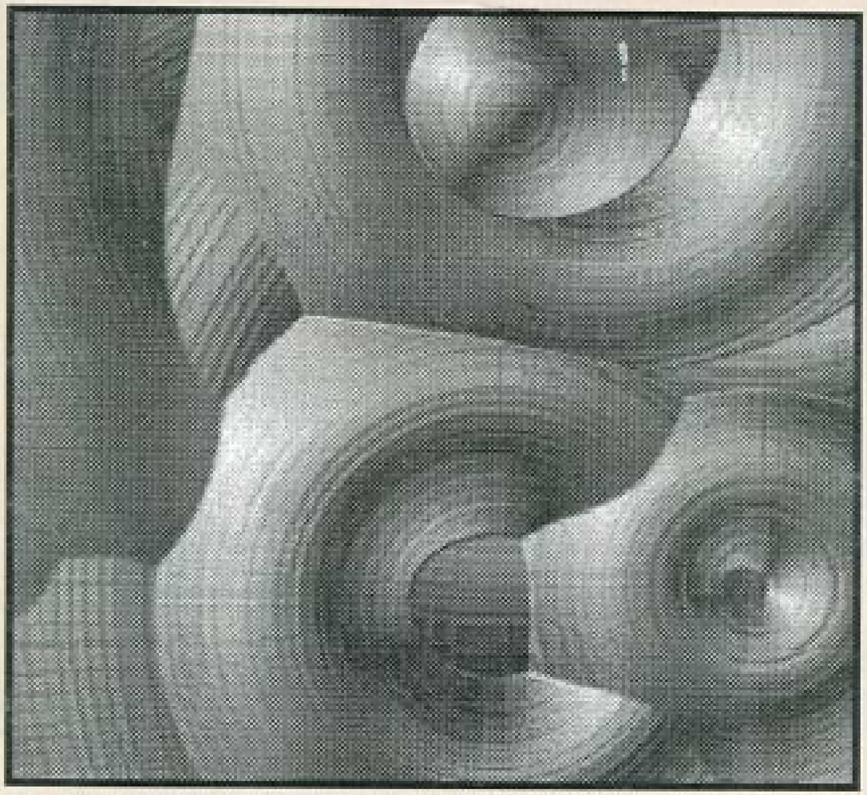
IS TRADE LIBERALISATION SUSTAINABLE OVER TIME?

ANSWERS TO OFTEN-ASKED QUESTIONS ON TRADE AND ECONOMIC LIBERALISATION IN THE CONTEXT OF INDIA



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CONTENTS

SUMMARY

Economic policy is not an easy area for either the laiety or social activists to comprehend. It is often mystical, complex and full of gobbleydegook, and also filled with calculus equations which are more difficult to understand.

The economic reforms, which began in India in 1991, have caused a huge amount of debate, which is often based on half- or mis-information. Close on the heels of the reforms, the General Agreement on Tariffs & Trade 1994 (GATT) and the World Trade Organisation (WTO) arrived in 1995. The new GATT itself negotiated under the Uruguay Round was a matter of great controversy, adding to the prevailing confusion. Thus the reforms spurred by the World Bank and International Monetary Fund coupled with trade liberalisation often resulted in the blurring of the two distinct, though allied, issues. Citizens have been at greater loss to comprehend as to what the future holds for them.

In order to understand the process of reforms, Dr Kalyan Raipuria, Adviser, Ministry of Commerce, wrote a reader-friendly guide for wider circulation among the non-governmental community and the public at large. Dr Raipuria is a member of the Indian Economic Service and has been with various branches of the government for over 30 years, thus gathering rich experience on how policy is framed. He has done an excellent job using a question/ answer format, which follows in this publication.

Theoretically, economics is not a settled science with many undisputed truths; some people would argue that it is not a science at all. It reacts to changes in the real world, its theorists refine their theories. New schools of thought emerge to challenge conventional wisdom. Quite similarly economic policy is not static and responds to the realpolitik in a fast emerging new global economic order. Therefore too, the publication is merely for guidance and should not be used for being quoted elsewhere.

CHAPTER-1

Did economic liberalisation in 1991 begin with trade liberalisation? If so, why? What is the experience of other (comparable) developing economies?

Faced with the foreign exchange crisis in 1991 (July), India adopted certain measures for 'stabilisation' and 'economic liberalisation', following the IMF loan and need for structural adjustments.

The process of 'stablisation' was aimed at
- reduction in the fiscal deficit,
- rationalisation of
  - public finances,
  - interest rate, and
  - exchange rate.

'Economic liberalisation' pioneered by trade liberalisation, was aimed at economic openness* and integration of Indian economy with the global economy to bring outward-orientation and global competitiveness.

Since the Indian economy remained protected for a long period it brought several distortions in the pricing system in respect of:
- capital,
- goods and services,
- foreign exchange, and
- labour.

Economic liberalisation was led by measures to open-up the foreign trade sector. The measures included:
- reduction in customs tariffs,
- shift of a number of items from the restricted list to the open (general licences) list,
- phasing-out of quantitative restrictions (QRs),

- abolition of cash subsidies on exports,
- reduction of canalisation of imported goods by the State-owned trading corporations,
- simplification of EXIM licensing procedures, and
- flexibility in different criteria/norms with regard to imports at concessional duty.

The exchange rate was brought in line with the desired level guided by Real Effective Exchange Rate (REER) to maintain competitiveness of exports.

The liberalisation policies for imports of different groups of commodities were so sequenced that firstly capital goods sector was opened up and was followed by raw materials, intermediates, and components. This is being followed by liberalisation in the consumer goods sector beginning with textiles, certain food products and health protection items. The last phase may mean liberalisation of imports of automobiles and white goods.

The East-Asian "tiger" economies also followed the above phasing of liberalisation with the difference that they had the advantage of certain positive initial conditions viz.
- land reforms,
- improved human development indicators, and
- pragmatic Government intervention enabling greater and productive interaction with the private sector.

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* Defined as increased share of exports/imports and foreign investment in GDP.

CHAPTER-2

Is trade liberalisation sustainable over period? What are the long-term implications?

Opening of the economy, in terms of increasing ratio of exports/imports to GDP, is found to be positively associated with removal of certain distortions in the pricing system, higher competitiveness and rapid growth in GDP. This is illustrated by the experience of the East-Asian 'miracle' economies as also certain Latin American economies considering their early stages of development.

Higher imports, and increasing foreign trade-GDP ratio sets in a virtuous circle of growth in motion, to the extent foreign trade expansion helps to raise the growth rate and bring about greater competitiveness.

Trade liberalisation is sustainable over the period with on-going reforms in different sectors, notably in fiscal and financial sectors, and in public enterprise sector.

Among the measures for reforms, the public finance system has to be suitably pruned so that certain 'fundamentals' are in place, viz.
- lower fiscal deficit,
- transparent and limited subsidies,
- a broad based taxation system,
- tax rates at global levels particularly the custom tariffs,
- expenditure focussed on human resource development and
- critical infrastructure.

The planning system has to be reoriented to aim at minimum State intervention and least role of Government in business, promoting greater participation of the private sector. The process has indeed begun recently (see Chart-1).

Continuing trade liberalisation in particular, would call for an active exchange rate policy and an expanding foreign exchange market with a large number of active players. The aim is to avoid volatility in exchange rate and erosion in export competitiveness. Finally capital account convertibility will be needed to complete the process.

Efforts have to be made to contain inflation at very low level of 4-5%.

In the agriculture trade, liberalisation would involve significant reforms in the agricultural sector, notably:
- removal of restrictions on inter-State movement of products,
- removal of export controls/regulations,
- modification of administrative prices,
- setting-up of futures markets, and
- corporate involvement.

Sustained trade liberalisation is expected to bring about increasing gains in income by way of expanded volume of exports and, hopefully improving terms of trade. Such gains would help:
- rapid growth of GDP, and
- highly gainful employment.

In long-term, trade liberalisation is to be accompanied by changes in labour laws and reforms in the land ceiling act in order to bring flexibility in the labour/land markets. This may not be an easy task too as observed in case of South Korea.

CHAPTER-3

What have been the positive aspects of trade liberalisation for growth and competitiveness of the economy?

Trade liberalisation, has meant opening-up of the economy, primarily aimed at global competitiveness enabling integration of Indian economy with the emerging global economy.

The expected positive results included efficient import substitution i.e. domestic production of goods with cost considerations, and removal of anti-export bias. This means availability of inputs and machinery at international prices, and thus resource movement in economic activities with the country's comparative advantage.

The expected results are seen in terms of rise in the share of foreign trade in GDP, improved level of export cover of imports, comfortable reserves, and above all faster growth of GDP.

As shown in the annexed Table-1, the openness (import/GDP) increased from less than 10% to 12.8% in 1995-96. The share of exports in GDP increased from 6.2% in 1991to about 10% in 1995-96. Foreign investment flows have begun to increase which is a test for attractiveness of the economy. The percent of foreign investment (net) in GDP increased from a negligible (0.03%) to 1.3% in 1995-96. Yet another test of attractiveness is foreign direct investment (net) as percentage of exports which increased from 0.4% to 6.1% over the period.

The percent share of invisibles receipts in GDP doubled from 2.5 to 5%. The dependence on NRI deposits has declined as their share in reserves decreased from about 50% to 8%. The dependence on external assistance too has come down sharply. It was about 64% of all capital (net) flows in 1991-92 which has halved. Net inflow aid (net of repayments and interest payments) not only declined but has become negative indicating reverse transfer of resources.

In the foreign trade area, there was a substantial dependence on the USSR. As much as 16% of exports were going to the USSR in 1990-91. The percent of exports now going to Russia and CIS countries has come down to less than 5%. This augurs well because more trade is now market based. It is gratifying that the export sector has become more competitive as very little trade is now based on rupee payments derived from the debt settlement. In many ways, the Indian economy is moving towards the international price system. There is an urge among the industry and trade to inculcate global standards be it quality of goods and, or services.

There remain certain areas of the unfinished task of reforms notably in the public enterprises, agriculture, and financial sectors. The major issue for discussion is to what extent the public sector has to be given the role in development of infrastructure in case the private sector remains shy and slow in coming forward to participate, particularly to take up the task of generation, transmission and distribution of electricity. Working out innovative schemes of financing would be crucial in this context.

CHAPTER-4

In what way trade and economic liberalisation are expected to benefit the Indian people in general, and consumers in particular?

Liberalisation of foreign trade, industry, agriculture and financial sector is basically aimed at unleashing the entrepreneurial and business energies of people towards greater efficiency, larger incomes and greater wealth creation.

The adjustment process which liberalisation sets in may entail certain constraints for different people, or what has been called, the 'losers' in the process:

- the private firms which cannot adjust their production processes and costs according to market trends,
- the State-owned units which are rigid in moving to market-based systems of production and prices,
- managers and workers
  - who are unable to change their attitude according to emerging technologies, and/or
  - who have to be out due to downsizing for rightsizing.

As a result of liberalisation, and reduced protection, competitive (lower) import process (than domestic), increase in efficiency, higher productivity and cost reduction are expected to benefit the consumers in terms of right market prices, customised products and their delivery, as also friendly servicing.

These benefits, however, would flow to the consumer only to the extent the market really works. They would be retained and may not be passed on by the producers to the consumers if there are rigidities in the market, particularly on the demand side such as special preferences and credit-based purchases and, on the supply side, cartelisation of production and supplies. Charts-2 and 3 show how import prices decreased during 1993/94 to 1995/96, while domestic price levels continued to rise, and consumer prices rose faster than wholesale prices.

The process of liberalisation, therefore, needs to be accompanied by the

- movement for consumers' awareness and unity, on the one hand, and
- regulatory processes for production and distribution, on the other.

At the national level, the consumer movement has to continuously be engaged in market research, with the aim of *inter alia* ensuring the transfer of fiscal and other benefits provided under the Government policies to consumers.

The consumer movement at the international level needs a wider participation. Freer world trade should be one of the missions of such participation. The movement should bring pressure on multinational corporations to behave in the interest of consumers' interest. The restrictive trade practices and inflated (retail) price measures by distributive channels should be identified against which the consumer movement should be waging a constant war.

Liberal trade simply means alternative supplies at competitive prices which consumers like.

Table 1: Indicators of Economic 'Openness of Indian Economy During Liberalisation, 1991-96
(Balance of Payments Data)

Indicators (in %)	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
1. Import*/GDP	9.4	8.4	10.1	9.8	10.6	12.8
2. Export*/GDP	6.2	7.2	8.2	8.9	8.8	10.0
3. i. FI net/GDP	0.03	0.06	0.2	1.7	1.6	1.3
ii. FI net/ Exports	0.6	0.8	2.9	18.7	18.2	12.8
iii. FDI/net/ Exports	0.4	0.8	1.2	2.7	4.9	6.1
4. i. Invisibles Receipts/GDP	2.5	3.8	3.6	3.8	4.5	5.0
ii Invisibles Payments/ GDP	2.6	3.2	3.2	3.3	3.7	3.9
5. i. NRIs' (net) Deposits/ Reserves	45.6	51.5	31.1	6.3	4.0	8.0
ii NRIs' (net) Deposits/Total capital Flows	18.3	6.1	47.0	12.0	10.7	37.6
6. External Assistance (net)**/Total Capital Flow	26.3	63.9	43.7	19.0	18.9	31.0
7. Net Inflows of Aid@/Total Capital Flow	16.1	41.4	14.6	7.2	2.2	(-)19.3

* Merchandise
** Net of Repayments @ Gross aid minus repayments and interest payments.

FI = Foreign Investment including FDI, FIIs and Euro-Equities, etc.
FDI = Foreign Direct Investment
NRIs = Non-Resident Indians.

Source of Data : Reserve Bank of India, Annual Report, 1995-96, and Economic Survey 1996-97.

CHAPTER-5

What is the unfinished agenda of trade and economic liberalisation? Is it justified to say that India has still to face the difficult issues of liberalisation?

It is widely believed that many fundamental reforms in India have yet to take place.

The reforms undertaken so far have been notable in the area of industry and trade and, more recently in monetary and financial policy, some attempts for reforms in agriculture notwithstanding.

The major areas where reforms are to be undertaken include:
- restructuring of public enterprises,
- liberalisation of reservations in the small-scale sector,
- labour laws,
- banking and insurance and above all
- capital account convertibility.

In the areas of reforms undertaken so far, there remain some measures to be undertaken in respect of:
- liberalisation of agricultural sector and integrating it with world trade,
- phasing out the remaining quantitative restrictions (QRs) and
- further reduction in tariffs,
- downsizing of bureaucracy at the Centre and in the States and
- allowing similar measures in the private sector through changes in labour laws, and
- promoting futures trading in the areas which have been opened for global interaction, etc.

Covering the unfinished agenda of trade and economic liberalisation would basically mean building-up consensus in the country and developing constituencies favouring rapid reforms.

Such a task entails a positive and constructive relationship between Government and the private sector industry and trade, as observed in the East Asian economies.

There is a vital role of human resource development in continuing reforms. Unless there is wider literacy and education, the importance and benefits of integration with the global economy may not be easily understood and achieved.

A major issue which has come up in recent years is widespread corruption which hampers reforms in so far as the players—having interest in certain restrictions and controls—continue to bring pressure against their removal.

The difficult issues of liberalisation will hopefully be faced in India, as an increasing number of countries, developed and developing, are resorting to such measures, and benefits are seen in a tangible manner.

CHAPTER-6

Is trade liberalisation proceeding in line with India's commitments in the Uruguay Round?

India's commitments to liberalise trade are enshrined in the schedules following final declaration of the Uruguay Round negotiations. They entail both reduction in tariffs and phasing out of quantitative restrictions (QRs) in different sectors in particular sequence and time frame, and subject to balance of payments (BOP) situation i.e. adverse situation.

In view of the special importance of the agricultural sector, in generation of income and employment, the liberalisation has to come with a longer time phasing. There remain apprehensions of price rise and undue competition from abroad. Basically, therefore, the task would be to increase productivity which may enable higher competitiveness.

The maximum tariff rate on goods has already been reduced significantly from 400 in 1990-91 to 40% (average from 128% to about 30%) in the latest Budget. Table-2 shows the comparative rates of tariff in different developing countries. It would be seen that in competition with the Asian countries, the average tariff rate has to be reduced further from the present 30% to 10-15%. Thousands of QRs which exist in respect of industrial and agricultural items have to be phased out, firstly by 'tariffication' and then by reduction in tariffs.

India has tried to follow its commitments. The Export and Import Policy for 1997-98 to 2001-02 has reduced such QRs further through shifting certain items from the restricted list to Special Import Licences (SIL) list and some items from SIL list to open list, as also some items directly from restricted list to open list. Yet about 3000 items* remain under the QRs. What is being charted out that these are also removed in coming years.

Of course, the pace of removing QRs will depend upon the changing fundamentals, growth, and above all on emerging consensus on further liberalisation. India plans to phase out the remaining (2710) QRs (as on April 1, 1997) (except prohibited and canalised items) in 9 years; 26% (701) by 2000; 45% (1216) by 2006 and the rest (794) by 2009.

The first phase may include liberalisation of imports of computer and telecommunication products, software, etc. India is a party to the WTO Agreement on Trade in IT Products, beginning July 1997. These may be followed by many of the agricultural and industrial products, about 78% by 2000 and 66% by 2000-03 respectively.

Removal of QRs in items like motor cars, perfumes, whisky and farm products may be taken up in the last phase.

Negotiations on these lines are in progress under Article XVIII (B) which relates to balance of payment (BOP) difficulties arising out of rising import requirments corresponding to increased GDP, growing at a higher rate than exports. In negotiations, India has received support from Brazil, Cuba, Egypt, Hungary, Korea (S), Nigeria, Pakistan, Peru, Sri Lanka, Tunisia, Thailand and Venezuela. It is the advanced countries of EU, USA and Japan which are pressing for reduced period of phasing out.

* As per Harmonised Code, 59 items are prohibited and 178 are canalised items, rest being restricted or on SIL list, total number of items being 11587.

CHAPTER-7

Has liberalisation been affected by the declining real aid and the reverse transfer of resources? And, whether the emerging pattern of external financing is in consonance with the country's economic position?

The portents of declining external aid, associated with 'aid fatigue' felt by the developed countries due to domestic fiscal problems, and sizeable unutilised aid, could be noticed even before liberalisation was set-in in India in 1991.

The shift to market-based trade and capital flows meant that concessional aid had to give way to commercial borrowings and private sector capital flows.

It is, however, in 1995-96 that, for the first time, repayments and interest payments exceeded gross aid receipts by $486mn. The trend continued in 1996-97 when the amount of excess of repayments and interest payments over gross aid receipts was $429mn (April-February). Such reverse transfer of resources did not mean a big deal. But, given the pace of increased foreign investment, the trend is undoubtedly not in line with the country's economic development stage.

India needs both aid and private capital flows, with a per capita (average) income of $360 (1996) and thus limited domestic savings, and given a highly unsatisfactory state of physical and social infrastructure, which requires astronomical levels of investment.

As a result of decline in real aid flows and now reverse transfer of resources, the share of external assistance (net of repayments) in total capital (net) flow has declined from 64% in 1991-92 to 31% in 1995-96. The share of net inflow (net also of interest payments) declined from 41.4% to 2.2% during 1991/92 to 1994/95 and was negative in 1995/96. Foreign investment has become the leader among the inflows received by India during 1991-96

(Please see chart-4). The trend has continued during 1996-97 and is likely to sustain in the forthcoming years.

A notable development during 1996-97 has been that within foreign investment, direct investment (FDI) together with investment through Global Depository Receipts (GDRs, over $4bn) has exceeded portfolio investment (by foreign institutional investors, FIIs at $ 2.4bn). This augurs well in so far as the latter inflows tend to be speculative and unstable.

Such a situation apparently constrains the proactive role of the State in building-up physical and social infrastructure when private participation may not be forthcoming. Indeed, with decline in external assistance, a lubricant available for the liberalisation machine is disappearing.

The need of the times is to take all possible effective measures to expedite utilisation of aid in the pipeline. Due to certain measures taken in recent years, the share of disbursements has indeed risen at the Central as well as the States' level. Besides these measures, joint steps by the donors and the Government may be needed to consolidate, redesign and reapprove certain externally aided projects.

Table 2: Average Tariff Rates (%)

Country	1988	1996
(a) Asia (excl. Japan)		
China	39.5	23..0
Hongkong	0.00	0.0
India	>100.0	28.0
Indonesia	18.1	13.1
S. Korea	19.2	7.9
Malaysia	13.6	9.0
Philippines	27.9	15.6
Singapore	0.3	0.0
Taiwan	12.6	8.6
Thailand	39.2	17.0
(b) Developed Countries		
Australia	15.6	5.0
Canada	3.7	1.6
European Union (E.U.)	5.7	3.6
Japan	4.3	4.0
USA	4.2	3.4

Source: Manila Action Plan for AEEC, EU (Asia Week, December 13, 1996).

CHAPTER-8

In what way India's Ninth Plan (1997/98 to 2001/02) approach would promote the cause of liberalisation?

One of the objectives of the Ninth Plan (1997/98 to 2001-02) is "strengthening efforts to build self-reliance". This is defined in terms of sustainable balance of payments, reduced vulnerability to world environment, and avoidance of excessive external debt. Self-suficiency in food is part of the objectives which is to be achieved through a secular growth rate of agriculture. For this, the country has also to plan for sustained export of food products in normal years and create the conditions necessary for facilitating such trade.

The Ninth Plan projects exports at 14.5% and imports at 15.3% per annum corresponding to a GDP growth rate of 7%, all in real terms (1996/97 prices). These growth rates will lead to a manageable current account deficit. The share of exports in incremental output of the manufacturing sector is expected to rise from 22% presently to 35%. The expected growth rate of exports in current dollar terms would work out to about 18%.

The emphasis of the Plan is based on a prudent macro-economic fiscal and monetary environment, and removal of anti-export bias in policies. Such bias results from cost escalation of imported inputs needed for exports, through pre-emption of domestic resources for the relatively high cost production of low priority items, and lack of competition in the industry. The Ninth Plan proposes to achieve international level of tariffs with careful phasing of changes in QRs.

The Plan, therefore, recommends

- streamlining of customs;
- removal of remaining quantitative restrictions (QRs) on exports (including agricultural exports);
- special schemes for exporters to have duty-free access to imported inputs and machinery;

- preferential access to exporters for external commercial borrowings; and
- strategic support to exporters for upgrading marketing skills, information, quality and standards, common R & D facilities, and new instruments of export finance.

The exchange rate instrument is to be used firmly and judiciously to achieve steady and sustainable growth of trade, investment and competitiveness.

The Plan also recommends striving for capital account convertiblity. The road map for this policy change has recently been provided by the RBI Committee covering 1997-98 to 1999-2000.

The Ninth Plan would mean raising the import-GDP ratio from 12.1 to 17.6% and export-GDP ratio from 10.4 to 14.6% over the five year period (see Charts-5 & 6). Thus, the Plan is aimed at increased openness, on the one hand, and at liberalisation in support of the domestic economy's strengths, on the other.

CHAPTER- 9

Are the apprehensions of removal of all Quantitative Restrictions (QRs) and reduction in tariffs at Asian levels well placed particularly in regard to BOP implications of the Mexican kind?

The removal of QRs, more so reduction in tariffs at other developing Asian countries' levels, particularly on imports of consumer items, normally flashes an apprehension that the domestic market will be flooded with foreign supplies, being more attractive and cost competitive. And, the result may be a serious drain on foreign exchange reserves and problems of Balance of Payment (BOP). There are no acceptable estimates of such drain. The reasonable estimates stand at around $1bn per annum, presently.

The slowdown in demand for industrial goods during 1996-97 clearly means that the Indian market is not that buoyant as the estimated middle class may not be as large as 200-250 million.

Furthermore, as India's cost competitiveness increases in production of quality goods, with growing foreign collaborations, just as in case of cars, Indian products may become as attractive as foreign goods. Thus, most important is the enabling environment for expanding domestic production of quality industrial goods at competitive prices.

The causes of Mexican crisis like very high inflation and devaluation, low domestic savings and significant current account deficit (CAD) may not develop together in India. Prudent policies are in place to reduce fiscal deficit to 4% or lower. The CAD is within manageable limits, inflation is low and domestic savings are about 26% of GDP.

Over and above, foreign direct and GDR investments are flowing in at a higher level (1996-97) than before ($4bn), now exceeding portfolio investment ($2.3bn).

Foreign exchange reserves increased by $5.3bn during 1996-97 (when exports rose by only 4%), and stood at $22.4bn at the end of the year. Presently, they are over $25bn (June-end, 1997), significantly contributed by remittances/private transfers and non-residents' deposits.

It is noteworthy that Mexico has recently initiated a 3-year plan to lower inflation further and obtain financial consolidation, to revive the peso, raising private domestic savings, and limiting CAD to 3.2% by 2000 AD. The Plan does not include revival of QRs and/or raising customs tariff rates.

Thus, the trend is to work for the 'fundamentals' and not for reversal of liberalisation.

Recognising the world-wide trend of liberalisation, on the one hand, and low (average) per capita income and low absorption capacity of Indian people, on the other, freer imports and BOP would be more a management issue during the coming years, i.e. how prudently macro-economic fundamentals are pursued, with adequate informtion, monitoring and finesse in policy planning.

CHAPTER 10

In what manner the economic and trade liberalisation would help in amelioration of the basic problems of inadequate infrastructure and low productivity?

One of the main objectives of liberalisation policies is to reduce burden of investment on public sector which causes higher fiscal deficit, low public savings, crowding-out of private enterprise, and low return constant, cost/ time overruns notwithstanding.

The objective is also to enable greater participation of the private sector investment which may be more alert, responsive and better managed.

Yet another objective is to increasingly attract foreign investment.

In net terms, therefore, it is expected that the availablity of resources for investment will increase to care for infrastructure requirements. Enabling environment by Government means clear-cut rules and guidelines for investment, production, distribution/delivery, and pricing.

Higher productivity and returns, larger investment, improved infrastructure and higher growth are expected to create a 'virtuous circle'.

Liberalisation of trade and foreign investment is essential for such a 'virtuous circle' to set-in:

- Firstly, domestic investment may be totally inadequate.
- Secondly, technology, management and plant & equipment which needs to be imported may better flow out of foreign investment causing BOP problems otherwise.

- Thirdly, freer import of raw materials, intermediates and machinery implies increased participation by foreign investors which may be necessary to meet large investment and technology needs of the infrastructure sector.

Furthermore, creation of certain infrastructure, like capacity for oil production, may require Indian investment and partnerships abroad requiring liberal conditions.

China has recently allowed investment participation of the order of $7.8bn in Kazakstan for the purpose of oil production and supplies back to the country (Financial Times, London, June 5, 1997).

CHAPTER-11

Does trade liberalisation mean a different approach to trade negotiations, bilaterally and multilaterally?

As an emerging global player, aiming to raise its share in world trade (from 0.5% to at least 1%), and as an economy which is projected to be the fourth largest in the world, by the turn of the century, in terms of (purchasing power parity) PPP-based GDP, India can no longer take part in global trade negotiations always sitting on the fence.

India has made certain commitments regarding removal of trade barriers, and opening-up of its service sector, in a phased manner.

Furthermore, faced with a series of new non-tariff trade barriers and regional preferential trade arrangements (RTAs), India has to be well prepared for proactive participation in the world forum. This requires floatation of papers and non-papers on select issues. For this, the country has to overcome its weak position due, for example, to the pending bill on Patents.

The basic objective of trade negotiations should be to obtain help in increasing international competitiveness. This should come out in the country's statements in multilateral (ML) forums. The faith in ML framework should be equivocally stated. This would call for a faster pace of liberalisation in the fields other than trade, notably in the financial sector. But, more than that the country statements should reflect the continuing commitment and willingness to liberalise. Any exemption or delay should be justified by way of structural problems arising from the country's development stage, low per capita income ($ 340 in 1995), status lower (one-half) than the average of the group, classified by the World Bank ($ 765 in 1995), and institutional difficulties associated with democratic polity of a vast country with great diversities.

But, simultaneously, there is a definite need to build-up consensus on the significance of multilateral approach in international trade and associated commitments, which would help get an international regime with clear-cut rules and procedures. It should be made clear that, normally, unilateral action shall be resorted to only in security-related matters.

It may also be stressed that the trade partners need to realise that improved living standards in India, if helped by the international community, will go well beyond poverty removal so that the people of India can purchase more foreign goods and services.

On the country's part, developing and following a checklist of standards, and adhering to it should be a constant and continuos excercise.

Government and business in particular have to ride the tide of change together. They have to build-up a common cause in promoting integration of the economy with the global economy. The private industry and trade should suitably chart out a course for increasing competitiveness replacing the traditional approach asking crutches, i.e. various incentives and subsidies.