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INDIAN TRADE POLICY AFTER THE CRISIS

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EXECUTIVE SUMMARY

India, like China, had a "good" crisis; both have spearheaded exuberant post-crisis recovery in emerging markets. A combination of stable government and roaring growth gives rise to predictions that India will hit annual growth rates of 10 per cent or more. This is India hype. Reforms have stalled since 2004, with no prospect of big change. The combination of a barely-reforming government in Delhi and turbulent global economic conditions will make it difficult to maintain existing levels of growth. Geopolitically, India is a rising regional and global power, but it is still a second-tier emerging power, well behind China.

Turning to trade policy: India's cumulatively substantial trade and FDI liberalisation has narrowed the gap with other developing countries. External protection is now much closer to Chinese and ASEAN levels. But that still leaves significant pockets of protection in agriculture, some industrial products and big-ticket services sectors.

India also has high domestic regulatory barriers – much higher than the east-Asian average – that are an even bigger obstacle to trade and FDI. Indian trade and FDI liberalisation has been overwhelmingly unilateral. But this has stalled since 2004. India is one of the worst offenders in terms of crisis-related protectionist measures, though this does not affect a big chunk of its trade. India is defensive in the WTO, as its Doha Round positions show. It is very active with FTAs, but these are "trade light", pursued more for foreign-policy than commercial reasons. Indeed, India has the worst-quality FTAs among major Asian FTA players.

To throw some explicitly political observations into the mix: Reform complacency cramps further liberalisation and structural reform – more so in Delhi than in the better-performing states. But a party-political and wider public consensus, supported by open-economy business interests, prevents reform reversal.

Foreign-policy shifts – notably India's "look west" and "look east" policies – cement cross-border commercial ties. India's most favourable endowment is its labour abundance. This is the most promising factor to support further external liberalisation and global integration.

India's challenge is to stimulate further unilateral trade and FDI liberalisation related to domestic structural reforms. That means tackling non-border, but still trade-related, regulatory barriers. These are "second-generation" reforms whose politics can be more challenging than the politics of "first-generation" reforms. The latter involve the reduction and removal of border barriers. This is relatively simple technically and can be done quickly – though politically these measures are rarely easy. The former are all about complex domestic regulation.

These reforms are technically and administratively difficult, and take time to implement. They demand a minimum of capacity across government, especially for implementation and enforcement. Above all, they are politically very sensitive, as they affect entrenched interests that are extremely difficult to dislodge. Nevertheless, the case should be made to take on these reforms – so that they can be pushed through when political opportunities present themselves.

1. INTRODUCTION

India has had a "good" crisis. The global financial crisis has induced a sharp divergence of economic performance between the West and emerging markets, particularly in Asia. China and India both enjoy roaring growth and are leading emerging markets out of the crisis. More than ever, India is seen as a rising regional and global power.

This is the broad backdrop for an assessment of Indian trade policy after the crisis. The next two sections flesh out the context. Section Two is on post-crisis trends in the global economy, focusing on trade policy. Section Three is on the post-crisis Indian political economy, focusing on economic policy. Section Four concentrates on Indian trade policy.

2. THE POST-CRISIS GLOBAL ECONOMY: FOCUS ON TRADE POLICY

The crisis has induced both *divergence* and *convergence* between the West and emerging markets. Post-crisis economic performance has markedly diverged; but this has accelerated the long-run catch-up or convergence of emerging markets with the West.

Diverging economic performance has its roots in the crisis itself. The West had a financial crisis. That translates into a deeper-than-normal recession and a slower-than-average recovery[1] The picture looks very different in emerging markets, particularly in Asia. Unlike the West, Asia did not suffer a financial crisis; its banks and balance sheets (household, corporate, government and external) were reasonably solid. Rather it suffered a trade or deglobalisation crisis as the financial crisis, originating in the West, spread to the "real economy" and demand for exports collapsed. But Asia rebounded quickly – much more so than the West. China led the Asian bounceback, helping to lift other east-Asian countries out of the crisis, and India recovered fast as well. China and India are expected to grow at more than 10 per cent and just under 10 per cent respectively, and developing Asia at over 9 per cent, in 2010. Advanced economies are projected to grow at only 2.7 per cent. Trade volumes for emerging and developing economies are expected to increase by over 13 per cent in 2010, compared with an estimated 10-11 per-cent increase for advanced economies. FDI to developing countries shrank much less than it did in the West in 2009. Inward and outward FDI for China and India remained buoyant in 2009 and are projected to increase significantly in 2010.[2]

What about post-crisis economic policies in Asia and the West? How do they compare?

So far, government interventions have been more evident in domestic economic policy than in trade policy. Domestic "crisis interventions" are bunched in two key areas: huge bailouts and associated subsidies, especially but not confined to financial services; and fiscal stimulus packages, usually combined with loose and unorthodox monetary policies. The former is concentrated in the West; the latter spread across the OECD and developing countries.

The post-crisis effects of these policies are likely to be far worse in the West than in emerging markets. The cost of financial-sector bailouts and Keynesian macroeconomic policies amounts to about 28 per cent of OECD GDP in 2008 – akin to financing a world war. Both sets of policies leave oceans of public debt that portend higher taxes and real interest rates, in addition to inflationary threats (given governments' temptation to inflate their way out of debt repayments). The *microeconomics* and *politics* of financial bailouts and profligate macroeconomic policies are equally vexing. Intrusive financial regulation and bigger public expenditure portend arbitrary interventions by politicians and bureaucrats, wasteful pork-barrel spending, indiscriminate subsidies, long-term entitlements and rent-seeking. This will stifle private-sector incentives to save, invest and innovate; and it will restrict competition and raise costs for businesses and consumers. These could be the medium-term consequences of short-term crisis interventions and the return to Big Government.

The news is much better on international trade: the world has not hurtled into tit-for-tat protectionism. As the WTO notes, obvious protectionism – mainly border measures such as tariffs, quotas, import licenses and anti-dumping duties – have hardly increased; they affect just over 1 per cent of international trade.[3] But this does not take account of non-traditional, non-border protectionism – mainly complex domestic regulations that spill over the border and discriminate against international trade. Many crisis interventions fall into this category: intrusive new financial regulations that affect cross-border finance; public-procurement restrictions; industrial subsidies; and onerous product and process standards (including environmental standards to promote renewable energy and combat climate change).[4]

Non-traditional regulatory protectionism in the wake of the crisis, especially on subsidies and standards, is worrisome. It is more opaque than traditional protectionism and much less constrained by WTO rules. The danger is that, if not contained, it will spread gradually to cover bigger swathes of international trade. That is what happened in the 1970s and early 1980s: rampant domestic interventions to combat external shocks led to creeping protectionism. The result: industrial overcapacity, and delayed global recovery and globalisation.[5]

To sum up the global policy outlook: The medium-term consequences of domestic crisis interventions are likely to be far worse in the West than in emerging markets. The prevention of traditional protectionism is good news all-round. Equally, creeping non-traditional protectionism is worrying news all-round.

3. THE POST-CRISIS INDIAN POLITICAL ECONOMY: FOCUS ON ECONOMIC POLICY

India has weathered the crisis well, buoyed by exuberant domestic consumption. The Government of India's response to the crisis was fiscal-stimulus packages amounting to about USD 60 billion – though, unlike China, in the context of deteriorating public finances, with the consolidated fiscal deficit climbing to above 10 per cent in 2009 (more like 13-14 per cent of GDP if off-balance-sheet items like food and fuel subsidies are taken into account).

The May 2009 election delivered an unexpectedly strong mandate to the Congress-led UPA government; India has its most stable government in over twenty years. But this has not led to a new wave of market reforms. There have been a few mini-reforms, such as the partial removal of the Administered Price Mechanism on fuel and fertiliser subsidies (reintroduced by the UPA government a few years ago), and pending legislation to partially liberalise higher education. But reforms of the pensions and insurance sectors have stalled, a Generalised Sales Tax (GST) has been postponed to 2012, and delays continue to impede public-private partnerships for infrastructure development.

Relatively high levels of protection remain: agricultural tariffs and non-tariff barriers (NTBs), peak industrial tariffs and restrictions in big-ticket services sectors (such as professional services, banking, insurance, retail and distribution, and aviation). There are even higher and largely unreformed domestic regulatory barriers. These include extremely restrictive employment laws, reserved sectors for small-scale industries (though this list has been reduced), high and differing barriers between the states, repressed financial markets, extremely interventionist agricultural policies (subsidies, price controls and other internal trade barriers), domestic restrictions on services sectors, huge subsidies and price controls on energy, lack of rural property rights, and very inefficient, corrupt public administration. Public-sector reform has hardly begun.

Basically, reforms have stalled since Congress came back to power in 2004, and there are no signs of big change. Dr. Singh and his "dream team" have not proved to be genuine reformers in the past six years; and anti-market sentiment and vested interests remain strong in the Congress Party.[6] The opposition BJP has lost the reform impulse it had in government and is in disarray.

Nevertheless, a combination of stable government and roaring growth gives rise to exuberant optimism. India boosters claim that growth will soon exceed 8-10 per cent per annum, on the back of increasing rates of aggregate savings and investment (the latter approaching 40 per cent of GDP).[7] Growth catalysts will be high-value services and manufacturing niches; and this can happen without a new wave of policy reforms. At the same time, India is rising to be a regional and global power.

This is India hype: it defies belief that India can boost growth above an annual 10 per cent without further structural reforms. In terms of market reforms, India lags behind China and other parts of east Asia. It has higher protection against imports and inward investment. Its public finances, infrastructure and lower-education system are much weaker. It has more damaging restrictions that stymie domestic markets in agriculture, manufacturing and services – especially draconian employment laws that prevent firms from employing unskilled workers in large numbers. Government subsidies are more wasteful. Worst of all, India's unreformed, dysfunctional state – the Union government in Delhi, the state governments and other levels of government – is the biggest obstacle to faster growth. Growth has come from capital- and skill-intensive sectors in manufacturing and services. It has primarily benefited the urban well-to-do and middle classes, but not flowed down as much as it has in east Asia to the poor in the rural areas.[8]

Absent further market reforms, India will not have what it desperately needs: east-Asian-style, labour-intensive agricultural, services and industrial growth. In particular, India needs its Industrial Revolution so that the impoverished in the countryside can move to (initially) low-wage work in mass manufacturing.[9] That has yet to happen. And it demands regulatory reforms – not least in labour markets and the public sector – that remain politically very hard nuts to crack. Moreover, the combination of a barely-reforming government in Delhi and worse global economic conditions after the crisis might make it difficult to maintain current levels of growth.

That said, India has a silver lining: policies, institutions and economic performance have been improving in a minority of Indian states, roughly in an arc from the south to the west, with a few outliers such as Bihar in the north. They set positive examples for other states to emulate.

No one can deny that India is a bigger player on the global stage. But, economically and militarily, it is still too small to be a pan-Asian, let alone a global, leader. It pales in comparison with China. Even within south Asia its leadership is diminished by testy relations with most of its neighbours, and disastrous relations with its biggest neighbour, Pakistan. Hence India, like Brazil and Russia, is a second-tier emerging power, well behind China. This is the present reality – though India's regional and global power may look different a decade or more ahead if it keeps growing at or just below 10 per cent per annum.[10]

4. POST-CRISIS INDIAN TRADE POLICY

THIS SECTION STARTS with India's trade and FDI patterns and their associated policy framework. It then looks at India's "multi-track" trade policy – through unilateral measures, the WTO and FTAs. Finally, it adds explicitly political observations on Indian trade policy.

a. Trade and FDI patterns; the policy framework[11]

India's retreat from the "licence raj" – its equivalent of Soviet-style central planning – began halfheartedly in the 1980s; but its decisive opening to the world economy dates back to 1991. Most border NTBs have been removed, as have internal licensing restrictions. Nominal applied tariffs came down from an average of 100 per cent in 1985 to 13 per cent by 2008/9. The maximum tariff on nonagricultural goods, save for a few items, has come down to 10 per cent. However, in agriculture, tariffs and NTBs remain much higher. The average applied tariff in agriculture is 32 per cent. The maximum MFN tariff is 246 per cent. India has bound 74 per cent of its tariffs in the WTO at an average rate of 50 per cent (Table 1).

These reductions have significantly narrowed the gap between Indian levels of trade protection and those of other developing countries. India is now much closer to ASEAN and Chinese levels of trade protection. Its trade-weighted tariff, at 6 per cent, is lower than that of Brazil or Russia and not that far off Chinese and ASEAN levels (Table 1). Still, India's tariff structure remains more protectionist than those of east-Asian countries. Intermediate inputs and consumer goods (e.g. cars, motorcycles, textiles and garments) face relatively high tariffs. The effective rate of protection for manufacturing, though it has decreased, remains high compared with east-Asian countries. In addition, the Government of India operates an extremely complex, bureaucracyridden system of duty exemptions, special establishment and investment regulations, sectoral support programmes and Special Economic Zones (SEZs) to encourage exports.[12] Also, India has become the world's most active user of AD duties, especially directed at Chinese imports.

FDI and services liberalisation have proceeded alongside the liberalisation of trade in goods. Manufacturing is fairly open to FDI. In terms of overall FDI regulatory restrictiveness, India is on a par with China, but it is more restrictive than Russia and Brazil (Figure 1). Some services sectors, notably insurance, aviation, construction, retail and distribution, face especially high levels of protection. Restrictions include foreign-equity limits, the form of commercial establishment, and complicated and costly licensing procedures.

India is placed 134th overall in the World Bank's 2011 "ease of doing business" indicators – the worst of the BRICS and well behind China. It is ranked 100th overall for "trading across borders", better than Brazil and Russia but well behind China (Table 2). These scores are reflected in the World Economic Forum's *Enabling Trade Index* (Table 3). Among the World Bank indicators, India scores particularly badly in starting and closing a business, dealing with construction permits, paying taxes and enforcing contracts. There is considerable variation among Indian states: if only the top-ten performing states were counted, India would jump 55 places in the ease-of-doing-business rankings – roughly to where China is now. India's "hard" infrastructure is at least as bad as its "soft" regulatory infrastructure. It has appalling roads, airports and ports, and serious power shortages.

Trade and FDI liberalisation have rapidly integrated India into the global economy. The trade-to-GDP ratio climbed to over 55 per cent of GDP in 2008, before coming down to about 45 per cent of GDP in the wake of the crisis – not far off China's trade-to-GDP ratio (Figure 2). India's international trade has increased correspondingly; exports grew by about 20 per cent annually between 2000 and 2008 (Figure 3). Trade in services has grown particularly fast, led by IT and IT-related sectors, but also including medical, entertainment and a host of other business-related services.

Overall, India accounts for 2.4 per cent of world trade – well behind China (Figure 4). Its share of world services exports (4 per cent of the total) is double its share of world goods exports (Figure 5). It is also well behind China in attracting FDI, accounting for 1 per cent of global inward FDI stock by 2009 (Figure 6). Inward investment flows have been increasing rapidly, however, reaching USD 40 billion in 2008, before declining slightly due to the crisis (Figure 7). Outward FDI has also been increasing rapidly, reaching USD 18 billion in 2008 (Figure 8).

Resource-based manufacturing (especially minerals) and semi-skilled manufactures (such as gems and jewellery) feature prominently in India's merchandise exports. Exports are growing in more technology and skill-intensive (though still capital-intensive) products in chemicals, engineering, cars and car parts, and pharmaceuticals. But India continues to underperform badly in labour-intensive exports. Garments is the only unskilled labour-intensive product range in India's list of top six merchandise exports; but even its share of world exports is declining and pales in comparison with China's share. Bangladesh and Sri Lanka, both with much smaller populations, have garments exports as large as India's. Unlike China, India has not become a manufacturing powerhouse in other labour-intensive goods such as toys, leather goods, footwear, travel goods and sporting goods. Also unlike China, it has not broken into global manufacturing supply chains in IT and other "transport-and-machinery" products. The latter are characterised by "processing trade": raw materials and components are imported for assembly and export of finished goods. Processing trade accounts for half of China's overall trade, but it is negligible in India. Last, FDI goes to India mostly to serve the local market rather than for export production. In contrast, in China and other parts of east Asia, much FDI is linked to processing trade to serve global markets.[13]

These patterns show that India is not exploiting its labour abundance and concomitant comparative advantage in labour-intensive exports, particularly in manufacturing. That goes some way to explaining why growth rates averaging over 6% since 1991, and 8-9% in the last few years, have not delivered the employment, poverty-reduction and human-welfare-improvement effect of comparable (or higher) growth rates in China and other parts of east Asia. Remaining protection and – even more so – high domestic regulatory barriers channel production and trade into labour-saving, capital and skill-intensive activities and away from unskilled labour-intensive activities.[14]

b. Multi-track trade policy: unilateral measures, WTO and FTAs

India's trade and FDI liberalisation has come about almost totally through *unilateral* measures – outside trade negotiations, whether in the WTO or FTAs. This happened mostly in two reform bursts, first in 1991-93 and then in 1998-2004, with "reform pauses" in 1993-96 and after 2004.

External liberalisation has stalled under the present Congress-led government, save for industrial-tariff reductions in annual budgets (until 2008) and marginal FDI reforms. Recent rule changes may allow companies to get round sectoral caps on foreign equity. One regulation allows an Indian holding company with up to 49 per cent of foreign equity to invest in "downstream" companies without counting the holding company's foreign equity. Another allows FDI to be counted with different types of foreign portfolio investment. But both are incredibly opaque and baffling, and appear designed to maximise lobbying and special favours for well-connected companies.

Moreover, protectionist measures increased in the run-up to and during the global economic crisis, though not in a major way. First there were new export restrictions on agricultural products in response to commodity-price inflation in 2007/8. Other trade-restricting measures -- higher import tariffs, licensing requirements, provisional anti-dumping and safeguard duties, and tighter standards restrictions – followed when the crisis hit. Iron, steel, aluminium, yarn and assorted agricultural products were affected. Many of these measures targeted Chinese imports. According to Global Trade Alert, India is a chief offender in terms of crisis-related protectionist measures, alongside the EU-27, Russia and Argentina (Table 5). However, these measures have not affected a big chunk of India's trade. Interestingly, China is not in the list of top ten offenders, but it is the prime target of others' crisis-related protectionism (Tables 4 and 5).

India, along with Brazil, is the most active developing country in the WTO. Its GATT and GATS commitments are weak. Nevertheless, Uruguay Round agreements have led to changes in national practice – most notably the abolition of import quotas on consumer goods on balance-of-payments grounds. India is active as both plaintiff and defendant in WTO dispute settlement. As a result of losing disputes, it has had to change domestic regulations on import quotas, patents, local-content measures, and internal taxes on wines and spirits. It may have to abolish remaining export subsidies if this issue is pursued in dispute settlement.[15]

India is a lead player in the Doha Round, but its defensiveness in the Uruguay Round has continued in the Doha Round. It is rigidly defensive in agriculture and rather defensive in industrial goods (in the non-agricultural market access – NAMA – negotiations). It was strongly opposed to the inclusion of most of the Singapore issues, and remains in favour of strong Special and Differential Treatment for developing countries. That said, India is not as militantly obstructive as it was in the GATT. Its main negotiating shift has been in services, where it has discovered offensive interests in the wake of the ITservices take-off at home.[16]

Still, Indian trade policy appears somewhat schizophrenic: domestic economic considerations have driven unilateral liberalisation, but this has not translated into greater flexibility in the WTO (except to some extent in services). The domestic backlash against India's Uruguay Round commitments (negotiated by the Minostry of Commerce and Industry, largely without wider consultation or discussion) and messy coalition politics have combined to restrict the government's room for manoeuvre in the WTO. Hence unilateral and multilateral trade-policy tracks seem disconnected.[17]

India has become very active with FTAs, in its south-Asian backyard and beyond. It has 11 FTAs on the books and plans many more (Table 6). Its FTA activity is on a par with that of the other two major Asian powers, China and Japan.

In south Asia, India has FTAs with Sri Lanka, Bhutan and Nepal, and is negotiating with Bangladesh. The strongest of these is the Indo-Lanka FTA, but even the latter is weak: up to half of bilateral trade is excluded or restricted with carve-outs, tariff-rate quotas and stringent rules of origin (ROOs). Hitherto loose regional cooperation is supposed to be transformed into the South Asian FTA (SAFTA) by 2010, leading to a customs union by 2015 and economic union (whatever that means) by 2020. This looks unachievable in practice. For starters, SAFTA excludes Indo-Pakistani trade. Planned negotiations are only on goods; they do not cover services, investment and other non-border market-access issues. And over half of intra-regional trade is excluded through "sensitive lists", restrictive ROOs and assorted NTBs.[18]

India's approach to FTAs outside South Asia is mostly about foreign policy and is "trade light": not much trade is actually liberalised. At best tariffs are eliminated on close to 90 per cent of products – though with often long transition periods and restrictive ROOs. But "WTO-plus" issues – non-tariff and regulatory barriers in goods, services, investment and public procurement – are hardly tackled, with little advance on weak WTO disciplines. Indeed, India has the worst-quality FTAs of all major FTA players in Asia.

An FTA with ASEAN is planned for completion by 2011; and bilateral FTAs are also in place with Thailand and Singapore. ASEAN-India, India-Thailand and India-Malaysia negotiations have been bedevilled by India's insistence on exempting swathes of products and on very restrictive ROOs for products covered. Fear of Chinese competition is one of the main factor driving product exemptions and restrictive ROOs. India's recently concluded FTA with South Korea fits the pattern: only 66 per cent of Indian tariff lines are subject to duty elimination over an 8-year transition period; and agreements on services and investment are weak. In addition, India is part of the BIMSTEC group (the other members being Bangladesh, Sri Lanka, Nepal, Bhutan, Thailand and Myanmar) that plans an FTA by 2017. It has mini-FTAs – basically limited tariff-concession schemes – in force or planned with several countries and regions, for example Chile, SACU, Mercosur and IBSA.[19]

India's most serious FTA negotiation is with the EU. Both sides have committed to an ambitious agreement, with tariff elimination on more than 90 per cent of goods trade and a strong GATS-plus agreement in services. Most of agriculture will be exempted by mutual agreement. Whatever the rhetoric, the EU will find it extremely difficult to tackle India's high trade-related regulatory barriers through an FTA, and, specifically, to open up government procurement and some services sectors (for example professional services, financial services, retail and distribution). Given stalled policy reforms in Delhi, snail-like unilateral liberalisation, WTO defensiveness and other trade-light FTAs, a "deepintegration" FTA with India is next to impossible.[20]

c. Political economy of Indian trade policy[21]

Now consider some explicitly political observations on Indian trade policy. The following treatment adopts a simple taxonomy of relevant factors: circumstances, especially crises; organised interests; institutions; and foreign policy.

First, circumstances – crises in particular. India's big burst of external liberalisation, in 1991-93, was linked to macroeconomic stabilisation, both set against the backdrop of an extreme balance-of-payments crisis in 1991. India has seen stop-go reforms since 1993; and they have been more "stop" than "go" since 2004. Increasing and seemingly sustainable growth has clearly bred "reform complacency". The global economic crisis induced marginal protectionist backsliding rather than further liberalisation.

Indian trade and FDI liberalisation has also benefited from an east-Asian "demonstration effect". Unilateral liberalisation swept across southeast Asia, and then China, in the 1980s and '90s. China became the engine of liberalisation for the wider region – sending ripple effects across to India. This concentrated policy-makers' minds in India; they felt they could not fall too far behind east-Asian liberalisation if they were to improve economic performance. However, unilateral liberalisation has stalled in east and south Asia. It stalled in China from about 2006, corresponding with greater industrial-policy interventions.

Second, organised interests. India's culture of democracy has long accommodated lively and diverse interest-group activity. In trade policy, such activity sprang to life after the Uruguay Round. Trades unions remain very protectionist. Their fortress is extremely restrictive employment laws that make it unviable for firms to take on new workers beyond a certain size. Unions represent a tiny minority of workers in sectors that were long protected under the licence raj. In manufacturing, there are only six million workers in the formal sector, in a total employable population of 450 million or more. State-owned enterprises, for example in power, energy, infrastructure, agriculture and financial services, are also bastions of protection.

India's private sector, in contrast, has been transformed since the opening of the economy from 1991. It was dominated by long-established conglomerates who benefited from the license raj. The two main industry associations, the CII (Confederation of Indian Industries) and FICCI (Federation of Indian Chambers of Commerce and Industry) were strong defenders of protectionism. Now the landscape is more varied. There remain influential protectionist interests in manufacturing. But India's leading business houses – some longestablished, like the Tatas, Birlas and Mahindras, others newer on the scene, such as Reliance, Mittal and Bharthi – have restructured, expanded exports and are investing in production abroad. Many still lobby for protection, but in more muted form given their wider international interests. This is reflected in the changing positions of the industry associations – more pronounced with the CII, which represents the big firms, less so with FICCI, which houses more inward-looking medium-sized firms. CII and FICCI, given the mixed interests they represent, tend to be defensive in trade negotiations, but somewhat more flexible on unilateral liberalisation. Finally, India's stellar IT firms, notably in software and business-process outsourcing, are very open-economy oriented. They operate in a far less regulated policy environment compared with other sectors, have myriad links with foreign multinationals, and have fast-expanding exports and foreign investments. They are represented by NASSCOM.

The challenge is to harness open-economy interests to the wagon of further liberalisation, and especially to domestic regulatory reforms. Their stakes in structural, microeconomic reforms are becoming ever clearer. Previous liberalisation has spurred firm-level restructuring, export-orientation and overseas expansion. But firms remain hamstrung by high-cost domestic business environments, which they feel puts them at a disadvantage to foreign competitors with more salubrious business climates in their home markets. That also translates into defensiveness in trade negotiations. Structural reforms at home would lower business costs, boost the international competitiveness of local firms, make them less resistant to opening domestic markets to foreign competition, and translate into less defensive positions in trade negotiations.

Third, institutions. The complications of liberal-democratic politics – split policy competences between the centre and the states in a federal system, freewheeling interest-group activity, media scrutiny, public discussion, multiple "veto points" - makes it very difficult to pursue comprehensive reforms, including trade reforms. Also, trade policy is controlled by the Ministry of Commerce and Industry (MOCI). The Ministry of Finance was influential in liberalisation in 1991-1993, but less so thereafter. Organised business and NGOs have become more active since the Uruguay Round. Inter-agency coordination on trade policy functions badly, and state governments are largely left out of the loop.[22] The MOCI remains defensive in trade negotiations and ambivalent about unilateral liberalisation – rather at odds with the global integration of the Indian economy since 1991.

Thus a combination of organised interests and defective institutions cramps further liberalisation and structural reforms. But India's great advantage is its factor endowment – labour abundance. We know from recent economic history that the star developing-country performers are from east Asia. These countries had different starting positions, but, at a certain stage of development, labour abundance allowed them to break into labour-intensive manufactured exports, which became an engine of growth and in turn aided poverty reduction and human-welfare improvement. This is the shadow of south Asia's future. By plugging into global markets for manufacturing, and labour-intensive services too, south-Asian countries can get on to sustainable growth paths. Labour-intensive exports attract FDI (and the technology and skills that come with it), feed quickly into poverty-reducing, welfare-improving employment, and, more gradually, into better infrastructure and institutions. This creates and strengthens a constellation of interests to support open trade and FDI policies. This bodes well for China, India and other labour-abundant countries in east and south Asia.

Fourth, foreign policy. The end of the Cold War and the collapse of the Soviet Union transformed Indian foreign policy. India looked west to a *rapprochement* and closer relations with the USA, and in the second instance with Europe. It also looked east, first to southeast Asia and then to China. Closer engagement, looking east and west, started in the early 1990s, paused in the mid to late 1990s, and has been renewed and strengthened ever since. It corresponds with the timing of external liberalisation. Arguably, India's foreign-policy shift is an important factor influencing its belated embrace of the world economy.[23]

To sum up: An economic crisis led to a big opening of the economy. India emulated successful liberalising policies in east Asia – up to a point. New open-economy interest-group constellations emerged to counter traditional protectionist interests – though business interests still have mixed preferences and do not lobby vigorously for market opening. Liberalising reforms have stalled; but a party-political and wider public consensus, supported by open-economy business interests, has gradually formed around existing reforms. This prevents reform reversal. Shifts in foreign policy have also encouraged external opening and greater cross-border commerce. Last, India's great good fortune is its labour abundance. This is the strongest medium-to-long-term factor to support further external liberalisation and global integration.

5. CONCLUSION

India, like China, had a "good" crisis; both have spearheaded exuberant post-crisis recovery in emerging markets. A combination of stable government and roaring growth gives rise to predictions that India will hit annual growth rates of 10 per cent or more. This is India hype. Reforms have stalled since 2004, with no prospect of big change. The combination of a barely-reforming government in Delhi and turbulent global economic conditions will make it difficult to maintain existing levels of growth. Geopolitically, India is a rising regional and global power, but it is still a second-tier emerging power, well behind China.

Turning to trade policy: India's cumulatively substantial trade and FDI liberalisation has narrowed the gap with other developing countries. External protection is now much closer to Chinese and ASEAN levels. But that still leaves significant pockets of protection in agriculture, some industrial products and big-ticket services sectors. India also has high domestic regulatory barriers – much higher than the east-Asian average – that are an even bigger obstacle to trade and FDI.

Indian trade and FDI liberalisation has been overwhelmingly unilateral. But this has stalled since 2004. India is one of the worst offenders in terms of crisis-related protectionist measures, though this does not affect a big chunk of its trade. India is defensive in the WTO, as its Doha Round positions show. It is very active with FTAs, but these are "trade light", pursued more for foreign-policy than commercial reasons. Indeed, India has the worst-quality FTAs among major Asian FTA players.

To throw some explicitly political observations into the mix: Reform complacency cramps further liberalisation and structural reform – more so in Delhi than in the better-performing states. But a party-political and wider public consensus, supported by open-economy business interests, prevents reform reversal. Foreign-policy shifts – notably India's "look west" and "look east" policies – cement cross-border commercial ties. India's most favourable endowment is its labour abundance. This is the most promising factor to support further external liberalisation and global integration.

India's challenge is to stimulate further unilateral trade and FDI liberalisation related to domestic structural reforms. That means tackling non-border, but still trade-related, regulatory barriers. These are "second-generation" reforms whose politics can be more challenging than the politics of "first-generation" reforms. The latter involve the reduction and removal of border barriers. This is relatively simple technically and can be done quickly – though politically these measures are rarely easy. The former are all about complex domestic regulation. These reforms are technically and administratively difficult, and take time to implement. They demand a minimum of capacity across government, especially for implementation and enforcement. Above all, they are politically very sensitive, as they affect entrenched interests that are extremely difficult to dislodge. Nevertheless, the case should be made to take on these reforms – so that they can be pushed through when political opportunities present themselves.

ENDNOTES

1. This is the central lesson from perhaps the best book about the crisis, based on historical data on financial crises. See Carmen Reinhardt and Kenneth Rogoff, *This Time is Different: Eight Centuries of Financial Folly*, Princeton NJ: Princeton University Press, 2009.
2. *IMF World Economic Outlook*, October 2010; UNCTAD, *World Investment Report 2010*.
3. "Overview of developments in the international trading environment", *Annual Report by the Director-General*, World Trade Organisation WT/TPR/OV/12, 18 November 2009, pp. A18-19 http://www.wto.org/english/news_e/news09_e/wt_tpr_ov_12_a_e.doc.Also see European Commission, *Sixth Report on Potentially Trade-Restrictive Measures* http://trade.ec.europa.eu/doclib/docs/2010/may/tradoc_146198.pdf ; WTO, OECD and UNCTAD *Reports on G20 Trade and Investment Measures* (May 2010 to October 2010), 4rd November 2010 http://www.oecd.org/dataoecd/20/56/46318551.pdf
4. For analysis that includes these regulatory measures and their impact on international trade, see Simon Evenett, "Executive summary", in *Tensions Contained … For Now: The Eighth GTA Report* http://www.globaltradealert.org/sites/default/files/GTA8_exec_summary.pdf
5. On emerging protectionism since the crisis, its link with domestic crisis interventions and comparisons with 1970s, see Fredrik Erixon and Razeen Sally, "Trade, globalisation and emerging protectionism since the crisis", *ECIPE Working Paper* no. 2, 2010 http://www.ecipe.org/trade-globalisation-and-emerging-protectionism-since-the-crisis/PDF
6. Razeen Sally, "Congress deserves to lose India's elections", *Financial Times*, 15th April 2009; and "India after the elections", http://www.ecipe.org/blog/india-after-the-elections

7. Martin Wolf, "India's elephant charges on through the economic crisis", *Financial Times* 3 March 2010.

8. Though high growth in the last two decades-- the product of market reforms since 1991 – has lifted nearly 200 million people out of extreme poverty. Previous decades of much lower growth barely made a dent into overall poverty. See Jagdish Bhagwati, "Indian reforms: yesterday and today", *The Third Prof. Hiren Mukerjee Memorial Annual Parliamentary Lecture*, 2 December 2010 http://www.columbia.edu/~jb38/papers/pdf/Lok-Sabha-speech-FINAL-EXPANDED-Deceber-14.pdf

9. Arvind Panagariya, *India: The Emerging Giant*, Oxford: Oxford University Press, 2008; Edward Luce, *In Spite of the Gods: The Strange Rise of Modern India*, London: Abacus, 2007.

10. Martin Wolf, "India in the world", pp. 387, 394-396, in *India's Economy: Performance and Challenges*, Shankar Acharya and Rakesh Mohan eds., New Delhi: Oxford University Press, 2010.

11. This section draws on WTO, *Trade Policy Review: India*, 2008 www.wto.org; USTR, *National Estimate of Foreign Trade Barriers 2010: India* www.ustr.gov; S. Narayan, "Trade reforms in India", in *The Political Economy of Trade Reforms in Emerging Markets: Crisis or Opportunity?* Philip Alves, Peter Draper and Razeen Sally (eds.), London: Edward Elgar, 2009; Anwarul Hoda , "India in the WTO", in *India-ASEAN Economic Relations: Meeting the Challenges of Globalisation*, M. Asher, N. Kumar and R. Sen (eds.) Singapore/India: ISEAS/RIS, 2005.

12. As indicated by even a cursory reading of Government of India, Ministry of Commerce and Industry, *Foreign Trade Policy* 2009-2014 http://dgftcom.nic.in/exim/2000/dn/ftpdnl/high0910-eng.pdf

13. Panagariya, op cit., pp. 264-268; Prema-chandra Athukorala and Hall Hill, "Asian trade: long-term patterns and key policy issues", *Asia-Pacific Economic Literature* 24,2, 2010, pp. 52-82.

14. Anne O. Krueger, "India's trade with the world: retrospect and prospect", pp. 422-426, in *India's Economy*, op cit..

15. Anwarul Hoda, "Enforcing WTO rights and obligations – India in the WTO disputes", *ICRIER Trade Policy Newsletter* .., pp. 18-21, 2010.

16. Hoda, "India in the WTO", *op cit.*.

17. Narayan, op cit..

18. Razeen Sally, "Regional economic integration in Asia: the track record and prospects", *ECIPE Occasional Paper* 2, 2010, p. 10 http://www.ecipe.org/publications/ecipe-occasional-papers/regional-economic-integration-in-asia-the-track-record-and-prospects/PDF

19. Razeen Sally, "FTAs and the prospects for regional integration in Asia", *ECIPE Working Paper* 1, 2006, pp. 12-13.

20. Razeen Sally, "Looking East: the European Union's new FTA negotiations in Asia", *Jan Tumlir Policy Essay* 3, 2007, European Centre for International Political Economy http://www.ecipe.org/publications/jan-tumlir-policy-essays/looking-east-the-european-union2019s-new-trade-negotiations-in-asia-1/PDF

21. This sub-section draws on Razeen Sally, "Globalisation and the political economy of trade reforms in the BRIICS", chapter 4 in *Globalisation and Emerging Economies: Brazil, Russia, India, Indonesia, China and South Africa*, Paris: OECD, 2009.

22. Narayan, *op cit.*.

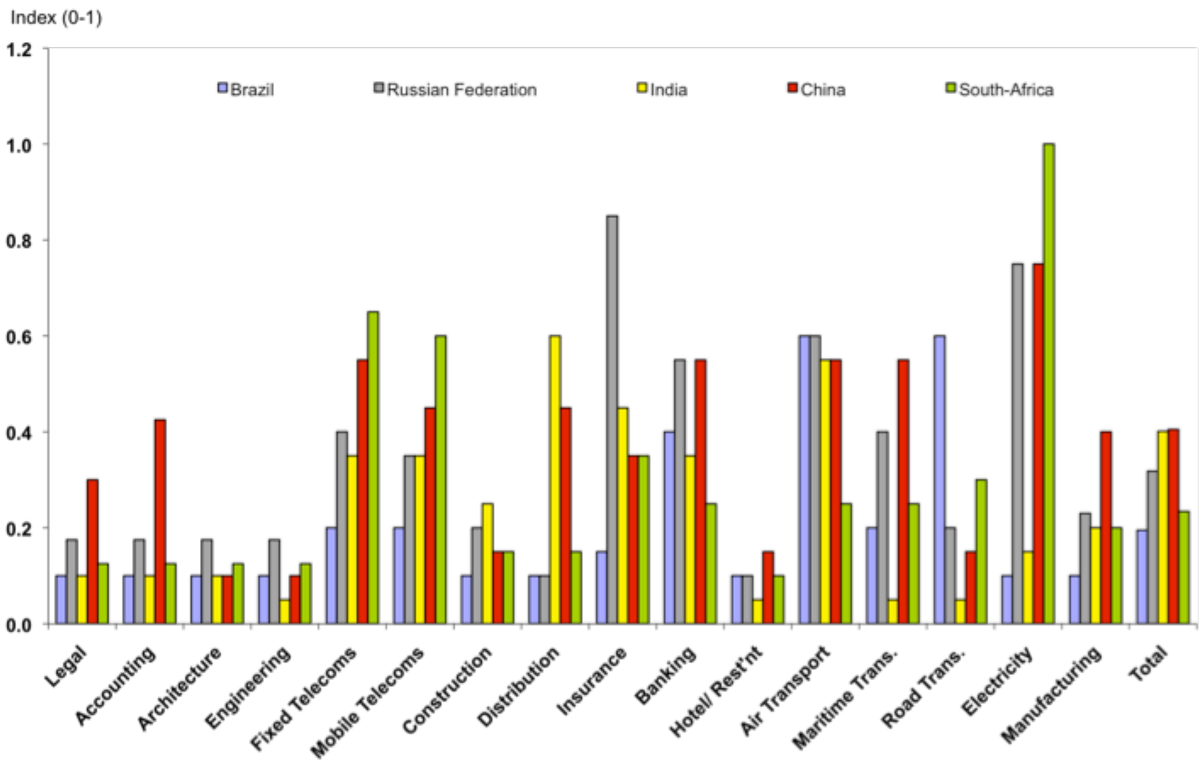
23. Narayan, *op cit.*; Sanjaya Baru, *Strategic Consequences of India's Economic Performance, Academic Foundation*, New Delhi, 2006.

TABLE 1: BOUND AND APPLIED MFN TARIFFS (WTO 2010)

Country/ Economy	Year	Tariff Binding Coverage in %	Simple Average Final Bound (All goods)	Simple Average Applied Tariff (Manufacture)	Simple Average Applied Tariff (Agriculture)	Simple Average Applied Tariff (All Goods)	Trade Weighted Average (All goods)	Maximum MFN Applied Duties
EU	08/09	100,0	5,2	3,9	13.5	5,3	2.9	166
US	08/09	100,0	3.5	3.3	4.7	3.5	2.0	350
Japan	08/09	99.7	5.1	2.5	21.0	4.9	2.0	641
Brazil	08/09	100	31.4	14.1	10.2	13.6	8.8	96.7
Russia	08/09	-	-	10.1	13.2	10.5	10.3	357
India	08/09	73,8	48.5	10.1	31.8	12.9	6.0	246
Indonesia	08/09	95.8	37.1	6.6	8.4	6.8	4.1	150
China	08/09	100,0	10.0	8.7	15.6	9.6	4.3	65
South Africa	08/09	96.4	19.0	7.5	8.9	7.7	5.0	878

Source: WTO World Tariff Profiles (2010), http://stat.wto.org/TariffProfile/WSDBTariffPFHome.aspx?Language=E.

FIGURE 1: FDI REGULATORY RESTRICTIVENESS BY COUNTRY AND SECTOR



Source: Koyama and Golub (2006) OECD'S FDI Regulatory Restrictiveness Index: Revision and Extension to more Economies, Economic Department Working Papers No. 525, pp. 8-10.

TABLE 2: WORLD RANKING FOR EASE OF DOING BUSINESS (2011)

	Ease of Doing Business	Starting a Business	Dealing with Constr. Permits	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Singapore	1	4	2	15	6	2	4	1	13	2
H-Kong	2	6	1	56	2	3	3	2	2	15
US	5	9	27	12	6	5	62	20	8	14
Denmark	6	27	10	30	15	28	13	5	30	5
Korea	16	60	22	74	15	74	49	8	5	13
Japan	18	98	44	59	15	16	112	24	19	1
Thailand	19	95	12	19	72	12	91	12	25	46
Malaysia	21	113	108	60	1	4	23	37	59	55
Vietnam	78	100	62	43	15	173	124	63	31	124
China	79	151	181	38	65	93	114	50	15	68
Indonesia	121	155	60	98	116	44	130	47	154	142
Russia	123	108	182	51	89	93	105	162	18	103
Brazil	127	128	112	122	89	74	152	114	98	132
India	134	165	177	94	32	44	164	100	182	134

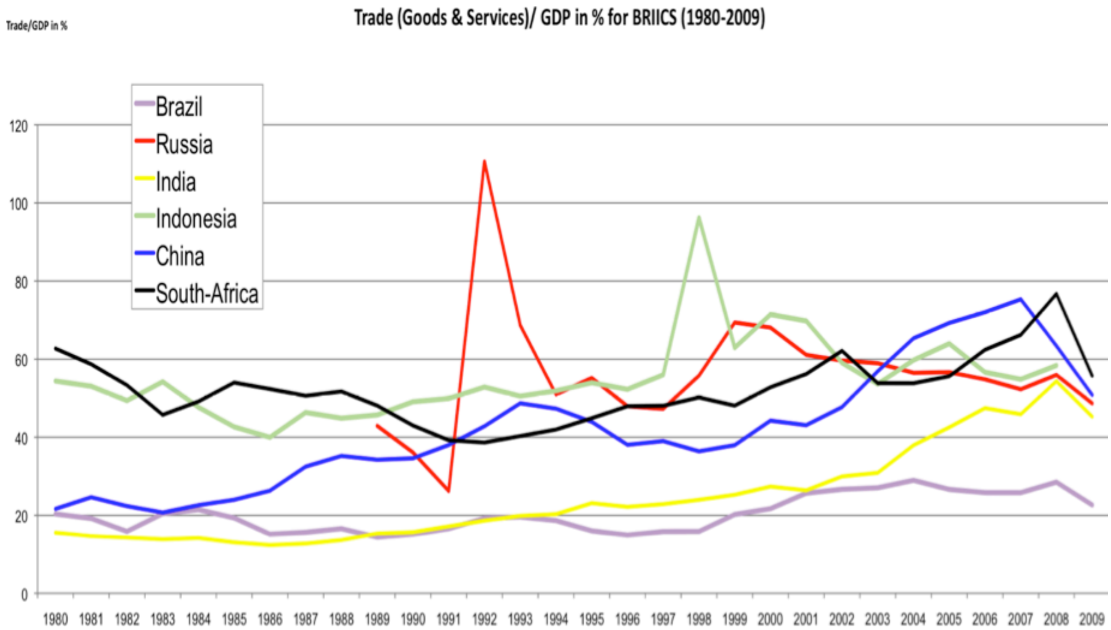
Source: World Bank Ease of Doing Business 2011 http://www.doingbusiness.org/rankings

TABLE 3: THE ENABLING TRADE INDEX (2010)

Country/ Economy	Overall Market		Market Access		Border Administration		Transport and Communications Infrastructure		Business Environment	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Singapore	1	6.06	1	5.97	1	6.56	7	5.74	2	6
Hong-Kong	2	5.7	16	5.12	6	5.96	5	5.79	5	5.94
Denmark	3	5.41	95	3.76	3	6.22	8	5.71	3	5.96
Sweden	4	5.41	96	3.75	2	6.34	9	5.7	10	5.84
Switzerland	5	5.37	58	4.23	10	5.76	10	5.63	8	5.87
United States	19	5.03	62	4.17	19	5.6	11	5.49	37	4.86
Japan	25	4.8	121	3.2	16	5.65	14	5.45	34	4.91
China	48	4.32	79	3.87	48	4.53	43	4.13	41	4.74
Indonesia	68	3.97	60	4.21	67	3.99	85	3.28	60	4.42
South-Africa	72	3.95	87	3.78	53	4.25	65	3.64	79	4.11
India	84	3.81	115	3.42	68	3.98	81	3.34	58	4.48
Brazil	87	3.76	104	3.72	80	3.7	66	3.64	83	4
Russia	114	3.37	125	2.68	109	2.99	48	4	92	3.79

Source: The Global Enabling Trade Report 2010, pp 10 & 11

FIGURE 2: TRADE (GOODS AND SERVICES) / GDP IN PERCENTAGES FOR BRIICS (1980-2009)



Source: World Bank, World Development Indicators; WTO, International Trade Statistics 2010

FIGURE 3: TOTAL TRADE (GOODS AND SERVICES) IN BLN US$ FOR BRIICS, EU, JAPAN AND US, INCL. INTRA-EU TRADE (1980-2009)

Source: World Bank, World Development Indicators; UNCTAD Statistical Handbook 2009; WTO, International Trade Statistics 2010

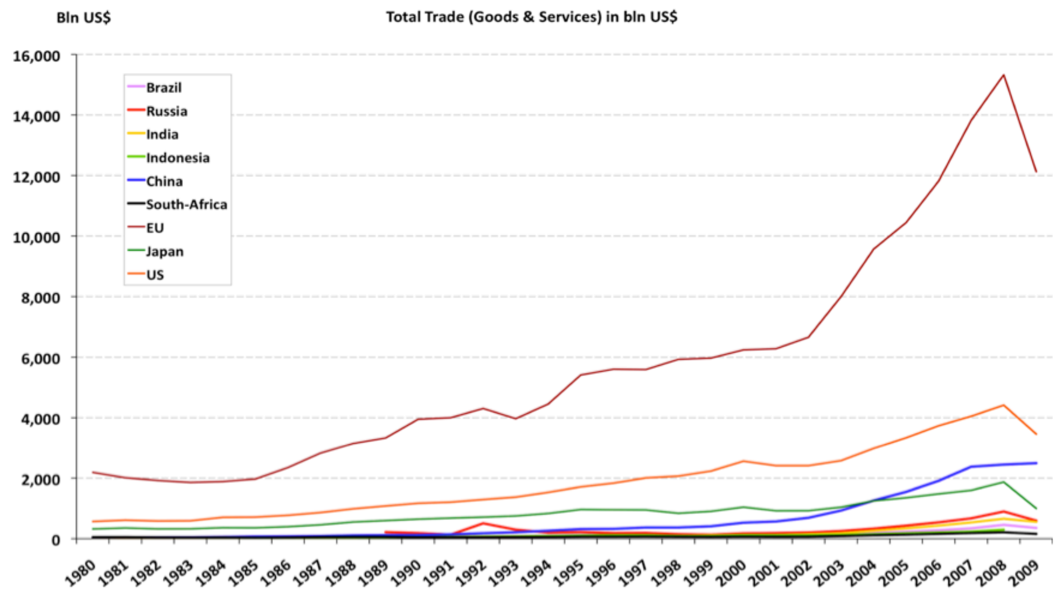
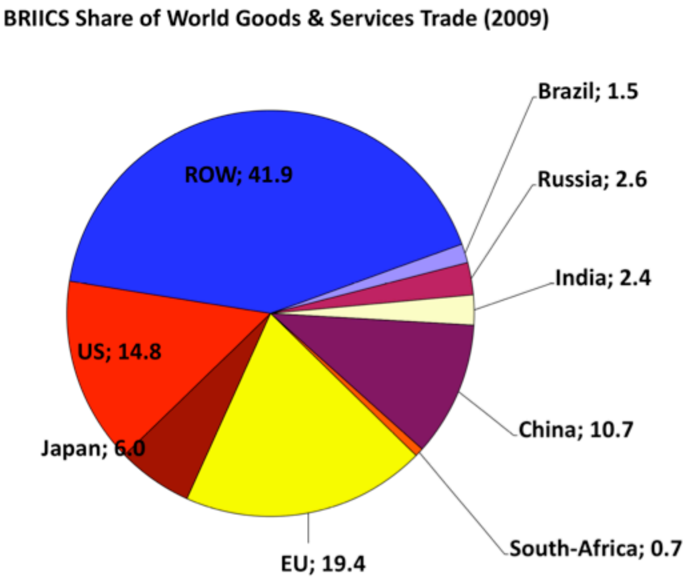
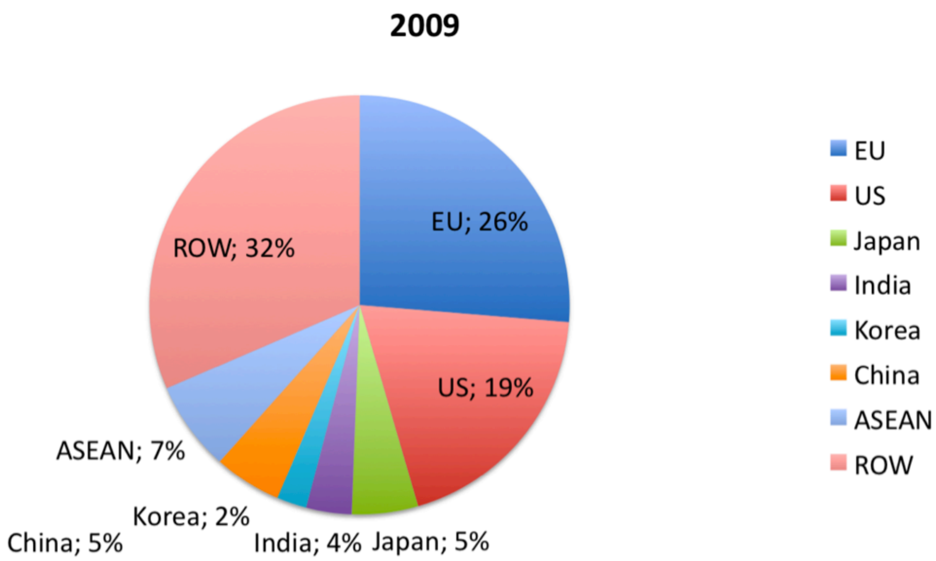


FIGURE 4: BRIICS, EU, US AND JAPAN SHARE OF WORLD GOODS & SERVICES TRADE (2009: EU EXCL. INTRA TRADE)



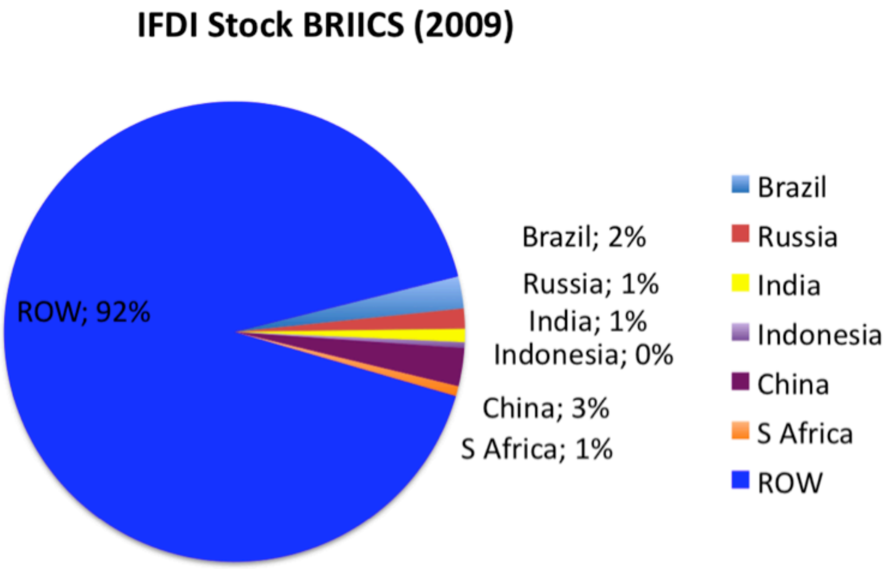
Source: WTO, International Trade Statistics 2010, http://www.wto.org/english/news_e/pres10_e/pr598_e.htm; Eurostat and own calculations.

FIGURE 5:SHARE OF EXPORTS IN WORLD SERVICES TRADE (EXCL. INTRA-EU27 TRADE) 2009



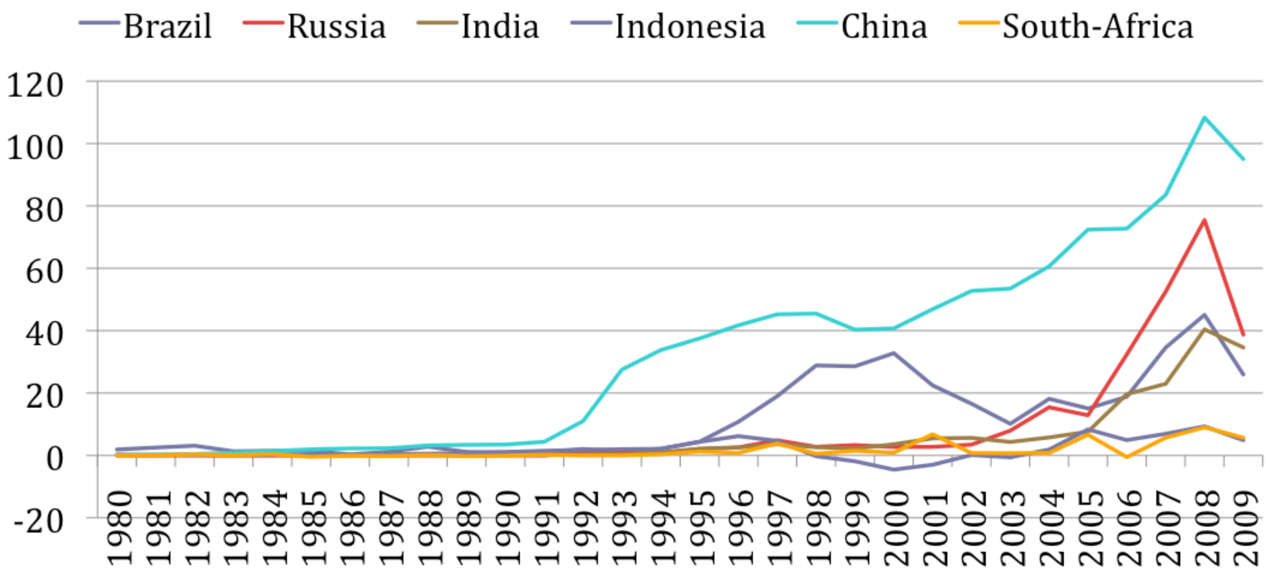
Source: WTO International Trade Statistics 2010

FIGURE 6: SHARE OF WORLD IFDI, BRIICS (2009)



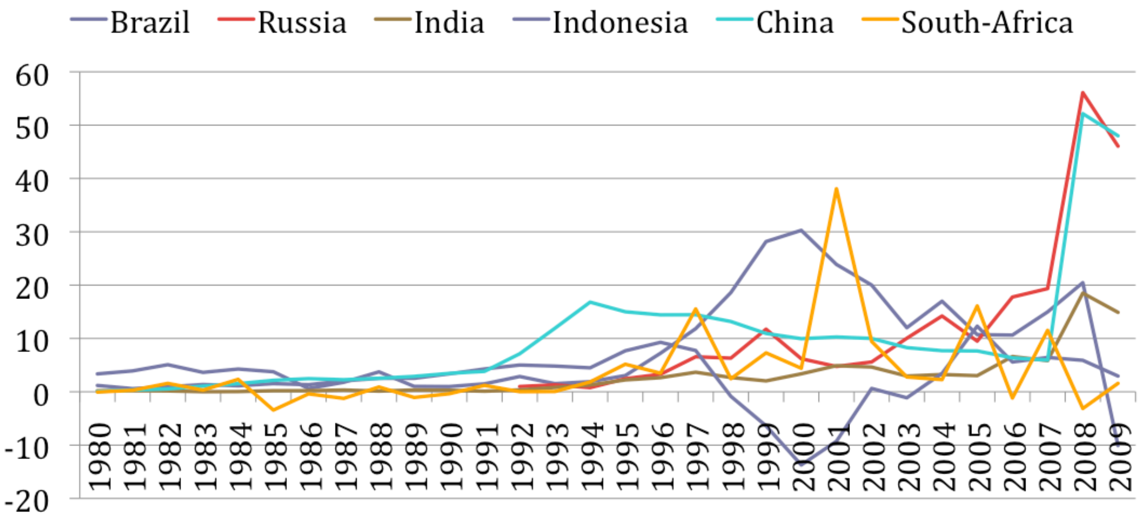
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

FIGURE 7: INWARD FDI FLOWS FOR BRIICS IN BLN US$ (1980-2008)



Source: UNCTAD World Investment Report 2010 (WIR 2010): http://www.unctad.org/templates/WebFlyer.asp?intItemID=5535&lang=1

FIGURE 8: OUTWARD FDI FLOWS FROM BRIICS IN BLN US$ (2000-2009)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

TABLE 4: COUNTRIES TARGETED BY CRISIS-ERA TRADE-RESTRICTIVE MEASURES

Target	Number of discriminatory measures imposed on target		Number of pending measures which, if implemented, would harm target too	
	November 2010	Increase since June 2010	November 2010	Increase since June 2010
China	337	55	129	4
EU27	322	56	88	8
USA	260	47	51	5
Germany	240	36	63	7
France	221	33	50	4
UK	214	33	48	4
Italy	211	36	53	3
Japan	192	24	50	4
Netherlands	191	21	45	3
Belgium	189	19	46	3

Source: Global Trade Alert (2010): The 8th GTA Trade Report, CEPR, London, http://www.globaltradealert.org/sites/default/files/GTA8_0.pdf

TABLE 5: CRISIS-ERA TRADE-RESTRICTIVE MEASURES BY COUNTRY

<table>
<tr><th>Rank</th><th>Ranked by number of measures</th><th>Ranked by the number of tariff lines affected by measures</th><th>Ranked by the number of sectors affected by measures</th><th>Ranked by the number of trading partners affected by measures</th></tr>
<tr><td>1</td><td>EU27 (166)</td><td>Viet Nam (926)</td><td>Algeria (67)</td><td>Argentina (174)</td></tr>
<tr><td>2</td><td>Russia (85)</td><td>Venezuela (785)</td><td>EU27 (57)</td><td>EU27 (168)</td></tr>
<tr><td>3</td><td>Argentina (52)</td><td>Kazakhstan (723)</td><td>Nigeria (45)</td><td>China (160)</td></tr>
<tr><td>4</td><td>India (47)</td><td>Nigeria (599)</td><td rowspan="2">Venezuela (38)
Viet Nam (38)</td><td>Indonesia (151)</td></tr>
<tr><td>5</td><td>Germany (35)</td><td>Algeria (476)</td><td>Algeria (476)</td></tr>
<tr><td>6</td><td>Brazil (32)</td><td>EU27 (467)</td><td rowspan="3">Germany (36)
Kazakhstan (36)
Russia (36)</td><td>India (145)</td></tr>
<tr><td>7</td><td>UK (31)</td><td>Russia (426)</td><td>Russia (143)</td></tr>
<tr><td>8</td><td>Spain (25)</td><td>Argentina (396)</td><td rowspan="3">Finland (132)
Germany (132)
South Africa (132)</td></tr>
<tr><td>9</td><td rowspan="2">Indonesia (24)
Italy (24)</td><td>India (365)</td><td rowspan="2">India (32)
Ethiopia (32)</td></tr>
<tr><td>10</td><td>Indonesia (347</td></tr>
</table>

Source: Global Trade Alert (2010): The 8th GTA Trade Report, CEPR, London, http://www.globaltradealert.org/sites/default/files/GTA8_0

TABLE 6: RECENTLY ESTABLISHED OR PROPOSED RTAS/CEPAS BY INDIA (2000-2010)

Trading Partners	Nature of Agreement	Status of Agreement 2010
Singapore	FTA	Agreement in force
Sri Lanka	FTA	Agreement in force
APTA	FTA	Agreement in force
Bhutan	FTA	Agreement in force
Nepal	FTA	Agreement in force
SAFTA	FTA	Agreement in force
Bhutan	FTA	Agreement in force
Canada	EPA	Proposed
Thailand	EPA/ FTA	Framework Agreement signed
ASEAN	FTA	Agreement in force
BIMSTEC	FTA	Framework Agreement signed
SACU	FTA	Framework Agreement signed
MERCOSUR	FTA	Agreement in force
GCC	FTA	Framework Agreement signed
New Zealand	FTA	Under Negotiation
Afghanistan	PTA	Agreement in force
Chile	PTA	Agreement in force
Russia	CEPA	Proposed
USA	FTA	Proposed
China	BIPA & FTA	Proposed
Korea	FTA & CEPA	Agreement in force
Mauritius	CEPA	Under negotiation
Japan	EPA/ FTA	Under negotiation
Colombia	FTA	Proposed
Australia	EPA/ FTA	Proposed
Egypt	PTA	Under negotiation
EU	FTA	Under negotiation
EFTA	FTA	Under negotiation
Indonesia	EPA/FTA	Proposed
Israel	FTA	Proposed
Turkey	FTA	Proposed
Uruguay	FTA	Proposed
Venezuela	FTA	Proposed
Nepal	FTA	Agreement in Force
CEPEA/ASEAN+6	EPA/FTA	Proposed

Source:Source: Asia Regional Integration Centre