Vol. 3 No. 3 June 2015 ISSN: 2319-961X

INDIA AND THE WORLD ECONOMY

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Abstract

The last few years have seen much talk of Globalization, Economic Liberalization and Global integration in India. The completion of the Uruguay Round of trade negotiations in April 1994 and the establishment of the World Trading Organization (WTO) in January 1994 and has further raised many issues regarding India's participation in world trade in future, its integration with the world economy and the regarding India's participation in world trade in future, its integration with the world economy and the likely costs and benefits from this integration.

Keywords: *Globalization, Economic Liberalization, WTO, FERA, MNCs, fiscal incentives*

Globalization

Globalization means 'integrating' the economy of a country with the world economy. In the Indian context, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India; removing constraints and obstacles to the entry of MNCs in India (through dilutions and ultimate scrapping of restrictive laws like FERA); allowing Indian companies to enter into foreign collaborations in India and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programmes by switching over from quantitative restrictions to tariffs in the first place (so that there is more 'transparency' in import policy), and then bringing down the level of import duties considerably; and instead of a plethora of export incentives (like duty drawbacks, cash compensatory support, replenishment licenses and other fiscal incentives etc.) opting for exchange rate adjustments for promoting exports.

The Push towards Globalization

The stabilization and structural adjustment programme of the IMF-World Bank had the following three components:

- Stabilization which basically implies cutting down fiscal deficit and the rate of growth of money supply,
- Domestic liberalization which consists of relaxing restrictions on production, investment, prices and increasing the role of market signals in guiding resource allocation, and
- External sector liberalization or relaxing restrictions on international flows of goods, services, technology and capital.

Steps towards Globalization

- Exchange rate adjustment and rupee convertibility;
- Import Liberalisation;
- Opening up to foreign capital;

Effects of Globalization

External Factors

The Process of globalization initiated in 1991 and the far reaching changes in industrial and other policies have led to considerable changes on the external sector front.

Indian Enterprises

The Process of globalization in India has led to an 'unequal competition' – a competition' – a competition between 'giant MNCs' and dwarf Indian enterprises.

Unequal Competition stems from the following reasons

- The Indian enterprises suffer from 'Size disadvantages' as they are just minuscule as compared to the MNCs.
- The Indian corporate sector for four decades prior to 1991 operated in a protectionist environment.
- The cost of capital for Indian business is much higher than MNCs.
- Indian firms continue to suffer from handicaps developed under the earlier regime of controls.
- The state has pursued policies that have clearly discriminated in favour of MNCs.

Emergence of a New World Economic order setting up of WTO

General Agreement of Tariffs and Trade (GATT)

After the Second World War, many countries got down together to work on ways and means to promote international trade. The result was the signing of the General Agreement on Tariffs and Trade (GATT) by 23 countries in 1947. India was one of the founder members of GATT. Over the years the membership of GATT swelled and in 1994 touched 118 countries. GATT has all along been concerned with the promotion of international trade through tariff reduction, doing away with non-discriminatory practices among trading partners, and evolving rules to counter protectionism. The guiding principle of GATT has been what is known as the MFN (Most Favored Nation) clause. This clause says that "any advantage, favour, privilege or immunity granted by a contracting party to any product originating in or destined for any country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all contracting parties." The purpose of this clause was to discourage bilateralism and encourage multilateralism so that the world trade could expand in an orderly manner. However, formation of customs union or free trade area was allowed by GATT provided this encouraged flow of trade between the constituent territories and did not raise barriers to the trade of other member nations.

Salient Features of the Uruguay Round

- Agreement on agriculture;
- Agreement on trade in textiles and clothing (Multi-Fiber Arrangement);
- Agreement on market access;
- Agreement on TRIMs;
- Agreement on TRIPs.
- Agreement on Services;
- Disputes Settlement Body.

India and WTO

No other issue in recent times has generated so much heat than the likely repercussions of the new international economic order on world economy internal and developing countries in particular. According to the supporters, the Uruguay Round agreement, the Marrakech Declaration (which reiterated the commitment of the ministers of various governments attending the Final Round to the new multinational trade framework) and the ultimate setting up of the WTO, are expected to bring about substantial gains in world trade and increased income from liberalization, improved market access and greater export opportunities, besides greater predictability of the trading environment. The Government of India has also been harping on this tune. However, critics have pointed out that the entire negotiation process was ruthlessly dominated by the developed countries (particularly the USA) and the results that have emerged (in the form of various Agreement noted above) are highly titled in their favour.

India's Commitments to WTO

- As a member of the WTO, India has bound about 67 per cent of its tariff lines whereas prior to the Uruguay Round only 6 per cent of the tariff lines were bound.
- Quantitative Restrictions (QRs) on imports are currently being maintained on Balance of Payments (BOP) grounds of about 2,300 tariff lines at the eight digit level.
- The Government of India is committed to amend the Patents Act for meeting its obligations under the TRIPs Agreement.
- Under TRIMs, India has already notified the TRIMs maintained by it.
- Under the General Agreement on Trade in Services (GATs), India has made commitments in 33 activities.

WTO – Trespassing the Sovereignty of Nation States

- The WTO Agreement establishes an international legislative body with a vast subsisting domain and with a built-in provision for continuing expansion of this domain.
- GATT had one fundamental, egalitarian principle embedded in it.
- Under the GATT arrangement, ministerial level meeting were few and far between.
- Another point related to the above point is that WTO will provide a permanent and continuous forum of negotiations.

Conclusion

It is necessary to point to the Non-Tariff Barriers (NTBs) imposed by the developed countries in the form of protectionist policies against Indian exports. Although pressures are being mounted in India by the developed countries via the WTO to dismantle NTBs in view of the improvement in balance of payments and foreign exchange reserves, they themselves continue to impose NTBs on India.

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