ISAS Working Paper

No. 126 – 21 April 2011

469A Bukit Timah Road
#07-01, Tower Block, Singapore 259770
Tel: 6516 6179 / 6516 4239
Fax: 6776 7505 / 6314 5447
Email: isassec@nus.edu.sg
Website: www.isas.nus.edu.sg

Shaping the Coordinates of India's Trade Policy Architecture: Domestic versus International Drivers

Amit Shovon Ray[1]

Asia has experienced an explosion of regional trade agreements (RTAs) in recent years particularly in East and Southeast Asia. Production and institutions across these regions have become further integrated due to these RTAs. The domain of integration now extends to South Asia with India and other South Asian economies getting connected to East and Southeast Asia through formal trade arrangements. Proliferation of RTAs has revived the debate on multilateralism and regionalism. While most regional economies figure in the multilateral framework of the World Trade Organization (WTO), their pursuit of RTAs has raised questions over whether they repose greater faith in regional trade networks. The Economics and Trade Policy research cluster at ISAS organised a workshop at Singapore on 20 October 2010 on 'Trade Policies in South Asia and Southeast Asia: Encouraging Regionalism?' that examined different aspects of the theme including comparative dimensions of trade frameworks, bilateral trade relations and country perspectives on regional trade. The papers are being brought out by ISAS as a working paper series. This paper is the third in this series.

Abstract

India's trade policy architecture has undergone a phenomenal metamorphosis over the last six decades. The objective of this paper is to understand the 'factors' that have shaped India's trade policy architecture at various junctures in its development path. In particular, the paper will identify whether domestic economic compulsions or international economic environment have played the key role in determining the coordinates of India's trade policy architecture over time. The paper broadly concludes that India's trade policy architecture

[1] Amit Shovan Ray is Professor of Economics at the Centre for International Trade and Development, School of International Studies, Jawaharlal Nehru University, New Delhi. The views reflected in this paper are those of the author and not of the institute.

has remained by and large homegrown, dictated by domestic imperatives, both economic and political, rather than by the forces of the international economic order. Even at the WTO, India's stance has been shifting rather dramatically, but much of it may be linked to India's 'self interest' as opposed to international compulsions.

Introduction

India's trade policy has been a matter of intense academic discussion and debate among economists, cutting across different schools of thought. There is now a rich body of economic literature on this topic, but much of it pertains to critical appraisals of India's trade policy regimes as they evolved over time.[2] Economists have analysed the consequences of India's trade policy as it changed gears at various points in time over the past six decades. Indeed, some of this research and analyses have perhaps acted as important academic inputs in shaping the changing coordinates of India's trade policy architecture over time.

The present paper has a somewhat different flavour. Rather than focussing on the consequences and impact of India's trade policy on development trajectory, the objective of this paper is to understand the 'factors' that have shaped India's trade policy architecture at various junctures in its development path. In particular, the paper will identify whether domestic economic compulsions or international economic environment have played the key role in determining the coordinates of India's trade policy architecture.

Trade Policy in the Post-Independence Planning Era – until the Mid-1980s

Post-independence, India adopted a policy of inward-looking, import-substituting industrialisation that was significantly inspired by the Soviet model of development. Centralised economic planning, accompanied by widespread public sector dominance, regulatory controls over private sector activity, restriction on foreign investment and export pessimism, characterised independent India's development policy for the first four decades of India's growth experience.

---

[2] Some of the notable among them are; J.N. Bhagwati and P. Desai, *INDIA: Planning for Industrialisation* (London: Oxford University Press, 1970); J.N. Bhagwati and T.N. Srinivasan, *Foreign Trade Regimes and Economic Development: INDIA*, (New York: National Bureau of Economic Research, 1975); V. Joshi and I.M.D. Little, *INDIA: Macroeconomics and Political Economy 1964-1991* (Delhi: Oxford University Press, 1994); and A. Panagariya, *India: The Emerging Giant*, (New York: Oxford University Press, 2008).

India remained a virtually closed economy for nearly four decades after its independence in 1947. Trade received very little attention in the foundation of India's post-colonial development strategy. The notion of 'self-reliance' played a major role in defining the 'norm' of development in India. The aspiration was perhaps to mimic the development trajectories of the 'advanced' West, although very much within the framework of import substitution and self-reliance. It was perhaps important to the Indian policymakers to signal to the rest of the world that India could do whatever the advanced nations can. Accordingly, a diversified industrial production base was meticulously planned out for India, ranging from simple consumer items to sophisticated capital goods and heavy machinery. This drive towards self reliance also prompted India to engage in highly complex and resource intensive activities such as space research or nuclear technology. The notion of natural comparative advantage took a back seat in this planning process.

The adoption of an inward-looking trade policy by the Indian development planners may be linked to several considerations. First and foremost, the overriding goal of Indian development planners was to achieve economic 'self reliance'. Apart from the long history of colonial rule that made the country vulnerable to global economic powers, Indian planners were also influenced by the Latin American 'structuralist' school of thought highlighting elasticity pessimism and inequalising trade between the centre and the periphery. They were somewhat cynical about the international trade and exchange, and hence wanted to reduce India's dependence on the world economy for its immediate needs and the associated vulnerability of India's exposure to the world economy. Pursuit of 'self reliance' was perhaps just an expression of this long-term objective. 'Self reliance' was also a reflection of the norms of development defined by the India's development planners after independence. It was important for them to show that India could also produce what the rest of the world could, ranging from high end capital goods to mass produced consumer items. To this end, the conventional infant industry argument perhaps further buttressed India's protectionist trade policy during the immediate post-independence planning era that remained in place for nearly four decades. Although the overall trade policy framework remained consistently inward-looking during this period, there were considerable modifications and fine tuning made by the policymakers at different points in time. The paper will divide the discussion of trade policy changes in this period into three sub-periods – firstly, pre-1966, secondly, 1966 devaluation and lastly post-devaluation.

Pre-1966

Import and exchange control policy in India relied primarily on quantitative restrictions (QR), based on detailed estimates of foreign exchange availability made by the Government. After pre-empting for the essential requirements for embassy expenses, and import of food fertilisers, petroleum, oil and lubricants, the available foreign exchange was allocated to competing users through an elaborate administrative mechanism of import licenses. The allocation of these licenses was based on two principal criteria – essentiality and indigenous non-availability. Each applicant had to obtain a clearance certificate to this effect from designated government agencies, on the basis of which import licenses were issued specifying the quantity and composition of imports. Unfortunately, however, there was a lack of a well defined set of objective principles to determine the twin criteria of essentiality and indigenous non-availability in order to allocate scarce foreign exchange among 'eligible' competing users. Among the long list of priority industries, foreign exchange was to be distributed on a 'fair' and 'equitable' basis. Among rival claimants within each industry, small scale units were given preference over large scale and public sector over private.

From 1962 onwards, the QR regime of import and exchange control was supplemented by increasing use of tariffs. The period 1962-66 was characterised by a steady attempt at unifying import duties which had been steadily increasing to mop up the import premia on the QR-based allocations of foreign exchange. Although, the average import duty rose steadily until 1966, but a vast majority of these increases were selective and differential.

On the export policy front, India's attitude in the 1950s had been one of indifference and 'pessimistic neglect'. Export control on several commodities originated during the Second World War and was carried over to much of the 1950s and even later for some items. Export duties prevailed on several items at varying rates. Export controls combined with the growing strength of domestic demand resulted in a stagnation of India's exports during the first two plan periods.

Deliberate policies of direct export promotion were adopted after the launching of the third five-year plan in 1961-62. Export incentives were provided in the form of export subsidies through fiscal measures or through import entitlement schemes. Fiscal measures included drawback and exemption from various duties and taxes, non-discriminatory direct tax concessions to exporters, outright cash subsidies, and freight concessions. In addition, there were indirect measures like trade promotion fairs and export promotion councils set up by the Government. The import entitlement schemes, which eventually became the principal instrument of export promotion, entitled exporters to import licenses fetching high import-premia, pro-rata to the value of exports effected (not exceeding 75 per cent of the export value or twice the value of the import content). There were, of course, restrictions on the type of imports permissible under this scheme, mainly intermediate and capital goods. The import entitlements were transferrable at a market clearing premium (subject to a ceiling).

1966 Devaluation

The 1965-66 was a grim era for the Indian economy, witnessing a severe drought and the second Indo-Pakistan War. The war apart from draining resources also led to suspension of major financial aid flows. Aid-India Consortium offered to resume aid flows after the war, but only under the condition that India devalued its highly overvalued currency. On 6 June 1966, the Indian rupee had been devalued by 57.5 per cent. This was accompanied by other policy measures including elimination of some export subsidies, reduction in import duties and imposition of countervailing export duties. The idea was to liberalise India's protectionist trade regime to some extent. However, the liberalisation attempt was largely unsuccessful. The policy changes that took place after 1966 led to a quick reversal of exchange control regime to the pre-devaluation state.

Post-Devaluation

The most striking development in the post-devaluation period was an early revival and expansion of export subsidies. Large scale cash subsidies were introduced on an explicit basis which was extended to a number of items, by as early as 1967. The subsidies were selective, varying between 10 to 25 per cent ad valorem and remained concentrated on a few items. The objective was to overcome short-run bottlenecks to exports by offsetting the difference between the short-run marginal cost and the realised export price, as well as, the domestic taxes not covered by the duty drawback scheme. The subsidies were announced quarterly making it rather unpredictable to make long-run investment plans for exporting.

The earlier import entitlement schemes were replaced by a similar scheme of import replenishment, under which exporters were granted premium-carrying import licenses of a value equal to the import content of their exports. Other subsidisation schemes like duty drawback, direct tax benefits, freight subsidies, and subsidised export credit continued to exist in full form.

With respect to import policy, the intention was to liberalise. But the ultimate outcome of the liberalisation episode was a relapse into the pre-devaluation import control regime. The QR regime of import control continued with high premia on several items. With some improvement in the balance of payment situation in the early 1970s, some attempts were made to partially 'liberalise' import policy especially for general exporters. But there was no significant fundamental change in the attitude towards import of final goods, and for that matter, the overall trade policy regime. The shopping list of replenishment licenses for exporters was expanded and then scrapped altogether in 1977-78. In the same year, the general import licensing itself was de-licensed and thus the special incentives to exporters disappeared. All import licenses were to be given in free foreign exchange. But this did not last for long. In 1979, the policy stepped back from liberalisation and by 1980-81 it was back to its pre-1975 form of restrictive import licensing with special incentives to exporters.

Meanwhile, tariffs continued to remain unusually high by international standards – it was more than 140 per cent for about 70 per cent of tariff categories, 100 per cent or more for 88 per cent of categories and 80 per cent or more for 99 per cent of items.

To summarise, India's trade policy has remained consistently inward looking. The strategy of import substitution has generated an anti-export bias by sharply titling relative profitability in favour of the domestic (import competing) sectors against the exportable sectors. Some of these policy distortions against exports were sought to be countered with direct and indirect export incentives in a somewhat indiscriminate manner. However, except for a few isolated items, import duty remained well above the export incentive rates. Even within this overall framework, the Government's intention to boost exports and ensure adequate profitability (in the short run, perhaps) was made clear especially from the mid-1970s. Export incentives have been more and more generous over time and the bureaucratic procedures have been sought to be simplified for exporters. But by no means, there was any indication during the first four decades of India's independence, of a movement away from the basic ideology of import substitution towards a more export oriented outward looking trade regime. Bhagwati and Desai aptly summarises India's trade strategy during this period as follows, 'India should produce whatever it can and should export whatever it produces.'[3]

Consequences of the Protectionist Policy Regime

The objective of India's inward-looking trade strategy of import substitution was to set up domestic industrial capacity for whichever goods (consumer and producer) could be produced domestically and protect them from international competition. In 1975, Pioneering estimates by Bhagwati and Srinivasan of Effective Rate of Protection (ERP) enjoyed by 77 manufactured items in 1968 indicate excessively highly degree of protection enjoyed by some of the industries in India during this policy regime.[4] As one expects, in line with the Heckscher-Ohlin-Samuelson framework, labour abundant India will tend to grant more protection to the capital intensive industries. Khanna's (1984) econometric results confirm this presumption.[5] This implies that protection in India would have distorted resource allocation towards capital intensive industries that would otherwise be unprofitable domestically under an 'efficient' market determined allocation of resources in line with its

3 J.N. Bhagwati and P. Desai, *INDIA: Planning for Industrialisation* (London: Oxford University Press, 1970).

4 J.N. Bhagwati and T.N. Srinivasan, *Foreign Trade Regimes and Economic Development: INDIA*, (New York: National Bureau of Economic Research, 1975).

5 A. Khanna, 'Market Distortions and Export Performance: India's Export of Manufactures in the 1970s', *Weltwirtschaftliches Archiv*, Vol.120 (1984), pp.348-360.

natural comparative advantage. Moreover, indiscriminate and automatic protection to whichever industry sets up indigenous capacity, irrespective of costs and quality considerations, led to the development of a high cost (and perhaps low quality) industrial structure. Indeed, the high order of protection granted especially to intermediate and capital goods industries had the effect of raising the industrial cost structure across the board, which in turn could operate only in a sheltered market. This created the need for further protection to all industries, making Indian manufactures uncompetitive by international standards of costs and quality.

Economic Reforms in India

Genesis of the Reforms Process

Limitations of the earlier approach was, however, becoming all too apparent over the years, forcing serious rethinking on India's economic policy design from the middle of the decade of 1980s. The flipside of this protectionist trade policy regime soon revealed itself in the form of inefficiencies of various kinds. For one thing, there was no incentive to keep pace with the fast changing global technology frontier in many of the manufacturing sectors, which resulted in Indian industry becoming technologically backward and inefficient with respect to global standards of costs and quality. From the mid 1980s, a technological view of development started gaining momentum in India's development policy. It was increasingly realised that being able to produce everything could not be the end-all goal. It is very important to be able to do things 'efficiently' as well. That may require opening up the doors to latest technological development on the global frontier, quite a departure from its earlier protectionist policy regime. This, in a sense, marked the beginning of India's policy of liberalisation.[6]

But initially the policy response, beginning in the mid-1980s, had been quite feeble and was mostly limited to liberalising particular aspects of the control system, both in the spheres of manufacturing and trade, without any major change affecting the system itself in any fundamental way. These attempts of liberalisation have, however, been arguably piecemeal and somewhat ad-hoc without a comprehensive programme of reforms that some of the other inward-looking economies had already adopted (including China from 1978).

It was the year 1991 that marked a radical departure from the past when, faced with an exceptionally severe balance of payments crisis, India launched a massive economic reforms

[6] A.S. Ray, 'India's Economic Reforms: Opportunities, Challenges and Political Economy Perspectives', in Lyal White (ed) *Is there an Economic Orthodoxy? Growth and Reform in Africa, Asia and Latin America*, (Johannesburg: SAIIA, 2006).

package consisting of short-term stabilisation measures along with a longer-term program of comprehensive structural reforms. These reforms were much wider and deeper than earlier piecemeal attempts, and which ushered in a complete paradigmatic shift in policymaking that now emphasised not only liberalisation of government controls, a larger role for the private sector as the engine of growth, freer operation of market and competitive forces in order to boost efficiency, but greater integration with the world economy through free and unrestricted trade flows.

Interestingly, the balance of payments (BoP) crisis of 1991, that precipitated India's massive economic reforms package coincided with the Uruguay Round of negotiations that culminated in the establishment of the WTO, heralding the beginning of a new world order of globalisation as discussed in the previous section. Hence, a better perspective on the Indian reforms process is gained by viewing it against the backdrop of the evolution of the WTO-driven new world order, instead of regarding it merely as an isolated occurrence.

India's economic reforms process, launched in 1991, may be classified into the 'first phase of reforms' that lasted from 1991 to 1995-96, which focused on broad-based reforms in key sectors of the economy and the 'second phase of reforms' that began in 1997, which essentially involved further deepening of reform measures already in place, as well as, initiation of newer ones. The section below highlights some of the key trade policy reforms during these two phases.

The First Phase of Reforms

One of the most comprehensive and path-breaking set of reforms was initiated in the external sector. Pervasive quantitative restrictions in imports and steep custom duties of the earlier import-substitution policy gave way to a liberalised trade regime, characterised by rationalisation of tariffs and duties and placing of the bulk of imports under the Open General License (OGL) list. Exchange rate reforms comprised a gradual move towards a market determined exchange rate regime through the initial devaluation of the rupee in July 1991 by 24 per cent and adoption of a flexible exchange rate in 1993 with the rupee becoming fully convertible in the current account of the BoP. Over time the Indian rupee has become by and large market determined and takes its value in response to movements vis-à-vis a basket of major global currencies like the United States (US) dollar, United Kingdom (UK) pound, Euro and Japanese Yen. The Reserve Bank of India (RBI) intervenes only in the event of excessive volatility in the foreign exchange market.

Post 1991, an investor friendly and enabling 'foreign investment policy' was also put in place and foreign direct investment (FDI) was actively sought in various sectors. Foreign investment was largely permitted through the automatic route, though in some sectors, e.g.

automobiles, there were conditions relating to local content use as well as export obligations in the early years of reforms. Those proposals that were not eligible for the automatic route were considered for approval from the Foreign Investment Promotion Board (FIPB). Sectoral caps to foreign equity participation were also significantly enhanced. Individual states also became increasingly interested in attracting investment, both foreign and domestic. As a result, foreign direct and institutional investment depicted a steadily increasing trend in the post-reforms period, although it has also been claimed that approvals for FDI often exceeded actual flows.

The Second Phase of Reforms

Although the first phase of reforms marked a successful and radical transition in India's trade industrial and financial policy regime, progress on fiscal consolidation and reforming agriculture and infrastructure was significantly limited. In fact some of these were much difficult to implement, and hence India adopted a slow and cautious path with respect to these dimensions. During mid-1990s, the reforms process showed some signs of deceleration/ slowing down, mainly owing to exogenous factors like the East Asian crisis and domestic emergencies like Orissa cyclone, Kargil War, etc. Besides, frequent changes in government during 1996-1999 also undermined the executive's capability to carry forward the process of reforms. However, from the late 1990s, economic reforms once again picked up again momentum with India entering the second phase of reforms.

In the second phase there was not only deepening of reforms in the external and industrial sectors, but also more progressive and radical (but somewhat difficult) reforms being initiated in areas like fiscal consolidation, streamlining the legal framework, revamping of public sector enterprises, strengthening physical and social infrastructure, vitalising India's capital markets and financial institutions, and boosting India's dynamic comparative advantage in information technology and other knowledge-based industries.

The existing reforms have undergone considerable deepening and widening in the external sector with a WTO compliant trade regime now in place. The Foreign Exchange Management Act (FEMA) in 1999, replacing the erstwhile the Foreign Exchange Regulation Act (FERA), has made provisions in conformity with the demands of a liberalised foreign exchange regime. The Indian rupee, too, is now being managed according to market principles, with the RBI intervening only occasionally to curb excessive volatility whenever such circumstances arise. Restrictions on capital account convertibility have been substantially removed, although India is yet to reach full capital account convertibility.

The reforms have put in place a liberal, transparent and investor friendly foreign direct investment (FDI) policy, wherein FDI up to 100 per cent is allowed under automatic route for most of the sectors, with special thrust on 100 per cent export-oriented units, export processing zones, software and hardware technology parks and industrial parks. Moreover, the sectoral cap for FDI in telecommunications and civil aviation has been raised from 40 per cent to 49 per cent. FDI is now permitted in real estate, as well as, integrated township development, ports, telecommunication, defence and insurance. The Foreign Investment Implementation Authority (FIIA), established in 1999, acts as the single point interface between investors and the administrative set-up.

Likewise, the Foreign Institutional Investment (FII) ceiling in the paid-up capital of Indian companies has been hiked considerably over the last three years and several procedural simplifications have been put in place.

Policies governing external commercial borrowings (ECB) have also been significantly liberalised with Indian companies now being able to raise resources from the overseas market through the automatic route up to a ceiling of US$500 million. At the same time, India has been successful in attracting large volumes of non-resident deposits. Though initially, interest rates offered to non-resident Indians (NRI) were significantly high, leading to arbitrage opportunities, such differentials have been progressively eliminated with the rates now being linked to London Interbank Offered Rates (LIBORs).

All quantitative restrictions on trade have been lifted with effect from 1 April 2001. The latest Union Budget for 2005-06 expresses its intention to further liberalise trade policy building on the growing external strength of the economy. In line with the earlier stated policy of gradually reducing tariffs in India to the Association of Southeast Asian Nations (ASEAN) levels, peak rate of customs duty (for non-agricultural products) have been reduced from 20 per cent to 15 per cent in the Budget.

The National Foreign Trade Policy for 2004-09 was announced with the explicit target of doubling India's share of world trade by 2009. Export-oriented sectors like jewellery, software, pharmaceuticals etc. have been given particular policy attention. The initiatives announced include, inter alia, the setting up of a Board of Trade and the Service Export Promotion Council (SEPC), exemption of export oriented units from service tax, extension of duty free entitlement to more sectors and special focus on agriculture.

India and the WTO[7]

Any discussion of India trade policy architecture remains incomplete without a look at India's stance at the WTO.

Notwithstanding India's closed economy policy stance, India has been one of the initial signatories to the 1947 General Agreement on Tariffs and Trade (GATT), which was formed post World War II. GATT was as an effort on the part of the developed world faced with mixed fortunes at the end of the war, to discipline themselves in trade in goods and to limit the spread of proactive protectionist policies by individual national governments. India in-principle was supposed to have accepted the mandate, but it remained firm on its trade and development policies aimed at self-reliance and import substitution.

Interestingly, the Uruguay Round of the GATT negotiations began in 1986, precisely when India's development policy making process was at a watershed. By the time India launched its massive economic reforms package in 1991, marking a paradigm shift in its policy, the Uruguay Round negotiations were well under way, paving the path towards Marrakesh in 1994 and the establishment of the WTO. India's attitude towards the WTO may be best understood against this perspective of the changing mental frame of the Indian policymakers from the mid-1980s onwards, both reinforcing each other.

It is hardly surprising that India remained a 'cautious' and somewhat 'passive' player during the initial years of the Uruguay Round negotiations, given its long legacy of inward looking development strategy and protectionist trade policy regime. With the liberalisation of its trade regime from 1991, India could perhaps slowly perceive an alignment of its policy interests with the core philosophy of the WTO. Free trade and greater engagement with the world economy was therefore no more a taboo among Indian policymakers. However, this is not to suggest that the 1991-reforms made India euphoric about the prospects of WTO and its consequences for India. It is natural that the Indian intelligentsia remained rather sceptical about potential vulnerabilities of the nation from the sudden exposure to the world economy. It was only in the area of manufacturing that India's unilateral trade liberalisation was carried out during the early 1990s. Therefore during the Uruguay Round, India was clearly reluctant to move beyond trade in manufactured goods at the WTO.

The post-Marrakesh (beginning in 1994) period is primarily identified with negotiations at three Ministerial Meetings, namely Singapore (1996), Geneva (1998) and Seattle (1999). This phase saw multiple instances of loss of mutual confidence among negotiating partners, in

---

[7] This section draws upon an earlier paper by the author. A.S. Ray and S. Saha, 'Shifting Coordinates of India's Stance at the WTO: Understanding the Domestics and International Economic Drivers', in Amrita Narlikar and Brendan Vickers (eds), *Leadership and Change in the Multilateral Trading System*, (Dordrecht: Republic of Letters Publishing/ Martinus Nijhoff Publishers, 2009).

spite of the Marrakesh agreement signed by all members that led to the establishment of the WTO with sector specific commitments to liberalise trade regimes. Developed countries tried to use the Singapore (1996) platform to broaden the agenda of WTO to areas popularly known as the ‘Singapore Issues’, namely; investment, competition policy, transparency in government procurement and trade facilitation. They also wanted to introduce core labour issues in the negotiations. Developing countries including India objected to such designs, arguing that the ‘Singapore Issues’ were essentially non-trade issues and for negotiating labour standards, the International Labour Organization (ILO) should be the right platform and not the WTO. Geneva (1998) was an intermediate phase where members were keener on facilitating the process of negotiations by working on issues pertaining to agriculture and services, already mandated. Instead of whipping up the Singapore Issues, the Geneva Ministerial only endorsed the earlier mandate of continuing the work programmes on these issues. But Seattle (1999) proved to be yet another failed attempt by the developed world to promote an expansionary agenda within the WTO, incorporating labour standards and issues of coherence in global economic architecture (the Singapore Issues). For the present analysis, it is worth noting that even towards the end of the Uruguay Round (Seattle in 1999), the US, the European Commission (EC) and Japan remained stubborn on anti-dumping and agricultural subsidies.

All this prompted India to take a hard line on not endorsing a new round at Doha in 2001, arguing that commitments of the Uruguay Round has not been fulfilled (especially on the part of the developed countries as mandated by Article 20 of the Agreement of Agriculture [AoA]) and hence it is pointless to initiate a new round of negotiating agendas. Perhaps India had also been wary of the various dispute settlement cases arising out of the Marrakesh commitments, throughout the latter half of the 1990s.[8] This is hardly surprising, given India’s lack of capacity to tackle these cases, especially against developed nations that were much better equipped with legal manpower and expertise in these matters.

However, finally India reluctantly signed the Doha Agreement in 2001. At the end, India was quite happy with the Doha outcome, because of its success on three issues; several concessions on implementation issues, weakening of the trade-related aspects of intellectual property rights (TRIPS) to accommodate access to medicine and public health concerns of developing countries, and most significantly keeping the Singapore Issues at bay.[9] In fact, it was post-Doha that India emerged as a leading and key negotiating partner at the WTO and assumed the role of a pro-active player in the whole process. There was a clear shift from its earlier position of cautious or at best passive participation. But this shift must be understood in the changing global economic context of the present decade with the slow but steady emergence of India as a major player in the world economy. In this changing economic

[8] A. Panagariya, ‘Developing Countries at Doha: A Political Economy Analysis’, *World Economy*, Vol.25, No.9, (September 2002), pp.1205-33.

[9] A. Panagariya , ‘India at Doha: Retrospect and Prospect’, *Economic and Political Weekly* (26 January 2002).

scenario, India began to look at the WTO as a global institutional framework that could fetch enormous economic gains for India by bringing down the prevailing distortions in trade, not only in manufacturing but also in services. Its immediate ‘success’ in Doha and its growing urge for expanding the market for its producers beyond domestic boundaries for the sustained growth of its economy, it was now in India’s interest to take forward the WTO agenda beyond trade in goods.

At the same time, India’s emergence as a major economic player in the world has contributed to a heightened profile of the country at the WTO. India’s increasing attention from the world on WTO negotiations can perhaps be traced back to Singapore (1996), where India posed a stiff opposition to the inclusion of the so-called ‘Singapore Issues’. Again in Seattle (1999), India played an active role in scuttling the issue of labour standards, championing the cause of developing countries. Later in Doha (2001), India received a lot of criticism and negative publicity, especially from the western media for its stand on resisting a new round.[10] While India was being branded as having a negative attitude towards negotiations in the sense of adopting a position of what ‘should not’ be included rather than a positive stand on what ‘could’ conceivably be included for its own interests. The publicity brought India to the limelight and conveyed a signal that India could potentially block the progress of multilateral negotiations and India’s withdrawal from the negotiating table might prove costly. Indeed, India’s claimed victory on counts of developmental concerns being acceded to in Doha, gave it a renewed confidence to adopt a more pro-active and enthusiastic posture at the WTO negotiations. Later in the run up to Cancun, the formation of G20 to resist the US-EU agenda on agriculture, India again played a leading role along with its allies Brazil, South Africa and China and this further contributed to India’s importance at the WTO.

Finally, when the Doha Round was suspended at Geneva in 2006, India was considered to be among the select key members, which could salvage the round. Along with the US, the EU and Brazil, India became a part of the high profile G4 to take forward the round and break the stalemate. There could, of course, be several interpretations of India’s inclusion in this group. But, there is a strong perception that the US and the EU, which enjoyed the maximum bargaining power and could easily drive the WTO agenda/negotiations in the early days, were now losing ground. Especially post-Doha, with developmental concerns being explicitly recognised, the US-EU coalition found it increasingly difficult to ignore the developing countries’ voices, that were vehemently put forward by countries like India (among others) with global support from civil society lobbies. Under these circumstances, the only sensible step was to co-opt some of these countries into a closed group to seek out solutions. India, being a large emerging economy with a large poor population (giving it legitimacy to fight for developmental concerns) and already acknowledged as an important negotiator at the WTO, was a natural choice.

[10] *Ibid.*

However, at the present juncture, the entire institutional framework of the WTO is facing a major crisis. Due to repeated collapse of the negotiating process, the WTO has become a lame duck in carrying forward its mandate to promote a free and fair world trade regime. It now remains to be seen how India responds to this crisis of the WTO.

Domestic verse International Drivers

The pre-reform trade policy regime in India was, by and large, dictated by domestic imperatives, both political and economic, rather than by the international policy environment. As seen earlier, 'self reliance' was the buzz word for the post-independence policy planners of India. The overriding objective was to reduce India's dependence on the world economy for its immediate needs, after a long legacy of the colonial rule that made the country extremely vulnerable to global economic powers for two centuries. Although, contemporary international scholarship in development theory did play a role in shaping India's development strategy and norms in the 1950s and 1960s, India's strive towards economic self reliance acted as the key driver. Indeed, looking at the nitty-gritty of some of the operational details of this import substituting industrialisation strategy, the pre-dominance of domestic economic drivers becomes all the more apparent. For instance, the scarce foreign exchange resources under this regime was sought to be allocated as per the twin criteria of essentiality and indigenous non-availability – both reinforcing the domestic needs and compulsions. Likewise, the initial pessimistic neglect of exports was soon replaced by an active (but ad-hoc) export incentive scheme introduced in the 1960s to counter the anti-export bias of the regime and augment the profitability of the exportable sector. As the foreign exchange requirement grew with the rising requirements of essential imports, commensurate with the country's steadily (but slowly) growing economy, the export incentives were made more elaborate and generous. This was again a reflection of how the trade policy details were essentially driven by domestic needs and priorities.

One could, of course, argue that 1966 devaluation episode was partly dictated by the international economic environment. It was at the behest of the Aid India Consortia that the devaluation and associated trade liberalisation package was put in place. Given India, severe exchange crisis, there was no other alternative. However, the 1966 devaluation turned out to be only a one-shot phenomenon rather than any fundamental long term change in India's trade policy architecture. Post-devaluation policy changes immediate led to reversal to its earlier exchange control policy of a protectionist trade regime. Moreover, as the import-substitution strategy was carried out deeper and deeper, it created the need for further protection. By then, there was a strong domestic capitalist lobby that also had a vested interest in keeping the protectionist policies in place and perhaps to get it reinforced and extended as much as possible. Indeed, the decade of the 1970s witnessed the passage of a few other policy acts (Monopolies and Restrictive Trade Policies [MRTP] Act of 1969, Patent Act of 1970 and FERA of 1973) that reinforced India's protectionist trade policy regime aimed at achieving 'self reliance'. Overall, it is, therefore, pertinent to conclude that domestic imperatives rather than international economic reasons acted as the key driving force behind India's inward looking trade policy regime till the mid-1980s.

There is considerable debate on whether India's transition to a more open and liberalised trade regime, beginning in the mid-1980s in a somewhat feeble and ad-hoc manner and then culminating in the comprehensive 1991-reforms package, was dictated by the prevailing international economic order with the International Monetary Fund (IMF)-World Bank and the GATT (later the WTO) as the prime architects. However, this discussion on the genesis of this reforms process in India clearly shows that there was a perceived change in the approach towards defining the norms of development by a section of the Indian policymakers since the mid-1980s. Needless to say that international scholarship on development, with extensive analyses of the consequences of prolonged protection, must have influenced this new policy thinking. However, there were major debates and differences of opinion on this among Indian policymakers and scholars, and hence the initial liberalisation attempts of the 1980s remained arguably piecemeal and somewhat ad-hoc, lacking a comprehensive reforms package that some of the other inward-looking economies had already put in place (e.g., China since 1978). The 1991 reforms package adopted by India was a direct fallout of the acute BoP crisis faced by India in 1990. This marked a paradigm shift in its trade and development policy approach in a fundamental way. The need for this change of policy gear was already being felt for some time and the crisis only acted as a trigger. As noted earlier, India's trade reforms coincided with the established of WTO driven world order, but was not dictated by it. Therefore, it can be broadly concluded that India's trade policy architecture has remained by and large homegrown, dictated by domestic imperatives, both economic and political, rather than by the forces of the international economic order. Even at the WTO, India's stance has been shifting rather dramatically, but much of it may be linked to India's 'self interest' as opposed to international compulsions.

The immediate question that comes to our mind is which way should India's trade policy be directed towards? Given that WTO has come to an effective standstill, should India now start vigorously pursuing a bilateral and or a regional trade agenda? Although, this is not a simple question to answer, having examined the broad coordinates of India's trade policy, one tends to believe that it is in India's best interest at this juncture to take forward a multilateral trade agenda through the institution of the WTO. India must try to capitalise on its heightened profile and leadership stature at the WTO to see revitalise the institution. While bilateral trade agreements may serve some immediate short-term gains for India, it can never be an effective substitute for a free and fair global trade regime in a multilateral framework that is in India's best interest in the long run.

. . . . .