

LIBERALIZATION OF TRADE - IN INDIAN CONTEXT

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Abstract:

Liberalization, in simple terms refers to the act of relaxation of pre-existing government norms and restrictions, majorly focused on social and economic frameworks and regulations. Over time, in the history of economic reforms, various nations (as well as rulers) have levied taxes and regulations to keep the economy monitored and well-structured. However owing to both self-actualization of needs, and international pressure towards a global village, countries over time lifted their constraints, or loosened the tight strings on the market policies. This paper aims at recording the various stages involved in liberalization, the cause which promotes it, its aftermath, and the change in the market place which is brought about as a result of it. The paper will focus majorly on the Indian economy and its sectors: Primary (Agriculture), Secondary (Industrial) and Tertiary (Services). The paper will also touch the import-export segment to realize the overall scenario pertaining to the lifting of the trade by-laws and the creation of a global village.

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Introduction:

Trade liberalization refers to the act of lifting or decreasing the restrictions or barriers on the exchange of goods and services amongst nations. Liberalization includes both tariff related and non-tariff related aspects of removal or reductions of the restrictions. Tariff related liberalization includes decrease in duties and surcharges, whilst non-tariff related liberalization refers to the factors which are not directly monetarily measurable, such as ease of licensing rules, introduction of quotas, special incentives by the government and so on.

Need for the study:

The world, today, is considered to be one unified global village. The sustenance of the village occurs by the exchange of Goods and Services amongst multiple nations. The cross-nation exchange of products offers an interesting insight into the dynamics of global economics, as well as an outline of the social outplay of various countries. The liberalization rules also point out clearly the mentality of the state; the developmental stage of a country can also be gauged by simply looking at the point of time/stage at which liberalization was initiated/fully adopted.

Objectives of the study:

This study is aimed to enable the reader on the history of liberalization around the globe, and its impact on the global scenario. The special focus on India throws light on India in an international context, comparing it to various nations which have 'been there, done that'. This paper also intends to equip the reader with a brief understanding of the various factors which lead to a country changing its rules and approach towards liberalization. The factors and its impact on the nation's economic, political and social strata are planned to be discussed too.

Methodology:

Amongst the wide spread literature prevalent over the internet and the print media, a few select pieces were reviewed thoroughly. Their features which stand out and catch a reader's eyes were

clearly noted. Discussions were also initiated amongst multiple social groups, each having a different perspective, a different outlook towards the economic and political scenarios prevalent in India. Considering all the views and re-verifying the facts with the actual events, conclusions/analysis will be derived upon.

Hypothesis:

A few developing countries have opened/are in the process of opening their economies towards global trade, in order to make the most of the opportunities available to them for their nation's economic development through commerce and trade. The other remaining trade barriers in industrial countries currently exist in the agricultural sector and the labor-intensive manufactures (which are the major advantages of a developing country, owing to low cost of living and labor charges). Trade liberalization in these remaining areas, both by the industrially developed and developing countries, would help the poorest fragments of their societies to escape from extreme poverty, thus improving the living standards and the overall economy of the nation.

History of liberalization

a) In the World

The history of liberalization doesn't run too deep into the annals of time. Free trade is a policy by which a government does not discriminate against imports or interfere with exports by applying tariffs (to imports) or subsidies (to exports) or quotas. The free trade policy allows trading partners to achieve mutual gains through the trade of goods and services.

i) Brazil (Latin America)

Starting with the Great Economic Depression in the 1930s and 1940s, Brazil was always keen on expanding its trade connections since 1950s. The flourishing of trade in the 1960s and 1970s opened the doors for the debates on agrarian and tax reforms. Brazil threw open its arms to international trade with little restrictions since early 1990s, with more leniency being bestowed every passing year.

ii) *Mexico*

Trade liberalization in Mexico officially started after 1983. However, the leaders of Mexico were always sensitive and open towards the need for deregulation of rules. President José López-Portillo (1976-1982), was in particular, very eager to liberalize Mexico's trade. His approach comprised of replacing the existing licenses with tariffs, gradually removing the official prices for imports and exports, and establishing incentives for foreign countries in the form of fiscal and trade credits in order to promote Mexico's exports.

iii) *East Asia*

Countries limited by the geographical boundaries of East Asia to Japan, South Korea, China, Taiwan, Hong Kong, and the Association of SouthEast Asian (ASEAN) Countries, collectively termed as East Asia in the purview of our discussion, have been continuously undergoing trade policy reforms. Though the onset was from high levels of internal protection/harsh policies, they have progressively moved on in the direction of liberalization all the way.

iv) *Australia*

Australia, from times immemorial has been an ever changing economy. In the past few decades, Australia has gained a lot from the developments in international trade. Since the 1980s and 1990s, various reforms have been initiated by the government. The deregulation of the financial markets and the floating of the dollar are amongst the most prominent ones; followed by the introduction of competition policy, the reform of public enterprise and the decentralization of the industrial relations system. The reduction in trade barriers and industry protection have produced a much more flexible and resilient economy.

v) *Overall, in the World*

The fifteen members of the European Union have created a "single internal market." Australia and New Zealand have completed their free trade area. Several large groupings

are en route to a similar outcome: the North American Free Trade Agreement (Canada, Mexico, United States), Mercosur (Argentina, Brazil, Paraguay, Uruguay), and the ASEAN Free Trade Agreement (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, and now Vietnam). There are numerous free trade areas among smaller countries.

b) In India

India, even after 45 years of independence, was suffering from a desperate economy. The agricultural sector was still the predominant sector, contributing the most to the GDP of the nation. The foreign reserves were dwindling, and it was estimated that India was on the verge of breakdown. It had foreign reserves worth enough to sustain the inflow of goods for less than 7 days flat – the Indian economy would have fallen flat on its face otherwise. In the wake of the lack of funds, and the insecurity beaming over the fate of the entire nation, India woke up to its call of Liberalization, Privatization and Globalization. The LPG model of development was adopted in the year 1992. Dr. Manmohan Singh, the erstwhile Finance Minister, in the cabinet of Prime Minister P.V. Narsimha Rao, was the chief architect of the revamp of the Indian economic scenario, and almost single-handedly bought India to the shores of financial safety.

Review of literature:

Various articles and publications were reviewed in the course of the creation of the paper. Prof. Eliana Cardoso, EESP-FGV, has written a brilliant piece on '*A brief history of trade policies in Brazil: from ISI, export promotion and import liberalization to multilateral and regional agreements*'. In the same, he mentions clearly the various stages of liberalization which were prevalent in Brazil's case. He further goes ahead to show the Share of Trade Balance and the Current Account in Brazil's GDP, over a stretch of 61 years, from 1947 to 2008.

Silvia Nenci, University of Roma Tre, has authored another spectacular piece on '*Tariff liberalization and the growth of world trade: a comparative historical analysis for the evaluation of the multilateral trading system*'. She takes the readers on a verbal journey GATT/WTO, its

history and its operations. She also pictorially describes the average regional tariffs (in a post-World War II scenario), divided regionally into 'Asia', 'Core', 'Euro periphery', 'Latin America', and 'Offshoots'.

Soogil Young, the President of the Korea Transport Institute, Seoul, and a former Director of Trade and Industry Services at the Korea Development Institute, has put in all his knowledge and experience in writing a piece on '*Political Economy of Trade Liberalization in East Asia*'. He takes us on a journey through history, specifying clearly the economic conditions since 1970s.

Analysis and Interpretation:

** International Trade and the World Economy*

Ever since the General Agreement on Tariffs and Trade (GATT) was created in 1947, international trade has prospered at a promising 6% per annum. The World Trading System has benefited immensely from multiple rounds of Multilateral Trade Liberalization (eight in no. so far), as it has from unilateral and regional liberalization policies. The last round, the 1994 'Uruguay-Round' fostered the creation of the 'World Trade Organization', whose primary objective is to help in the proper administration of the ever increasing multilateral trade agreements.

As a positive impact of the increased global trade, the standards of living of most nations have improved with time. Almost all developing economies have followed the trend; with very sharp surge in economy and living conditions in some. Exports have increased manifold in many countries, making it easier for a country to sell off its excess produce and earn a handsome amount from the same, where previously it would have been a major loss to the economy.

The extent of progress varies, India and China, being liberal in their outlook and approach have risen the steps of glory and have improved their economies significantly. Korea and Singapore, rated poor by world standards in the 1970s have shown immense development and have established themselves on the global economic front. The same, however, does not hold true for Middle East and African countries, where the progress has been hindered because of lack of interest to lower their own barriers to trade.

* *The Benefits of Trade Liberalization*

No country in the recent decades has achieved measurable economic success without opening its arms to international trade and liberalization. There hasn't been any substantial improvement in the quality of living of any nation without being open to the rest of the world. Some of the developing countries have devised international scale competency in the manufacturing of certain products. These countries having been termed as 'New Globalizers' by the World Bank, have displayed immense grit and determination, as the number of people in absolute poverty has declined by more than 120 million, in between the years of 1993 and 1998. The same amounts to almost 14% of their total population figures.

The potential financial gains resulting from the elimination of the trade barriers are immense. The estimates range from US\$250 billion to US\$680 billion. It is expected that about 65% of these profits would be accrued by industrial countries. Freeing trade frequently benefits the poor especially. New jobs are created for unskilled workers, raising them into the middle class.

* *The Need for Further Liberalization of International Trade*

Although liberalization has improved significantly, it is still prevalent in the agricultural products or labor-intensive manufacturing and services sectors, especially in the developing countries, which have generated a competitive advantage. Industrial countries, till date, maintain a high internal protection through an array of very high tariffs: tariff peaks, tariff escalation and restricted tariff quotas being some of them. Comparatively, on an average, there is about 9 times more protection on the agricultural sector than in the manufacturing sector. Further liberalization—by both industrial and developing countries—will be needed to realize trade's potential as a driving force for economic growth and development. Greater efforts by industrial countries, and the international community more broadly, are called for to remove the trade barriers facing developing countries, particularly the poorest countries. Although quotas under the so-called Multifiber Agreement are due to be phased out by 2005, speedier liberalization of textiles and clothing and of agriculture is particularly important.

* *Reaping the benefits*

The failure to start a new round of multilateral trade negotiations at the WTO conference in Seattle in 1999 was a huge setback for the international trading system. Multilateral negotiations,

especially of that stature are particularly relevant and important as they provide an opportunity to nations to gain substantial benefits for their exporters due to market opening by the other nations. This prospect provides an added incentive for countries to open their own markets, and to overcome opposition from the entrenched interests benefiting from protection. When this is followed, the trade liberalization measures packages, that are a result of the negotiations are assured of aiding, all or most of the participating nations.

A new round of negotiations would increase global growth prospects and strengthen the international trading system. A successful trade round is regarded as an important step towards attaining the goal of globalization benefiting the world at large.

* *Effects on the Indian economy*

The effects on the Indian economy are multifarious. A few of them are discussed below with the help of secondary data made available through multiple organizations and Government agencies.

❖ *Agricultural trade pre and post Liberalization*

Year	Exports	Imports	Net exports	Trade as % of GDP Agriculture [@]		
	\$ million	\$ million	\$ million	Export	Import	Total
1990-91	3352	672	2679	4.13	0.83	4.95
1991-92	3203	604	2599	4.59	0.87	5.46
1992-93	2950	938	2011	4.73	1.50	6.23
1993-94	4013	742	3271	5.67	1.05	6.72
1994-95	4211	1891	2320	5.18	2.33	7.51
1995-96	6098	1761	4337	7.34	2.12	9.46
1996-97	6806	1863	4943	7.23	1.98	9.21
1997-98	6685	2364	4321	7.02	2.48	9.51
1998-99	6064	3462	2601	6.28	3.58	9.86
1999-00	5842	3708	2134	6.01	3.81	9.82
2000-01	6273	2646	3627	6.59	2.78	9.36
2001-02	6183	3408	2775	6.28	3.43	9.71

Source: Agricultural Statistics at a Glance, Ministry of Agriculture, GOI, various issues.

@ Based on Rupee value at current prices.

As is evident, the Exports (in \$ million) have increased considerably with the advent of Liberalization.

❖ *Growth rate in prices of various food commodity groups before and during reforms*

Price/Period	Cereal	Pulses	Edible oil	Fruit & vegetable	Milk & its products	Meat, Egg & fish	All food articles	All commodities
Nominal prices								
1981-82 to 1990-91	5.76	10.35	8.83	7.45	8.57	7.27	9.14	6.75
1990-91 to 2000-01	9.45	9.77	2.68	8.65	7.31	11.10	7.77	7.87
1990-91 to 1996-97	11.33	13.58	4.39	10.96	8.06	13.79	8.01	10.55
1996-97 to 2001-02	5.72	4.15	-0.76	3.55	7.89	5.87	5.45	5.01
Real prices								
1981-82 to 1990-91	-0.93	3.37	1.95	0.65	1.70	0.49	2.24	
1990-91 to 2000-01	1.47	1.77	-4.81	0.72	-0.52	3.00	-0.09	
1990-91 to 1996-97	0.71	2.74	-5.57	0.37	-2.25	2.93	-2.30	
1996-97 to 2001-02	0.67	-0.83	-5.50	-1.39	2.74	0.81	0.42	

Computed from: Index Number of Wholesale Prices in India, Government of India, various Issues.

The Growth rate in nominal prices of all the commodities was much lower in post WTO period as compared to the period of domestic reforms before 1992. Growth rate in nominal cereal prices during post WTO period was half of the growth rate recorded during reforms before WTO. Similarly growth rate in prices of pulses, fruits and vegetables and meat products during post WTO period was one third of the growth rate in reform period before WTO. Nominal prices of edible oil followed decline after 1996-97. In fact, it is felt that had government not taken measures to keep a check on cereal imports their prices in post WTO period would have followed decline due to decline in international prices. Growth rate in overall price index in the country declined from 10.55 percent per annum during 1990-91 to 1996-97 to 5.01 percent during 1996-97 to 2001-02.

Findings:

A few astonishing results were discovered/found in the course of the research :

- The history of liberalization dates back to the year 1947, and it kick-started with the formation of GATT.
- Developing countries have improved on their contribution to world economy: up from about a quarter in 1950s to about a third in 1970s.

- Manufacturing sector has grown immensely to account to upto 80% of the country's exports.
- Average import tariff has fallen from 30% to 10% in East Asia, in a span of 20 years, owing to trade opening (along with opening to FDI, Foreign Direct Investment).
- The number of people living in absolute poverty in the 'New Globalizers' countries has decreased by 120 million people, in 5 years from 1993-1998.
- Estimated gains of eliminating all barriers to merchandise trade : between US\$250 billion and US\$680 billion.
- The European Commission spends about 2.7 billion euro every year, in making sugar profitable for the local European farmers, whilst simultaneously shutting out low-cost imports of tropical sugar.

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