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Multilateral Trading System
Is it India's best option?

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Abstract

During the six decades of existence of the multilateral trading system under the aegis of GATT (General Agreement on Tariffs and Trade) and now under its new avatar WTO (World Trade Organisation), the support for the multilateral trading system has not waned but multiplied. The Uruguay Round (1986-1994) of the GATT proved to be a turning point in the history of multilateral trading system. The implementation phase of the Uruguay Round agreements under the WTO was associated with some striking changes in the global economic landscape. As regards India the unilateral reforms initiated in the early 1990s and its WTO-triggered trade policy changes have had a positive impact on exports and in turn resulted in higher economic growth. One important feature of this high export growth is that it has been realised primarily through an increase in India's export to its traditional trading partners, USA and the EU and a huge expansion in its trade with China. In recent years, though India has signed free trade agreements with Singapore, MERCOSUR, Sri Lanka and other South Asian countries under SAFTA (South Asian Free Trade Agreement), their combined share in India's total export is still only 10-11 percent. In other words, almost 90 percent of India's export is through the multilateral channel. Therefore, this Working Paper argues that given the existing trends of India's trade and the continuing problems in cementing FTAs, the multilateral option is best suited for it.

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1. Introduction

A free and fair multilateral trading system serves best the interests of any liberalising economy. Although there has been a huge proliferation of bilateral/regional free trade agreements in recent years, no one questions the primacy of the multilateral trading system. Jagdish Bhagwati, the internationally renowned trade economist, in his recently published book *Termites in the Trading System*[1] documents how preferential trade agreements (PTAs) have undermined the prospects for multilateral freeing of trade, serving as stumbling blocks, instead of building blocks. Numbering by now well over 300, and rapidly increasing, these PTAs, many taking the form of free trade agreements (FTA), have recreated the unhappy situation of the 1930s, when world trade was undermined by discriminatory practices, Bhagwati argues.

In the six decades of its existence, the multilateral trading system, under the aegis of the General Agreement on Trade and Tariffs (GATT) and now under its new avatar the World Trade Organisation (WTO), the support for the multilateral trading system has not waned but multiplied. From a mere 23 contracting parties in 1947, the WTO today commands the support of 151 members. The Uruguay round of trade negotiations, launched in December 1986 at Pun del Este, has proved to be a turning point in the history of multilateral trading system.

Unlike the previous GATT negotiations, the Uruguay round generated far greater hope and interest among developing countries. This round was different in many respects from the previous GATT rounds of trade negotiations. Although initially there was no intention to find a successor to GATT, the decision to include new issues like agriculture and services in the negotiating agenda attracted many developing countries. It virtually gave a new direction and sanctity to the multilateral trading system. Not only was the trade liberalisation agenda expanded by the inclusion of agriculture and services, rules for trade liberalisation were also developed and strengthened. Hence, unlike GATT which negotiated mainly cross-border reduction of tariffs and was confined to industrial goods, the WTO (established after the conclusion of the Uruguay round) deals with many "behind the border" trade policy issues.

The Uruguay Round (1986-94) and the implementation phase of WTO agreements (1995-2004) were associated with some striking changes in the global economic landscape. These agreements have led to a greater recognition of the role of trade as an engine of economic growth. This period has also witnessed more support to openness from developing countries as compared to rich industrialised countries which have traditionally championed the cause of the multilateral trading system. The waning public support for the further opening of economies in many industrialised countries now seriously threatens the conclusion of the ongoing Doha round of trade negotiations and the maintenance of orderly, rules-based international trade relations.[2] The growing influence of developing countries in the WTO, on the other hand, has been continuously trying to replace the mercantilist agenda of industrialised countries with a developmental agenda.

[1] Jagdish Bhagwati, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade*, Oxford University Press, 2008

[2] "The Multilateral Trade Regime: Which Way Forward?" The Report of the First Warwick Commission, The University of Warwick, 2007

During the same time-period, India too realised that state controls on economic activity and inward orientation had cost it dearly in terms of slow growth and inefficiency. Though India was never a completely planned economy, the collapse of the USSR, the world's leading centrally planned economy provided India a good reason to give primacy to markets over planning. The immediate impetus to undertake a major reform of long-standing restrictive domestic investment and international trade policies came from the severity of the economic crisis of 1991. The sustainability of economic reforms resulted mainly from two factors. First, the country's cautious and limited deregulation in the 1980s delivered rapid growth. Although this growth did not turn out to be sustainable, it made further liberalisation of the policy regime politically acceptable (Srinivasan and Tendulkar, 2003).

Second, India's engagement with the multilateral trading arrangement helped it to sustain the trade liberalisation process which was started in 1991. The inclusion of agriculture in the WTO agreement helped India bring about some policy changes even in the agricultural sector, which had remained highly protected after the initial round of reforms. While the agricultural sector is still reasonably protected with high tariffs, the phasing out of quantitative restrictions (QRs) has arguably been the single most successful area of trade liberalisation in this sector and has happened mainly because of India's GATT/WTO commitments.

The unilateral reforms initiated in the early 1990s and India's WTO-triggered policy changes have had a positive impact on exports and in turn resulted in higher economic growth. Since 2001-02, India's exports have grown at the rate of 20 percent per annum. India has also achieved an annual GDP growth rate of 8-9 percent per annum in the last four consecutive financial years beginning 2003-04. Undoubtedly, robust export growth has been one of the major contributory factors in realising a high economic growth.

One important feature of this high export growth is that it has been realised primarily through an increase in India's export to its traditional trading partners, USA and the EU and a huge expansion in its trade with China. In recent years, though India has signed free trade agreements with Singapore, MERCOSUR, Sri Lanka and SAFTA, their combined share in India's total export is still only 10-11 percent. In other words, almost 90 percent of India's export is being realised through the multilateral channel. Therefore, given the existing trends in India's trade and the continuing problem in cementing FTAs, the multilateral option is best suited for it.

2. Benefits of Multilateralism: A Theoretical Perspective

The protagonists of trade liberalisation claim that open trade policies lead to better economic performance. According to them, while there is ample empirical evidence to prove this claim, there is no systematic evidence confirming the opposite hypothesis that protectionism leads to higher growth. According to Panagariya (2004), evidence of the growth experience during the last 40 years offers little support to the hypothesis that countries perform better under import substitution than under outward orientation. Virtually all growth miracles are associated with rapid expansion of trade rather than wholesale substitution of imports by domestic production.

There are two important arguments often cited to prove the points in favour of free trade. First, trade improves global efficiency in resource allocation as it allows partners to gain from specialising in producing those goods and services over which they have a comparative advantage. Second, trade allows consumers to benefit from more efficient production methods through an expansion in consumption and to avail a wider choice.

Adam Smith, followed by David Ricardo proved the rationale of free trade two centuries ago through their monumental work on gains from trade. However, multilateral trade liberalisation became firmly established only in the early 1990s, after the successful conclusion of the Uruguay round of trade talks, resulting in the establishment of the WTO in 1995. Although the US along with many other nations unveiled its grand design to establish an orderly multilateral framework for trade relations – International Trade Organisation (ITO) – through the Havana Charter[3] immediately after the World War II. The proposed system was intended to be based on ideas of non-discrimination and reciprocity. However, events moved differently which resulted in shelving of the Havana Charter. Finally, an interim arrangement/treaty in the form of GATT was installed with 23 contracting parties (nations). These contracting parties, though less in number, controlled a major chunk of world trade then. India and China too were founding GATT members. India at that time had a significant 2.5 percent share in world trade.

The economic literature unequivocally points to a significant scope for benefits from multilateral trade liberalisation. Three approaches highlight the strength of multilateral trade liberalisation. The most elaborate economic approach to trade agreements, sometimes termed the "received theory", addresses the possibility that countries with market power can manipulate the terms-of-trade in their favour and at the expense of their trading partners. The second approach stresses the political economy of trade policies and the fact that governments care about the distributional effects of their interventions. The third stresses the government's credibility problems vis-à-vis their domestic stakeholders. Each of the three approaches offers an explanation for the existence of international trade agreements.

2.1 Terms-of-Trade Theory

The Received Theory of trade policy, based solely on terms-of-trade externalities between national governments, offers an explanation that has become conventional wisdom among international trade theorists. This theory states that a multilateral agreement addresses an inefficiency that arises in a government's relationship with other governments. In the commitment approach, such agreements address inefficiencies that arise in the government's relationship with its private sector. With the political economy approaches the situation is less clear-cut, as a number of different perspectives may be embodied in the analysis. In some instances, agreements serve the purpose highlighted in the terms-of-trade approach while in others they address inefficiencies that arise in a government's relationship with its private sector. These approaches provide fairly general reasons as to why governments enter into multilateral trade agreements.

The core logic of the terms-of-trade approach, often termed the traditional approach, can be summarised as follows. When nations set tariffs in an uncoordinated fashion or unilaterally, each government realises that its tariffs cause some damage to its domestic economy but also that part of the cost of tariffs is borne by foreigners. Thus, nations have an incentive to charge tariffs. When all nations do so, the potential gains from trade are not realised. In such a

[3] It was the charter of the defunct International Trade Organization or ITO. It was signed by 54 countries on March 24, 1948. It allowed for international cooperation and rules against anti-competitive business practices. Elements of it would later become part of the GATT.

setting, the switch from an uncoordinated tariff setting to a coordinated tariff reduction can increase the size of the pie, so that all nations can reap benefit from trade. Economic theory also points out the benefits of absolutely free trade but distributional considerations rule out such a state.

Participation in international trade agreements is not compulsory and within this framework of analysis, it is assumed that governments enter into such agreements voluntarily. This means that agreements must allow all participants to reap some of the gains from trade. With preferential agreements, such benefits can at least in part be transferred from non-participants. In the case of multilateral agreements, however, the participants' gains might not come at the expense of non-participants. The multilateral trade agreement should generate mutual gains from trade that add to the size of the overall pie.

2.2 Political Economy Approach

Political economy models of trade view individuals and firms as demandeurs of particular trade policies such as import protection and governments as the suppliers of these policies. Governments care about the political as well as the efficiency consequences of trade policies. Therefore, governments respond to the demands of individuals and firms who are their political constituency. In other words, governments choose trade policies so as to maximise a weighted sum of the contributions offered by individuals and firms. Tariffs are chosen to balance the demand and supply of protection in the political market, as prices balance demand and supply in the goods and services market.

One of the important contributions of trade agreements, according to political economy models, is that it helps prevent the practice of manipulating terms-of-trade caused by the interaction of influential and big private interest groups with governments. Trade policies are framed in tune with international trade agreements, which a country is obliged to honour, rather than to suit the interests of select private players. When liberalisation is reciprocal, exporters can gain from better access to foreign markets only if tariffs in their own country are lowered. This will trigger support from domestic exporters in favour of trade liberalisation policies. Entering into a trade agreement may, therefore, help governments to foster the political support needed to implement a freer trade policy.

2.3 Increasing Credibility

Another reason for countries to join an international trade agreement is to solve time-inconsistency problems. In this case, the source of the problem is a domestic inefficiency, resulting from the interaction between a government and its own private sector. Time-inconsistency problems arise because the decision of the government to implement a certain policy in future may not turn out to be optimal when the time arrives. Therefore, the announcement that a certain policy will be implemented at a later stage is not credible. By "tying the hands" of the government, an international trade agreement may help the government to make credible policy commitments that affect the private sector. It would not have been able to make otherwise. The commitment to an international agreement will signal to domestic actors that the government will face additional external costs, such as retaliation from a trading partner, if it reneges on its commitment. This external threat makes the policy announcement credible and solves the time-inconsistency problem, thus making trade liberalisation viable.

3. Other Perceived Benefits of Multilateralism

Beyond the welfare gains achieved through the reduction of tariffs in manufacturing and agriculture, additional gains tend to accrue with the introduction of scenarios that incorporate trade liberalisation in the services sector, reduction of non-tariff barriers, trade facilitation, effective utilisation of dispute settlement mechanism etc.

3.1 Disciplining NTBs

Non-Tariff Barriers (NTBs) are evolving as an area of serious concern for WTO members. The term 'Non-Tariff Barriers' has not been defined under the WTO but its usage and understanding broadly refers to any 'border measure' other than a tariff, which acts as a barrier to trade. This includes internal measures that, despite in several instances being in line with WTO rules and serving legitimate policy objectives may discriminate or unnecessarily restrict access to markets, translating in additional costs for the exporters or importers. Additionally, the benefits sought to be achieved from the reduction of tariffs in the present round may be negated as a result of the various non-tariff barriers imposed by members, especially against developing countries and also amongst industrialised countries.

Exporters facing NTBs need real time solution. A solution that comes two years after the identification of the problem does very little to assist exporters in clearing their goods at the port of entry and only adds to costs and leads to a loss of market opportunity. Most of the NTBs at present are emanating from standards and other domestic regulations. There are in principle three international routes for dealing with such barriers: harmonisation of national regulations (leading possibly to the creation of international standards), mutual recognition, and strengthening of multilateral disciplines with respect to national standards. These need to be complemented by upgradation of domestic standards, which also helps the country in the long run.

The WTO with its effective dispute settlement mechanism is relatively better equipped to resolve NTBs for a longer time-period than any bilateral/regional arrangement. The lengthy and costly dispute settlement mechanism, however, can create considerable instability especially for a new enterprise in the exporting developing country.

3.2 Dispute Settlement Mechanism

An effective dispute settlement system is as important as trade liberalisation in order to ensure a free and fair multilateral trading system. A well functioning dispute settlement mechanism reduces uncertainty over market access rights. Improved security of market access rights increases the likelihood that firms and individuals in countries on both exporting and importing sides of international transactions make mutually beneficial relationship specific investments (Bown and Hoekman, 2005).

A dispute settlement system under a rules-based multilateral trade body like the WTO can also have positive externalities if one country's litigation efforts contribute to the removal of a trade barrier that has adversely affected the market access rights of other WTO members. Brazil's litigation over the cotton subsidies of the US is a worthwhile example to cite. Brazil has won the case against the US in the WTO over its illegal subsidies to cotton farmers. Compliance by the US would help many poor cotton-producing African countries.

The dispute settlement system of WTO has found a powerful country like the US guilty of violating its commitments on several occasions. This would not have been possible either through bilateral or regional trade agreements involving the US. Historically, the US has opted out of parts of many agreements for fear that compliance would be contrary to US interests, and has refused to sign some treaties outright on the grounds of potential legal exposure. But the US behaviour towards the WTO is different; in this case, the US has been quite willing to accept binding multilateral rules (Lawrence, 2007).

4. Benefits of Multilateral Trading System: An Indian Perspective

A major challenge facing India is to develop a mechanism for instituting and sustaining good economic policies that could have wider development implications apart from high economic growth. Since the early 1990s, India has progressively reduced policy impediments to trade in goods and services. The early impetus for these reforms came from the IMF-sponsored adjustment in the wake of the June 1991 balance of payments crisis, and was sustained through tariff reductions throughout the first half of the 1990s, before slowing down significantly in the second half. The reduction in policy barriers led to a significant expansion of the volume of trade, even in relation to GDP.

In principle, liberalisation can take several forms: unilateral, regional or multilateral. The political feasibility of each of these differs and so do the likely gains from trade (Wacziarg, 2002). In the early 1990s, India embarked on a voluntary mode of economic liberalisation, which was followed by active engagement with multilateral trade negotiations after the establishment of the WTO in 1995. India's inclination towards free trade agreements has become visible only in recent years. Unlike the US and some of the other developing countries, India has not inked a large number of FTAs.

India's much-publicised "Look East Policy" has not had very fruitful outcomes so far. The FTA with ASEAN was finally concluded after great deal of difficulties in treatment of products under the "negative list". A free trade agreement with Singapore is not a big achievement as Singapore is one of the most open economies of the world. While there is a renewed vigour for fruitful operationalisation of SAFTA, the continued political disturbances in Pakistan do not augur well for regional economic cooperation. It is too early to predict the outcome of the EU-India FTA negotiations.

Given the present situation, the potential scope for India engaging in regional trading agreements does not make these a desirable option. Unilateral liberalisation, while necessary for bringing the average levels of policy-induced trade barriers in line with most other developing countries (especially in Asia), is confronted with a host of domestic political impediments. This leaves multilateral liberalisation the most promising avenue for further liberalisation.

Mattoo and Subramanian (1999) have strongly argued in favour of India engaging itself more actively in the multilateral trading system. They have given four reasons to substantiate their arguments for multilateral engagement:

- to facilitate domestic reform and enhance access for India's exports;
- to serve as a commitment to good policies;
- to serve as a means for securing market access rights that have already been established; and
- to serve as a bulwark against regionalism.

4.1 Impact of External Sector Reforms on India

There is little doubt that the impressive economic growth of India during the last one and a half decades was possible because of domestic economic reforms and the country's rapid integration into world markets. The establishment of WTO in 1995, however, did not facilitate multilateral trade liberalisation to the desired extent. The WTO obligations have provided a further impetus to India's ongoing external sector reforms. Hence, India's impressive record on the export front since 1991 is largely because of unilateral trade reform measures and multilateral trade liberalisation.

Tables 1 and 2 (see Annexure) present the trends in India's merchandise exports for the pre and post-WTO periods. India's aggregate exports have grown at an average of 11-12 per cent per annum during the last two decades spanning the period, 1987-2007. Manufacturing with a share of more than 70 percent, accounts for the bulk of India's exports. The annual growth rate of manufacturing exports has been quite impressive and consistent at 11-12 percent. This success can easily be attributed to unilateral domestic economic reforms undertaken by India and the liberal multilateral trading environment in industrial products.

In direct contrast to such trends, the growth in agricultural exports has slowed down from 10 percent per annum during 1987-96 to 5 percent per annum during 1996-2007. The share of agriculture in India's total merchandise export has come down to 10 percent. The poor show of India's agriculture exports can be attributed to the absence of substantial reforms by India in this sector and the inability of WTO member nations to remove distortions in agricultural trade through multilateral negotiations. The world farm market is highly distorted because of huge subsidies given by OECD countries to their farmers and protectionists tariffs imposed by many developed and developing countries.

The economic reforms have impacted positively at least on economic growth. The country has achieved an average growth rate of over 6 per cent per annum in 1980s and 1990s. Undoubtedly, part of the acceleration in growth during the reform period can be credited to external sector liberalisation. Another interesting development is India's growing trade with China. India's merchandise exports have been growing continuously at a high pace of more than 20 percent per annum since 2002-03 (See Table 3 in Annexure) and have crossed the US$100bn mark in 2005-06 (See Table 2 in Annexure). India's exports to China have also increased manifold, from US$ 951.95mn in 2001-02 to US$ 8293mn in 2006-07. China has become India's second most important trading partner after the US.

Thus, there appears to be a direct link between the high growth rate of India's exports in the new millennium and its increasing trade with China. What is deeply worrisome though is India's rising trade deficit with China which climbed to US$9.2bn in 2006-07. As a result, the share of Chinese imports in India's global import basket has risen from 4 percent in 2001-02 to 9.4 percent in 2006-07 (Mitra, 2007). However, sustained and high export growth has impacted positively on India's overall GDP which has been growing at the rate of 8-9 percent per annum since 2003-04.

Another significant feature of India's rising exports is the continued importance of three trading partners. India's current trade is dominated by trade with – the European Union, the US, and China. India's total export to the three trading groups at US$54bn (approximately) accounted for about 45 percent of its exports in 2006-07. With the US, India has recorded a very healthy trade surplus of about $8bn in 2006-07 and its exports have grown at the rate of

10 percent per annum over the last 11 years from 1996 to 2007. With respect to EU, India had a small bilateral trade deficit of $3bn in 2006 though its exports to EU (27) have increased at the rate of 10 percent per annum since 1996-97. This is a remarkable achievement especially in the wake of growing intra-EU trade generated by deepening and widening of integration processes.

India's rapidly expanding trade (both export and import) with China is a very recent development. The share of China in India's total exports has increased from 2.5 percent in 2000-01 to 7.5 percent in 2006-07. India's exports to China have grown at the rate of 26 percent per annum during 1996-2007. This increase is more impressive if we take into consideration the post-Doha period (2001) when China became a member of the WTO. The WTO accession has forced China to undertake wide-scale policy changes in international trade. Though China's imports to India have also increased, which is evident from India's growing trade deficit with China, the huge expansion of bilateral trade has been facilitated by multilateral trade liberalisation.

India has also been on a FTA negotiating spree for the past few years though not many have been signed yet. Besides SAFTA, India has signed FTAs with Sri Lanka, Singapore, and MERCOSUR. India is engaged in FTA negotiations with ASEAN, EU, GCC (Gulf Cooperation Council), Japan and South Korea. India is also planning to initiate FTA negotiations with China, USA, Canada, Switzerland, Malaysia and Indonesia. However, export data pertaining to the past few years reveal that the results of FTAs are not very encouraging except in the case of Singapore to some extent. The combined share of SAFTA, MERCOSUR and Singapore (with whom India has signed FTAs) in India's total export increased only marginally from 10 percent in 2003-04 to 11 percent 2006-07. The biggest disappointment is India's trade with its neighbour in South Asia. Its exports to SAARC countries have increased only at the rate of 12 percent per annum which cannot be termed as high growth, given the low volume of existing trade.

Even, in the case of India's trade with Singapore, the results are not on expected lines. When India entered into the Comprehensive Economic Cooperation Agreement (CECA) with Singapore in 2005, it had hoped the agreement would pave the way for professionals from its second-line colleges and institutions to enter and set up shop in the city state, but it seems those hopes have been more or less dashed. A large part of India's exports to Singapore now consists of petroleum products. The benefits for Indian industry are hardly widespread because of poor backward linkage of the sector.

The present export data for India proves that 90 percent of its trade is taking place multilaterally which is contrary to the global trend. Over 300 RTAs or FTAs are currently in different stages of negotiation all over the world. As a result of the emergence of these RTAs, more than 50 per cent of the world trade is now conducted on preferential and not on MFN basis (Kumar, 2005). This could perhaps be the main reason why India is keen on signing FTAs with EU and the US - the major trading partners of India.[4]

India has faced lot of problems in cementing trade pacts with ASEAN. The EU-India FTA is also slowly becoming contentious especially over the inclusion of government procurement in the agenda. With China, Indian industry is strongly opposed to any FTA negotiations at present because of fear of a surge in imports. As regards a FTA with the US, a consensus

[4] "FTA-like India-US pact in Pipeline", The Economic Times, January 9, 2008

among the different Indian political parties will be difficult to achieve, given their conflicting ideological stances towards the US. Under the given circumstances, the multilateral trading system seems to be the best option for India.

According to a very recent study done by Polaski *et al* (2008) a multilateral agreement at the WTO should make a much larger impact on the Indian economy than bilateral trade agreements with the EU, the US, and China. The study forecasts that India's real income increase under the Doha agreement would be about six times the gain from the most beneficial bilateral agreement. The gain is about \$1.2bn, or 0.25 percent of the current economic product. Exports would increase by about 4 percent, while imports would grow by about 3 percent. Domestic production would increase by about \$4.5bn, or 0.5 percent.

Anderson and Martin (2005) in their study using the World Bank's model of the global economy suggests global economic welfare could be enhanced by \$290 billion per year by 2015 if all merchandise trade barriers and agricultural subsidies were removed. It would be even greater if services trade were opened up, especially for temporary movement of labour. Their modeling results for a Doha multilateral trade agreement that freed up trade in both farm and non-agricultural goods confirm that India is likely to gain disproportionately: one-third as much above the average for low-income countries, and twice the middle-income average, if developing countries fully participate in the round. Importantly, with cuts not just to farm subsidies but also to import restrictions, agricultural output and incomes would be greater under such a Doha agreement in both India and in developing countries as a group.

Evenett (2007) has added another perspective to gains and losses resulting from failed Doha Round. According to his findings, a failed Doha Round doesn't cost China or India much. Using data on national income levels for 2000-05 the study calculated how many days of growth each of these emerging giants would effectively lose if the Doha Round were not completed. If the Doha Round was not concluded and the World Bank estimates (of the gains forgone) are correct, then China effectively loses an amount equivalent to just three days growth. India loses approximately three weeks growth.

4.2 Multilateral Engagement and Domestic Reform in India

For a larger part of the post-Independence period India has been an unwilling reformer. It was only in the early 1990s when India faced a major economic crisis that a comprehensive economic reforms programme was implemented, which touched *inter alia* upon the external sector as well. As a result of economic policy measures undertaken during the decade of the 1990s and in the new millennium, India has broken the jinx of the "Hindu Growth Rate" and has achieved an average growth rate of 6-7 per cent per annum. On the external front, India's exports have registered an average growth rate of more than 20 percent per annum in the last four to five years. The changed economic environment has made India an increasingly willing reformer, whose ability to implement reform is constrained by domestic compulsion of coalition politics.

Above all, the challenge to implement and sustain the economic reforms is a domestic one. This is where a large and diverse democracy like India faces problem as compared to State-controlled economies like China and Vietnam. While China has used WTO membership as a framework to push domestic reform, India consistently had to overcome the wrath of domestic anti-globalisation lobby. Nevertheless, obstacles in the way of reforms create impediments to market access in the areas of major export interest. Mattoo and Subramanian (1999) argue that multilateral engagement pits these two elements against each other constructively. On the one hand, domestic reform can be facilitated if the government demonstrates that there are payoffs in terms of increased access abroad. The gainers from the increased market access, be they exporters of textiles, software, professional services or of other products, could represent a countervailing voice to groups that resist reform. On the other hand, the need to demonstrate external payoffs to secure greater openness at home makes India a credible bargainer and could help induce trading partners to open their own markets.

In India the agricultural sector best illustrates the situation of disjunction between domestic policies and its external negotiating position. India's multilateral position with respect to this sector is one of defensiveness as it seeks the freedom to protect rather than exploit actual and potential comparative advantage through an open regime internationally. India's agricultural trade policy regime is characterised by high tariffs and till the beginning of the new millennium by the broad based imposition of QRs on imports. Many of these were eliminated as a result of WTO panel rulings on disputes between India and trading partners over India's invocation of balance of payments grounds for maintaining QRs.

The phasing out of QRs has arguably been the single most successful area of trade liberalisation in India in recent years. This may result from the fact that it came as a direct consequence of India's commitments under GATT agreements, chiefly the Uruguay Round. This could not have been politically feasible otherwise i.e. through unilateral policy reform measures. According to Srinivasan and Tendulkar (2003), "in the pre-reform period, the QR protected share was as high as 93 percent in total tradable GDP, and it had come down to 66 percent by May 1995". For manufacturing this figure dropped to 36 percent by May 1996.

Data from the World Bank suggest that in the period, 1991-93, the coverage rate of non-tariff measures as a percentage of tariff lines was 62.6 percent, and 11.3 percent for India and China respectively. According to Lardy (2002), this coverage rate for China had fallen below 4 percent by 2000. However, in India the decline has been quite spectacular, with the coverage rate falling to 12.96 percent in 2000 and 5.3 percent in 2001. Out of 10,149 tariff lines, 9,611 are free of QRs, 479 are "restricted" and only 59 are characterised by outright prohibitions.

One ironic feature of the removal of the remaining QRs on imports as of April 1, 2001, is that it does not seem to have led to a surge of imports. The Economic Survey of India (2002) goes to great lengths in arguing that the effects of this removal were benign in the sense that it did not affect the domestic industry. Surveying imports of "sensitive items" (including such strategic products as umbrellas, locks and toys), the survey shows that from April to December 2001 their imports increased by only 2.1 percent.

5. Conclusions

India's impressive economic growth record has been facilitated by the sharp rise in the importance of the external sector in the Indian economy. The growth of the external sector can be attributed in large measure to the environment created by multilateral trade liberalisation. Most of the growth in trade owes its genesis to multilateral sources. Though FTAs are currently the flavour of the day, these have not contributed much to the growth in India's trade.

While FTAs are being negotiated all over the world (with India not being an exception to the trend), their popularity can be explained in large measure to the deadlock in the Doha round of trade negotiations. This deadlock is, however, seen by many analysts to be temporary. In the end, the many benefits of multilateralism such as its inclusiveness and ability to facilitate coordination of diverse national trade policies and achieve a happy marriage between domestic interests and trade policy should make it enduring.

A gloomy economic outlook demands a global approach to this situation, as the international community did in launching the Doha Round after the 9/11 disaster. Besides this, an integrating global economy requires global economic governance through institutions like the WTO, and not fragmented institutional structures of regional bodies/agreements.

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Annexure

Table 1: India's Merchandise Export in Pre-WTO Period

Commodity	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	CAGR (%)
Primary Products	3160.5	3242.5	3883.2	4324.0	4132.2	3873.5	4915.7	5214.4	7256.9	9.68
Ag. & Allied Products	*2560.7*	*2417.3*	*2852.7*	*3354.4*	*3202.5*	*3135.8*	*4027.5*	*4226.1*	*6081.9*	*10.09*
Ores & Minerals	*599.8*	*825.3*	*1030.5*	*969.6*	*929.7*	*737.8*	*888.2*	*988.3*	*1174.9*	*7.76*
Mfg. Products	8195.1	10110.3	11971.5	12996.4	13148.4	14038.8	16656.7	20404.4	23747.0	12.55
Leather & Leather Products	*964.4*	*1051.0*	*1171.5*	*1449.2*	*1268.8*	*1277.5*	*1299.5*	*1610.6*	*1752.2*	*6.86*
Chemical & Related Products	*791.6*	*1090.5*	*1553.8*	*1728.0*	*1868.8*	*1786.1*	*2377.2*	*3066.8*	*3597.0*	*18.32*
Engineering Goods	*1152.3*	*1601.3*	*1997.7*	*2250.4*	*2253.1*	*2480.8*	*3038.1*	*3508.0*	*4391.0*	*16.03*
Textile & Textile Products	*3013.8*	*3037.7*	*3746.5*	*4342.6*	*4693.1*	*5007.4*	*5472.3*	*7117.7*	*8031.6*	*11.51*
Gems & Jewellery	*2015.1*	*3032.8*	*3180.7*	*2924.1*	*2738.2*	*3071.7*	*3995.8*	*4500.4*	*5274.8*	*11.28*
Handicrafts (excluding Handmade Carpets)	*174.3*	*205.9*	*222.9*	*223.9*	*241.5*	*275.9*	*318.5*	*386.3*	*433.9*	*10.66*
Petroleum Products	500.4	348.7	418.4	522.7	414.7	476.2	397.8	416.9	453.7	-1.08
Others	232.6	268.9	339.3	302.2	170.1	148.6	268.0	294.7	337.3	4.22
Total Exports	**12088.5**	**13970.4**	**16612.5**	**18145.2**	**17865.4**	**18537.2**	**22238.3**	**26330.5**	**31794.9**	**11.34**

Source: Handbook of Statistics, Reserve Bank of India

Table 2: India's Merchandise Export in Post-WTO Period

Commodity	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	CAGR
Primary Products	8035.1	7687.3	6927.9	6524.2	7126.2	7163.6	8706.1	9901.8	13553.3	16377.4	19547.8	8.42
Ag. & Allied Products	*6862.7*	*6626.2*	*6034.5*	*5608.0*	*5973.2*	*5901.2*	*6710.0*	*7533.1*	*8474.7*	*10213.8*	*12514.6*	*5.61*
Ores & Minerals	*1172.4*	*1061.1*	*893.4*	*916.1*	*1153.0*	*1262.4*	*1996.0*	*2368.7*	*5078.6*	*6163.6*	*7033.1*	*17.69*
Mfg. Products	24613.4	26546.6	25791.5	29714.4	34335.2	33369.7	40244.5	48492.1	60730.7	72562.8	82817.8	11.66
Leather & Leather Products	*1605.8*	*1656.7*	*1660.7*	*1590.2*	*1944.4*	*1910.1*	*1848.3*	*2163.0*	*2421.6*	*2697.7*	*2933.1*	*5.63*
Chemical & Related Products	*3912.8*	*4396.3*	*4009.2*	*4706.5*	*5885.9*	*6051.8*	*7455.3*	*9445.9*	*12443.7*	*14769.5*	*16727.1*	*14.12*
Engineering Goods	*4962.7*	*5336.2*	*4463.9*	*5152.1*	*6818.6*	*6957.8*	*9033.0*	*12405.4*	*17348.3*	*21718.8*	*29079.1*	*17.44*
Textile & Textile Products	*8635.8*	*9050.4*	*8866.3*	*9822.1*	*11285.0*	*10206.5*	*11617.0*	*12791.5*	*13555.3*	*16402.1*	*17009.7*	*6.36*
Gems & Jewellery	*4752.7*	*5345.5*	*5929.3*	*7502.3*	*7384.0*	*7306.3*	*9029.9*	*10573.3*	*13761.8*	*15529.1*	*15585.7*	*11.40*
Handicrafts (excluding Handmade Carpets)	*475.7*	*525.9*	*633.1*	*668.6*	*661.5*	*549.0*	*785.3*	*499.7*	*377.4*	*462.0*	*371.7*	*-2.22*
Petroleum Products	481.8	352.8	89.4	38.9	1869.7	2119.1	2576.5	3568.4	6989.3	11639.6	18551.9	39.36
Others	339.4	419.8	410.0	544.9	1229.2	1174.3	1192.3	1880.3	2262.6	2510.7	5413.7	28.63
Total Exports	**33469.7**	**35006.4**	**33218.7**	**36822.4**	**44560.3**	**43826.7**	**52719.4**	**63842.6**	**83535.9**	**103090.5**	**126331.1**	**12.83**

Source: Handbook of Statistics, Reserve Bank of India

Table 3: India Export and GDP (Annual Growth)

	Percentage Change over the Previous Year		
	Export to China	Export Growth	GDP at factor cost
2000-01	54.22	21.1	4.4
2001-02	14.51	-1.6	5.8
2002-03	107.52	20.3	3.8
2003-04	49.59	23.3	8.5
2004-05	90.04	28.5	7.5
2005-06	20.36	23.4	9.0
2006-07	22.71	26.3	9.2

Source: Economic Survey 2006-07, Government of India

Table 4: India's Merchandise Export to Major Countries/Groups

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	CNGR(%)
Countries/Groups with Indian having FTA												
Argentina	58.69	92.71	74.00	62.61	98.50	64.62	60.29	87.33	186.32	199.50	211.71	12.37
Brazil	132.49	143.36	133.29	135.02	226.05	219.01	479.03	275.62	678.17	1,090.61	1,453.45	24.33
Paraguay	6.22	6.59	5.89	6.88	8.27	7.17	6.83	10.57	12.01	16.38	27.29	14.39
Uruguay	16.06	34.00	36.50	26.53	35.71	25.94	16.89	19.47	24.51	27.93	36.90	7.86
Mercosur	*213.46*	*276.66*	*249.69*	*231.04*	*368.53*	*316.74*	*563.04*	*392.99*	*901.01*	*1334.42*	*1729.35*	*20.95*
Afghanistan	22.74	21.25	12.81	33.20	25.86	24.37	60.77	145.47	165.44	142.67	181.72	20.80
Bangladesh	868.96	786.46	995.64	636.31	935.04	1,002.18	1,176.00	1,740.75	1,631.12	1,664.36	1,627.86	5.87
Bhutan	21.98	13.33	9.56	7.57	1.08	7.60	39.05	89.49	84.58	99.17	57.50	9.14
Maldives	10.36	8.74	8.38	7.30	24.61	26.88	31.59	42.34	47.61	67.58	68.72	18.77
Nepal	165.72	170.05	122.41	151.23	140.84	214.46	350.36	669.36	743.14	859.97	928.49	16.96
Pakistan	157.22	143.15	106.10	92.95	186.83	144.01	206.16	286.94	521.05	689.23	1,349.60	21.59
Sri Lanka	477.41	489.23	437.13	499.27	640.14	630.89	920.98	1,319.20	1,413.18	2,024.67	2,255.58	15.16
SAARC	*1,724.39*	*1,632.20*	*1,692.02*	*1,427.83*	*1,954.41*	*2,050.38*	*2,784.90*	*4,293.55*	*4,606.14*	*5,547.65*	*6,469.47*	*12.77*
Singapore	*977.47*	*774.53*	*517.53*	*672.71*	*877.11*	*972.31*	*1,421.58*	*2,124.84*	*4,000.61*	*5,425.29*	*6,068.93*	*18.06*
Countries/Groups with Indian have no FTA												
ASEAN	2,902.45	2,464.79	1,629.98	2,237.50	2,913.78	3,457.02	4,618.54	5,821.74	8,425.89	10411.30	12613.72	14.29
EU (27)	8,869.08	9,335.78	9,204.28	9,665.88	10694.17	10155.37	11886.41	14516.59	18249.02	23228.84	26805.94	10.58
China	614.80	717.95	427.16	539.04	831.30	951.95	1,975.48	2,955.10	5,615.88	6,759.10	8,293.97	26.69
USA	6,555.45	6,735.40	7,199.59	8,395.61	9,305.12	8,513.34	10895.76	11490.11	13765.75	17353.06	18866.17	10.09

Source: Export Import Data Bank, Ministry of Commerce, Government of India