2 | 6.9 | 19.3 |
| 851310 04.10 | Other electric portable lamps. | 7.0 | 32.1 | 91.0 | 59.0 | 4.8 | 48.2 |
| 851650 00 | Micro wave ovens | 29.6 | 181.7 | 346.0 | 164.2 | 3.3 | 47.7 |
| 851672 00 | Toasters | 0.4 | 19.8 | 71.2 | 51.4 | 16.1 | -14.4 |
| 851711 01 | Line telephone set with cordless handsets, Push button type | 2.0 | 32.2 | 405.6 | 373.4 | 57.6 | 370.4 |
| 851840 00 | Audio frequency electric amplifiers. | 59.6 | 87.9 | 237.4 | 149.6 | 212.9 | 354.2 |
| 852712 00 | Pocket size radio cassette players | 0.8 | 2.5 | 125.5 | 123.0 | 0.0 | 2.9 |
| 852721 00 | Radio broadcasting receivers combined with sound recording or reproducing apparatus. | 1.8 | 6.6 | 175.6 | 169.0 | 0.2 | 7.9 |
| 900410 00 | Sunglasses | 21.4 | 35.5 | 124.0 | 88.5 | 42.4 | -38.6 |

## 5. Concluding Remarks

In this paper, an attempt has been made to assess how Indian industry has been impacted by India's commitments on tariff and quantitative restriction under WTO. It has been argued that while a large reduction has been made in the level of tariff between 1991and 2004, this cannot be considered an outcome of India's commitments under WTO since the tariff reforms has been largely independent of India's commitments. The tariff reform did have a significant effect on Indian industry (as some studies have shown), but these effects cannot be attributed to India's commitments.

Two major components of trade liberalization that may be traced to India's commitments are (a) removal of quantitative restrictions on textile imports, and (b) removal or quantitative restrictions on 1429 items (at 6-digit HS) in 2000/2001 after India had to give up the BOP cover. The liberalization of textile imports seems to have led to a sharp increase in imports of textiles in the period 2000 to 2003. But, the increase in imports of textiles is small in relation to the increase in exports in this period, so that the overall effect of import increase on domestic industry must have been modest. As regards the removal of QR on 1429 items (6-digit HS) in 2000/2001, the imports increased substantially in a small number of them, uncompensated by export increase, and this may have adversely affected capacity utilization in such industries. But, overall, there has been only a limited increase in the imports of the 1429 items (mostly consumer goods) recently freed from QR.[6]

Three reasons can be given for the absence of any large-scale across-the-board increase in imports of items recently freed from QR. First, a number of them (nearly half) were already importable by the SIL route (Mehta 2000), and the removal of QR is unlikely to have led to any large increase in imports. Second, a number of agricultural

[6] There was an expectation that the removal of QRs would lead to a large increase in imports. Mehta (2000a), for instance, estimated that the removal of QRs would lead to an increase in India's imports by 8.7 per cent. The actual experience has, however, been different.

items in the list have been canalized.[7] Third, a number of ‘trade defensive measures’ were put in place to provide ‘adequate protection and a level playing field to domestic players vis-à-vis import’ as a result of phasing out of QR (*Economic Survey*, 2002). For instance, in November 2000, a list of 133 products and product groups for which standards had previously been voluntary or which had been compulsory but not enforced against imports, were made compulsory (Pursell and Sattar, 2003).

The defensive measures had the intended effect of containing imports of the products freed from QR. But, in that process, the gains expected from a liberalized trade regime in terms of higher efficiency and structural adjustment to market driven pattern of comparative advantage were not realized (Wacziarg, 2003).

[7] As many as 27 items out of the 715 freed from QR in 2000 were put on the special list. These could be imported only by designated state trading enterprises.

## References


Das, D.K. (2003), "Quantifying Trade Barriers: Has Protection Declined Substantially in Indian Manufacturing?" *Working Paper No. 105,* Indian Council for Research on International Economic Relations, New Delhi.

D'Souza, Errol (undated), The WTO and the Politics of India's Textile Sector: From Inefficient Redistribution to Industrial Upgradation.

Goldar, Bishwanath and Anita Kumari (2003), "Import Liberalization and Productivity Growth in Indian Manufacturing Industries in the 1990s", *Developing Economies*, December, 41(4): 436-60.

Mehta, Rajesh (1999), *Tariff and Non-Tariff Barriers to Indian Economy: A Profile*, Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi.

Mehta, Rajesh and S.K. Mohanty (1999), *WTO and Industrial Tariff: An Empirical Analysis for India*, Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi.

Mehta, Rajesh (2000a), "Removal of QRs and its Impact on India's Imports", *Economic and Political Weekly*, May.

Mehta, Rajesh (2000b), *QR removal and India's Import: The Case of India's Unilateral Offer for SAARC Countries*, Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi.

Mehta, Rajesh (2001), *WTO, Liberalisation and Industrial Sector: The case of market access*, Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi.

Mehta, Rajesh (2003), *India's Industrial Tariffs: Towards WTO Development Round Negotiations*, Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi.

Nouroz, H. (2001), *Protection in Indian Manufacturing: An Empirical Study,* MacMillan India Ltd, New Delhi.

Nambiar, R.G., Mumgekar, B.L., Tadas, G.A., 1999, "Is Import Liberalization Hurting Domestic Industry and Employment?", *Economic and Political Weekly*, February 13, 34, 417-424.

NCAER (2000), *Protection in Indian Industry*, National Council of Applied Economic Research, New Delhi.

Pursell, Garry (1996), *Indian Trade Policies since the 1991/92 Reforms*, World Bank, mimeo.

Pursell, Garry and Zaidi Sattar (2003), *Trade Policies in South Asian Countries*, Report, World Bank.

Topalova, Petia (2003), “Trade Liberalization and Firm Productivity: the Case of India”, Yale university, available on line at: www.econ.yale.edu/seminars/NEUDC03/topalova1.pdf.

Verma, Samar (2001), WTO Agreement on Textiles and Clothing: Impact on India’s Textiles and Clothing Industry”, in G.K. Chadha (ed), *WTO and the Indian Economy*.

Virmani, A., B. Goldar, and C. Veeramani (2003), Impact of Tariff Policy Changes on the Indian Industry, Report prepared for the Ministry of Industry, Government of India.

Virmani, A., B. Goldar, C. Veeramani and V. Bhatt (2004), “Impact of Tariff Reforms on Indian industry: Assessment based on a Multi-sector Econometric Model”, *Working Paper* (forthcoming), Indian Council for Research on International Economic Relations, New Delhi.

Wacziarg, Ramain (2003), “India in the World Trading System”, Revised version of the paper presented at CREDPR Third Annual Conference on Indian Policy Reform, Stanford University, June 2-4, 2002.