Globalisation, Economic Reforms and the Indian Economy: An Overview

Avadhut Nadkarni

In this overview, we examine the effects of globalisation and liberalisation on the Indian economy. These macroeconomic and sectional effects form the background to the study of the effects of globalisation on women's work, environment and health in the subsequent parts of this report.

We begin in section 1, by examining the concept of globalisation and the recent history of economic globalisation. Inter governmental institutions like the International Monetary Fund (IMF), the World Bank and the World Trade Organisation (WTO) have been identified as instruments for integration of the developing countries into the world economy. The OPEC oil-price hike of the 1970s, the emergence of petro-dollars and their recycling to the developing countries on commercial terms, and the debt crisis of the 1980s were important in the chain of events which led to the stabilisation and structural adjustment programmes of the 1980s in the developing world. On a parallel track, there was the development of international capital markets that was both the cause and the consequence of an increased international capital mobility and the accompanying generalised floating of major currencies. In the backdrop there were the Transnational Corporations playing a major role in the process of integrating the developed and developing countries into a single world economy.

The section includes three sub-sections. Section 1.1 briefly discusses the events in the 1970s leading to the development of the international capital markets and the recycling of petro-dollars through these markets to the developing countries. Section 1.2 discusses the proximate cause of the debt crisis, and the institution of stabilisation and structural adjustment programmes by the IMF/ World Bank to deal with the crisis. The origins of the internal and external liberalisation of the developing world lie in these programs. The process of opening-up of the developing economies has been accelerated through the establishment of the WTO. Section 1.3 brings out the evolution of the WTO as an all-encompassing organisation, as it evolved through the successive rounds of the General Agreement on Tariffs and Trade (GATT).

In section 2 we examine in greater detail the structure and influence of WTO. The WTO covers comprehensively trade in goods and services, and protection of intellectual property. It also includes under its aegis the regulation of certain trade-related investment measures. The increasing outward-orientation that is being observed in the developing countries in the 1990s is due to the fact that these countries have to increasingly adopt their policies to make them consistent with their obligations to the WTO. An understanding of these obligations would help to appreciate the likely globalising influence of or WTO in the near future. With this objective in view, in Section 2.1, we examine the structure of the WTO in terms of the international agreements and understandings that it oversees. In Section 2.2, we discuss four categories of areas that are being influenced by the WTO.

In section 3, we examine the process of internal and external liberalisation of India in the 1980s and 1990s. India escaped the debt crisis that affected a large number of developing countries in the early 1980s largely because it did not rely on external commercial loans in the 1970s. It did contract an SDR 5 billion loan from the IMF under its Extended Fund Facility in November 1981 to tide over 1979-81 crisis that resulted from the second oil -price hike. It initiated stabilisation and adjustment measures in early-1981, including in the 1981-82 budget, to pre-empt the conditionalities that would have accompanied the IMF loan. Measures of liberalisation were more autonomously initiated in mid-1980s. These measures, in any case, bore the imprint of the internal and external liberalisation programmes that were being promoted by the IMF/ World Bank and represented a movement closer to the neo-liberal ideology that was coming into fashion the world over. Though these reform measures were never reversed, their pace slowed down considerably within two years. The decade of eighties, especially towards the end, witnessed an unprecedented fiscal profligacy, a far cry from the fiscal compression that was initiated in conjunction with the IMF loan of the early 1980s. A full-fledged stabilisation and structural adjustment programme had to await the crisis of 1990-91. The section describes the stabilisation and structural adjustment measures adopted in the 1980s and 1990s. Section 3.1 describes the measures adopted in the 1980s, whereas Section 3.2 discusses the programme that was adopted in the 1990s. In each of the sub-sections, apart from stabilisation measures, four categories of structural measures are identified: taxation measures, measures in the financial sector, industrial sector, and the external sector. The latter category includes, in the 1990s, some measures that are being implemented in fulfilment of India's obligations to the WTO, e.g., elimination of quantitative restrictions and the provisions that have been instituted in the interim period before a full transition to a product patent regime in 2005.

Section 4 examines the extent to which stabilisation has been attained in the post-reform period and discusses the macroeconomic and sectional effects of internal and external liberalisation measures. In particular the section examines the performance of the economy in terms of the budgetary balance, balance of payments, investment, growth, industrial growth, employment generation, poverty alleviation, food security and social sector provisions. The areas have been identified with the explicit purpose of being able to trace out the effects on women's work and health in the subsequent sections. Some of the findings that emerge are a continuation and accentuation of trends that had already been set into motion in the pre-reform period and cannot necessarily be fully attributed to the reform programme. We highlight below the main findings of the section:

i) The stabilisation programme that was initiated in the wake of the 1991 crisis has by and large been successful. The fiscal deficit has narrowed in the 1990s as compared to the 1980s; yet, since the first two years of the reform programme, the deficit has been substantially higher than the targeted levels, reflecting perhaps the political economy compulsions of a democratic polity. The fiscal balance has been attained through deep cuts in public investment, and to a lesser extent, public spending. The fact that the revenue deficit of the central government has gone up means that much of the borrowing has been for consumption and not investment. Inflation has been controlled. Trade deficits have narrowed and the balance of payments account has become sustainable, though more because of a favourable balance on the capital account than on the current account.

ii) The economy has become more liberalised as reflected both in the increase in the ratio of trade (exports and imports of goods and services) to GDP and the greater inflows of foreign direct and portfolio investments on the capital account.

iii) Public investment has witnessed a deep cut. Yet the aggregate investment rate has been maintained reflecting the fact that private sector investment has increased.

iv) After the crisis year of 1991-92, the economy has been put back on a steady growth path. Yet the annual growth rate of the economy has been marginally lower in the 1990s as compared to the 1980s, though there is no significant difference in terms of trend growth rates. The structural adjustment programme has hence not succeeded in putting the economy on a *higher* growth path.

v) Though the aggregate growth rate has been maintained in the post-reform period, the growth rates of the primary and the secondary sectors have declined as compared to the 1990s. There has been a sharp decline in the growth rates of capital goods sector clearly reflecting the effect of import liberalisation on the sector. The composition of national output has hence changed substantially in favour of the tertiary sector. This represents an accentuation of a trend that had already been set in the pre-reform period.

vi) The aggregate growth rate of employment has not declined in the 1990s. The growth rate of employment in the organised sector has been declining over time and the declining trend continues into the post-reform period. The small increase observed in the organised sector employment has been contributed predominantly by the private sector and not the public sector. Employment growth in the unorganised sector in the 1990s has, however, been well above that in the 1980s, reversing the declining trend observed in it during the three quinquennia spanning the years 1973-88. There has thus been a greater informalisation of the workforce in the post-reform period.

vii) The growth of rural non-farm employment has declined in the post-reform period, reversing an increasing trend over a period of about twenty years in the pre-reform period. This is could be a result of a decline in public expenditure during the reform period. Workers may have shifted from non-agricultural occupations to agriculture in rural areas in the absence of widespread rural industrialisation.

viii) Women's work participation rates have increased both in the rural and urban areas, but more for short-duration employment.

ix) External liberalisation of the economy was expected to increase the wage differential between skilled and unskilled labour. Though no data is available to come to a definite conclusion in this regard, indirect evidence suggests that such an increase in wage differentials could have taken place in the economy. Though the incidence of poverty for all categories of workers has declined, the decline was largest for those with regular employment and marginal for those casually employed.

x) The trend of a continuous marked decline in the national poverty rate that had been observed since 1970s up to the mid-1980s has been since arrested. This phenomenon continues in the post-reform period: though the urban poverty rates continue to decline (albeit at a lower rate and after an initial increase in the immediate post-reform period), there has been no such decline in the rural poverty rates.

xi) The absence of decline in rural poverty is perhaps related to the observed increase in food prices in the economy. The food prices have increased as a consequence of an increase in the PDS issue prices of food grains and also perhaps due to some liberalisation of agricultural trade. This has implications to the food security of masses in the post-liberalisation period.

xii) There is some debate about whether the stabilisation and structural adjustment process has led to a cut in social sector expenditures in the post-reform period. There exists a view that the cut in public expenditure has been more in terms of defence spending and expenditure on economic services than on social services, at least in the central government budget. National Accounts data for the aggregate economy also suggest that the sum of spending on health, education, housing and social services has remained constant as a proportion of GDP in the post-reform period. Most studies, however, point to a decline in social sector spending. In any case, there has been no definite evidence of a marked improvement in the availability and quality of social services.

1. Globalisation - concept and origins

Globalisation is a long drawn out and a wide phenomenon. The origins of globalisation can be contiguously traced in the past at least to the beginning of colonisation in the 16th century, though the process has been accelerated in recent years. It is also a wide phenomenon in that it effects a large number of areas from the economic to the cultural. This overview is concerned with the phenomenon of economic globalisation in recent years.

The process of economic globalisation is incessantly integrating the developing countries, including India, into a world economic system characterised by 'free' international trade in goods and services, 'free' movement of investible funds across international boundaries, and common policy regimes across countries governing, e.g., the protection of intellectual property.

Such an integration of individual countries into a world economic system cannot be achieved over night. Admittedly the transnational corporations have played an important role in the process of globalising, first, the developed and, subsequently, the developing world. Yet intergovernmental organisations like the international Monetary Fund and the World bank through their stabilisation and structural adjustment programmes, have been instrumental in creating conditions for internal and external liberalisation of the developing world. In recent years the outward-orientation of developing countries has been accentuated by the measures they have initiated for meeting their obligations to the WTO. Yet, for many of these countries, the measures were already in place through the stabilisation and structural adjustment programmes of the 1980s. These programmes were instituted as a part of 'conditionalities' on loans secured from multi-lateral intergovernmental agencies and in many instances, though not all, loans were secured to tide over the debt crisis that emerged in 1980s. The conditions for the debt crisis were created by commercial borrowings on international capital markets at floating rates of interest. The origins of the integration of developing countries into the world economic system can, hence, be traced to the development of international capital markets in the 1970s. We identify three sub-phases in the process of globalisation of the developing world, *viz.*, the development of the international capital markets in the 1970s, the debt crisis and the stabilisation and structural adjustment programmes of 1980s, and the all-pervasive globalising influence of the WTO in the 1990s. In what follows in this section, we briefly book at each of these sub-phases before we examine the WTO in details in the next section.

1.1 The 1970s: Development of International Capital Markets

The important ingredients in the development of international capital markets were (i) the easing of capital controls by developed countries in the end of 1960s, (ii) the failure of the BrettonWoods system of 'fixed' exchange rates and its replacement by the generalised floating of major currencies in the early 1970s, and (iii) the OPEC oil price hike of 1973 and the surfeit of petro-dollars in the Euro currency markets in the mid-1970s. The genesis of the debt crisis lies in the petro-dollars being lent by private banks to the developing countries on commercial terms and at floating rates of interest. The lending at floating rates meant that the debt-servicing burden would increase if, for reasons beyond the control of the borrowing countries, there was an increase in the world interest rates.

It should be noted that the IMF had always promoted currency convertibility on the current account in the interest of free trade in goods and services, but had always allowed for capital controls in the interest of stability of exchange rates. The ruling idea in the post-war world was that exchange rate instability, caused e.g. by cross boundary movement of funds on the capital account, and would be harmful to international trade in goods and services. In any case, since exchange rates were fixed and were not determined on markets for foreign exchange in the 1950s and

1960s, the need for depth in foreign exchange markets was not as much of a necessity as in the subsequent years when currencies began to float. Many of the developed countries, hence, maintained capital account controls through the 1950s and 1960s. It was only towards the end of the 1960s that these controls were eased in some of the more industrialised European countries.

The BrettonWoods system of adjustable pay exchange rates failed, in the ultimate analysis due to the easing of capital controls. 'Fixed' exchange rates require that the Central Banks have adequate reserves to buy and sell currencies as per demand and suply in order that their price be maintained. The liberalisation of the capital account allowed for cross currency movements of speculative funds and the central banks of the world, even collectively, did not have sufficient foreign exchange reserves to maintain an exchange rate in the face of speculative attacks. Having passed through a turbulent period in the early 1970s, major currencies of the world began to float against each other in 1973. Exchange rates began to be determined on the foreign exchange markets and the Bretton Wods system of 'fixed' exchange rates was, for all practical purposes, given up by the mid-seventies. The floating exchange rates that ensued further encouraged cross currency movements in the pursuit of speculative gains. This helped to develop the international money markets.

The development of international money and capital markets was also aided in the mid-1970s by the OPEC oil-price hike. The petro-dollars of the oil exporting countries were deposited in the private banks of the industrialised countries. These were lent to the developing countries at floating interest rates, on commercial terms. When the world interest rates increased in the early 1980s, the debt servicing burden was too much for most of the developing countries, which had so borrowed commercially on the international capital markets. Starting with Mexico in 1982, several of the countries in Sub-Saharan Africa and Latin America defaulted in their debt obligations, pushing the world into a debt crisis in the process.

1.2 The 1980s: The Stabilisation and Structural Adjustment Programmes

Solutions to the debt crisis were sought in 1980s not in terms of *cancellation* of debts of the highly indebted countries, but in terms of *rescheduling* of these debts. The IMF played an important role, not so much by substituting commercial loans by multilateral official ones, but by putting in place stabilisation and structural adjustment programmes in the defaulting countries. These programmes provided the necessary guarantees to the international banks for allowing a roll-over of their dues in the form of new loans.

The stabilisation and structural adjustment programmes basically aimed at generating dollar surplus domestically to provide the wherewithal for rescheduled debt servicing. The programmes fitted neatly into the emerging neo-liberal philosophy of replacing the public sector by private enterprise. The programs had three essential components:

i) The stabilisation programme itself aimed at reducing the total expenditure in the economy so as to generate a surplus that could be available for debt servicing. It aimed at reducing domestic credit expansion in general and fiscal deficit in the government budget in particular, on the assumption that a reduction in domestic expenditure would lead to creation of the required surplus in the balance of payments. The reduction of fiscal deficit was emphasised also because it was thought that a higher fiscal deficit diverts resources from the more productive private sector to the profligate public sector.

ii) The structural adjustment programme hence aimed at providing a greater role to the private sector and the market in the allocation of economic resources. If the stabilisation programme was macroeconomic in nature and aimed at reducing expenditure, the structural adjustment programme aimed at implementing a set of microeconomic institutional policy reforms with a view to increasing productivity and output /income. The two programmes aimed at complementing each other in creating necessary domestic surplus of income over expenditure, the one working on the demand side to reduce expenditure and the other on the supply to increase output.

iii) Repayment of loans in dollar terms, however, required that the surplus be generated in dollar terms, not in terms of the domestic currency. This called for a compression of imports and an expansion of exports. This was to be attained through the devaluation of the domestic currency. The exchange rate was, in all instances, an important instrument of all IMF/World Bank programmes not only for the adjustment that it secured in the balance of payments, but also for the role it played in the stabilisation of an inflation-ridden economy.

The debt crisis gave the opportunity to international financial institutions to introduce market-oriented reforms in the highly-indebted countries. In any case the contours of these programmes of reform were being formulated, under the influence of the neo-liberal philosophy, in the Fund and the Bank to be implemented in countries that sought assistance from these institutions. Thus the programmes were also adopted by countries like India, not affected by the debt crisis, either in conjunction with an IMF loan, or even own their own.

1.3 The 1990s: The Pervasive Influence of the WTO

The origins of internal and external liberalisation in developing countries are thus to be found in the stabilisation and structural adjustment programmes of the IMF and the World Bank. The programmes were necessarily implemented as 'conditionalities' associated with loans, whether or not in the context of the debt crisis that emerged in the early 1980s.

The external liberalisation process itself was accentuated in the latter part of 1980s and the 1990s after the Uruguay rounds of multilateral trade negotiations and the setting up of the WTO. The devaluation component of the stabilisation and the structural adjustment programmes worked domestically to outwardly orient an economy, but an outward orientation of all economies would be possible only in the setting of a more open world trading system. The World Trade organisation aimed at setting up such a system of free trade in goods and services.

The opening up of the world trading system can, of course be traced to the successive rounds of multilateral trade negotiations under the GATT. Eight such rounds were initiated up to and inclusive of the Uruguay round, each successive round dealing with more complex issues and lasting over a longer period of time. The first six rounds of GATT in the 1940s, 1950s and 1960s were concerned mainly with tariff reduction. As a result, the tariffs in industrial countries, on products of industry-country origin, reached historically low levels in the 1970s.

Successive rounds of trade negotiations had reduced tariffs in industrial countries to historically low levels by the end of the Kennedy round of trade negotiations of the 1960s. In the economically difficult years of 1970s, new forms of protectionism developed in the industrial countries. Thus, inspite of a reduction in border restrictions on trade, countries adopted trade restrictive measures (non-tariff barriers) within their borders like excessive reliance on sanitary and phytosanitary measures, technical standards and emergency safeguard measures undertaken for the protection of domestic industries threatened by a surge in imports. Measures like imposition of countervailing duties to nullify the effects of subsidies and antidumping duties also abounded. The Tokyo round aimed at bringing many of these non-tariff barriers under multilateral disciplines by negotiation of what were known as codes. These codes were, however, applicable only to those contracting parties of GATT that had explicitly accepted their obligations - many countries opted to stay out of the obligations imposed by the codes.

Two features of the Uruguay rounds distinguish it from all the earlier rounds of trade negotiations. First, the rounds were comprehensive and included, apart from tariff and non-tariff barriers on trade in goods, also trade in services, investment measures and protection of Intellectual Property. Trade in agricultural goods and textiles and clothing were also to be integrated under the multilateral trading system for the first time under the Uruguay round. Secondly the all-comprehensive character of the WTO itself was secured by the insistence that the members of the WTO had to accept all the resulting agreements in their totality. This effectively meant that counties like India had no option to keep away from agreements like the TRIPS, to many provisions of which they were opposed. In the next section we look at the structure of the WTO so as to be able to appreciate the influence that it would have in coming years in terms of opening up the economies of developing countries. The obligations to the WTO go far beyond the provisions of the IMF/ World Bank stabilisation and structural adjustment programmes in seeking the internal and external liberalisation of member countries.

2. The Structure and Influence of the WTO

The WTO is an all-encompassing organisation, covering a wide spectrum of areas. It is necessary to understand the structure of the WTO in order to be able to appreciate its globalising influence. In this section we first examine the structure of the 'Agreement Establishing the WTO'. We then bring out the influence of the WTO in four distinct areas. The areas of influence have been ordered by the decades during which the issues gained importance in GATT, the pre-cursor of the WTO, and in the WTO itself. The enumerated areas are of a particular significance to India since they point to the directions in which external liberalisation is taking place in India in the fulfilment of its obligations to the World trading system.

2.1 The Structure of the WTO

The structure of the WTO can be appreciated from the outline of the agreement establishing the world trade organisations as reproduced in Table 1. The agreement itself is small, consisting of 16 articles. The meat of the agreement lies in its annexes.

Annex 1A consists of 13 multilateral agreements on trade in goods. Some of these agreements were formulated as codes under the Tokyo round of the 1970s. The most important of the 13 agreements is, of course, the GATT 1994 so named as to distinguish it from the original GATT 1947. The important articles of the agreement are Article 1 (General Most Favoured Nation Treatment), Article III (National Treatment), and Article XI (General elimination of Quantitative Restrictions). The above articles of GATT are cornerstone provisions that are instrumental in the opening up of economies to trade in goods. The important articles which unable trade restrictions in special circumstances, are Article XII (Restrictions to Safeguard the Balance of Payments), Articles XIV (Exceptions to the rule of non-discrimination), Article XVIII (Government Assistance to Economic Development), Article XIX (Emergency Action on Imports of particular Products) and Article XX (General Exceptions)

Two of the important agreements in Annex 1A, from the point of view of both developed and developing countries, are the Agreement on Agriculture and the Agreement on Textiles and Clothing. Both are areas in which the developing countries have a comparative advantage and both the areas were covered by multilateral trade disciplines for the first time under the Uruguay rounds of trade negotiations. Complete integration of textiles and clothing into the world trading system would require a large degree of adjustment in the developed countries. Integration of agriculture too would call for large adjustments in those developed countries, e.g. the Europeans union, which provides large subsidies to farmers. The effect of opening up of agriculture in the developing is uncertain. We examine some of the issues involved in the Indian context in the section on food security.

Table 1: Outline of the Agreement Establishing the World Trade Organisation

Main agreement:	Preamble *plus* Articles 1 to XVI
Annex 1	
Annex 1A:	Multilateral Agreements on Trade in Goods: • General Agreement on Tariffs and Trade 1994 • Agreement on Agriculture • Agreement on Application of Sanitary and Phytosanitary Measures • Agreement on Textiles and Clothing • Agreement on Technical Barriers to Trade • Agreement on Trade-Related Investment Measures • Agreement on the Implementation of Article VI of the GATT 1994 (Anti-Dumping and Countervailing Duties) • Agreement on the Implementation of Article VII (Valuation for Customs Purposes) of the GATT 1994 • Agreement on Pre-shipment Inspection • Agreement on Rules of Origin • Agreement on Import Licensing Procedures • Agreement on Subsidies and Countervailing Measures • Agreement on Safeguards
Annex 1B:	General agreement on Trade in Services and Annexes
Annex 1C:	Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
Annex 2:	Understanding on Rules and Procedures Governing the Settlement of Disputes
Annex 3:	Trade policy review mechanisms
Annex 4:	Plurilateral Trade Agreements • Agreement on Trade in Civil Aircraft • Agreement on Government Procurement • International Dairy Agreement • International Bovine Meat Agreement

The Agreement on Trade-Related Investment Measures has a special place in Annex 1A. In the negotiations under the Uruguay round the developed countries were pressing for a full-fledged multilateral agreement on investment on the same level as the GATT and GATS. Such an agreement would enable free movement of investible funds across international boundaries on par with the movement of goods and services. In the event, the developing countries opposed such an all-comprehensive investment agreement. As a result, what emerged was an agreement on investment measures that have implications to trade. Three such measures have been proscribed, e.g. local content requirement and export requirement. A full-fledged agreement on investment would not be a part of Annex 1A, but would perhaps have its own Annex 1D. Though the absence of such an independent agreement on investment points to a limitation on the ability of the WTO to open up the investment regimes its member countries, it should be noted that GATS has its own comprehensive investment provisions that would be applicable in the realm of services.

Amongst the agreements included in Annex 1A are categories of agreements that deal with non-tariff barriers. These include i) Agreements on Sanitary and Phytosanitary Measures and Technical Barriers to Trade, ii) Agreements on Countervailing Measures, Antidumping Duties and Safeguards, and iii) Agreements dealing with licensing and customs procedures. As noted above, many of these agreements existed as codes in the 1970s. They have been made universally applicable to all members of the WTO.

The General agreement on trade in Services (GATS) of Annex 1B is more comprehensive in the realm of services than the GATT is for goods. It recognises four modes of international supply of services viz.: cross border supply of services (supply moves to another country), consumption abroad (consumer moves to another country as in tourism), commercial presence (supply through branches in another country), and movement of natural persons. The last two modes of service supply have implications, respectively, to international movement of capital and labour. It is the recognition of these two modes of service supply that makes GATS more of a globalising instrument in comparison with GATT. The extent to which individual countries will open up is, however, determined by a member country's obligations in terms of the commitments for the opening of specific service sectors that it has undertaken in its national schedule that is submitted to the WTO under the GATS.

The most significant agreement in Annex 1 from the point of view of developing countries is the agreement of trade related aspects of Intellectual property rights (TRIPS in Annex 1C). It seeks to create a uniform standardised international patent regime, irrespective of the differing levels of developments, natural and human endowments and history of various countries. It is noteworthy, though, that, inspite of provisions for compulsory licensing, such a patent protection could act toward prohibition of domestic production of a good and lead to their continued imports. The patent fees to be paid for domestic production would also imply a cost outgo for developing countries.

The implementation of the above agreements is ensured through the dispute settlement procedures (Annex 2). The procedure is supposed to be automatic, in terms of the time frame specified, for the various stages in the settlement of disputes between member countries. An important aspect of the Dispute Settlement Mechanism is that compensation from and retaliation against an erring country can be sought across areas under the aegis of the WTO. Thus GATT-inconsistent restrictions on trade in goods by a country can lead to a demand for greater openness in services in that country; or restrictions by a country in the services sector can lead to retaliation in the goods sector by other countries.

The Trade Policy Review (Annex 3) is the surveillance mechanism of the WTO over the trade policies of member countries. Such reviews are undertaken at a higher frequency for the more important trading countries e.g. once in two years for the triad countries of US, European union and Japan, once in four, or six, years for all others, depending upon their importance in world trade. Opinions expressed by member countries during the review do not have any legal binding, unlike the rulings of the Dispute Settlement Body (DSB). Its importance springs from the fact that all domestic policy matters that have a bearing on international trade can be raised during a review, even if these policies are not covered by any of the agreements under the WTO.

The plurilateral trade agreements (Annex 4) are sectoral agreements of less interest to developing countries. They are distinct from the other, multilateral agreements under the WTO in that the plurilateral agreements are binding only on those countries that have accepted the obligations. The agreement on government procurement is, however, of a more general interest and government procurement is one of the new areas in the WTO on which multilateral disciplines are being sought to be imposed, to secure more openness in the purchases of the government sector.

2.2 The Globalising Influence of the WTO

Given the above agreements and understandings under the WTO, the areas of the influence of the WTO can be divided into the following four categories: the traditional trade agenda, the trade agenda of the 1970s, the Uruguay round agenda, and the new trade issues of the 1990s.

2.2.1 Traditional Trade Agenda

The traditional trade agenda has to do with reduction of impediments to trade at the border, *viz.*: tariffs, quantitative trade restrictions and voluntary export restraints. This agenda was at the forefront in the early decades of GATT, the 1950s and 1960s. Over successive rounds of negotiations the average tariffs in industrial countries on the products produced largely by industrial countries have been reduced to very low levels. Quantitative restrictions on trade in the form of licenses and quotas have also been minimised in those countries except in the case of agricultural products and textiles and clothing. With the emergence of the WTO, the process of reduction of tariffs and elimination of quantitative restrictions has begun in the developing countries. In section 3 of this part, we will see the extent to which India has reduced its tariffs and initiated the process of elimination of quantitative restrictions on imports, especially of consumer durable goods. The later process has been actually been initiated through a ruling of Dispute Settlement Body in a case brought before the WTO by the US.

2.2.2 Trade Agenda of the 1970s

The trade agenda of the 1970s had to do with the disciplining of the non-tariff barriers that emerged in the 1970s. The Tokyo round of the 1970s attempted to discipline some of these measures by negotiating codes to cover six of the non-tariff barrier areas. As we have seen above, not all the contracting parties of GATT were bound by these codes. Under the agreement establishing the WTO however, the areas covered by the codes of the Tokyo round have been covered by multilateral agreements that are annexed in Annex 1A of the WTO agreement. These agreements are binding on all WTO members. This implies that many policies in some of the relevant areas will be governed by these multilateral agreements under the WTO. Thus domestic policies adopted for the protection of human, animal, and plant life have to be consistent with the agreement on application of sanitary and phytosanitary measures. So too an industry whose existence has been threatened by a surge in imports can be protected under specified conditions through emergency safeguard measures for a definite period of time during which it has to adjust to international competition. Whole industries can be potentially be wiped out from a country if they fail to successfully to adjust.

2.2.3 *The Uruguay Round Agenda*

The influence of the WTO is most felt in the areas that were newly codified during the Uruguay round negotiations in the 1980s/1990s. These include the agricultural sector - it will have to be gradually opened up to international trade. The effects of this liberalisation on domestic food security are uncertain. These areas also include the opening up of trade in services. As has been pointed out in section 2.1, four modes of international delivery of services have been recognised. The right of commercial presence in a foreign country for the purpose of provision of a service is perhaps the most important of the GATS provisioning in terms of opening up of an economy to foreign investment in the services sector. Again, under the TRIMS, countries cannot prescribe investment requirements like local-content requirements and export obligations to foreign investors. Some of the domestic policy instruments for influencing investment decisions are, hence, no longer available. Perhaps the most important of the newly codified areas is the one which leads to the institution of a uniform international patent regime in all countries. Such a regime would require the recognition of product patents in all countries.

2.2.4 *New Issues*

There exist many areas of interest to the international trade regime that do not as yet have, within the WTO, a full-fledged formal multilateral framework in existence. These areas include, *inter alia*, trade and competition, government procurement of goods, trade and labour standards, and even trade and environment. Some of these areas could be subject matter of negotiations in the near future. To the extent that these areas are brought under the disciplines of the WTO, member countries will increasingly have to adopt policies in these areas to conform to a global standard, leading to a loss of autonomy in the matters that were hitherto governed domestically.

3. Internal and External Liberalisation in India

To what extent is the above story, in Section 1, of debt crisis-related stabilisation and structural adjustment relevant to India? Though India had to contract a massive IMF loan in the early 1980s to tide over the crisis generated by the second oil-price hike, it escaped the global debt crisis of 1980s. Though stabilisation measures were initiated around the time that the loan was contracted, these were not pursued through in the 1980s. Structural reforms were initiated in the mid-1980s, independently of any IMF loan, but these too were slowed down considerably from the middle of 1986-87. Full-fledged stabilisation and structural adjustment measures had to await the crisis of June 1991. Whether these measures were in response to the conditionalities of IMF in connection with the IMF loan of $1.8 billion of January 1991, or were more autonomously instituted on a long term basis in realisation of the unsustainability of the previous policy regime, is debatable. The stabilisation measures were surely a necessity in response to the crisis, perhaps the structure reforms had long term origins.

The fact remains however that structural adjustment and stabilisation measures were initiated in the economy, to some extent in the 1980s, and more substantially in the 1990s. In this section, we examine the implementation of these measures in the Indian economy. Section 3.1 discusses the implementation of these measures in the 1980s, whereas Section 3.2 discusses the measures adopted in the 1990s. Implementation of measures with a view to the stabilisation of an economy, however, does not imply that these are automatically effective as judged by, e.g., improvement in the fiscal and external balance, and the control of inflation. The extent the stabilisation measures were effective is reviewed in Section 4. That section also brings out the macroeconomic and other effects of the reform programme.

3.1. Stabilisation and Structural Adjustment in the 1980s

India escaped the debt crisis of the 1980s because it had not had to borrow commercially at a floating rate of interest in the 1970s. It successfully adjusted to the first oil price like of 1973 partly due to higher exports to and inward remittances from the Middle East consequent to the oil boom in that area. The situation was however different after the second oil price hike in the end of 1970s. India had to contract a SDR 5 billion loan from the Extended Fund Facility (EEF) of the IMF in November 1981 to tide over the crisis following the second oil price hike. This being a high-conditionally facility the Indian Government initiated its stabilisation efforts in budget of 1981-82, perhaps, with a view to pre-empting the conditionalties that would have accompanied the granting of the loan. It is also known that the nominal devaluation of Indian rupee was initiated in 1981, again so as to prempt the requirement of devaluation that might have been imposed by the IMF. Thus the process of stabilisation, including devaluation of the currency was initiated in India in the early 1980s in conjunction with an IMF loan, though not explicitly as a part of its conditionality and unlike in many other developing countries, ***not*** in the midst of a debt crisis.

The fiscal adjustment that began in 1981 was, however, not continued in the 1980s. As Joshi and Little (1994) have shown the fiscal stance of the government was considerably relaxed in the period 1982-83 to 1984-85 after the EFF programme came into operation. The devaluation of the currency too in this period was nullified by the accompanying inflation implying that there was no devaluation in real terms. The EFF programme was actually terminated in May 1984 after having drawn SDR 3.8 billion out the SDR 5 billion that had been authorised.

Thus there was no stabilisation worth the name in the 1980s. On the contrary the liberal fiscal stance of the period has been commonly identified as the ultimate cause of the 1991 crisis, the proximate course being the Gulf war of August 1990. It is this crisis that led to implementation of a stabilisation programme in India as a part of the economic reforms under the so-called new economic policy.

The same is, however, not true of structural adjustment measures - measures for internal and external liberalisation of the economy were initiated in the mid 1980s under the Rajiv Gandhi government. The measures clearly implied deregulation and greater market-orientation of the economy. The structural measures undertaken can be categorised as follows:

Taxation Measures: Rates of direct taxation were lowered to increase incentives to work and save and to reduce evasion. Excise taxation was modified in the direction of value-added taxation in order to reduce the cascading effect of taxation on costs. The import tariffs structure was simplified though the average tariff rate went up.

Financial Liberalisation: The yield on long-term government securities was raised to bring it in line with market rates, in accordance with the recommendations of the Chakravarty committee. There were some moves to develop the money market including market determination of rates of interest.

Industrial Deregulation: There was some dilution of licensing requirements for entry and expansion of capacity. The list of industries open to large business houses was extended. The asset threshold, above which the business houses/ firms are subject to monopoly regulations, was raised.

Measures in the External Sector: Imports were deregulated. Restrictions on import of capital goods were eased with a view to encourage technological modernisation. There was also some replacement of quantitative import restrictions by tariffs, which contributed to the increase in the average tariff rate. Export Incentives were substantially increased. Cash assistance for exports and duty drawbacks went up. Substantial income tax concessions were given to business profits from exports. There was a widening of the coverage of products accessible to exporters against import replenishment licenses. Additional incentives were provided to exporters through the exchange rate policy.

The nominal devaluation of the rupee that had begun in 1981 was not sufficient to lead to devaluation in real terms. The policy of active exchange rate depreciation was initiated in 1986 to bring about a devaluation in real terms. These measures were much more in line with the conditionalities of the Fund/ Bank stabilisation and structural adjustment programmes than those that were initiated in the early 1980s in conjunction with the IMF loan. And yet these measures were not associated with any imminent financing from the Fund. Patnaik and Chandrashekar (1995) suggest some channels through which the IMF and the World Bank could affect policies of countries like India even in the absence of a loan.

Many of the above reforms were undertaken early in the life of the Rajiv Gandhi government. The pace of the reform programme slowed down considerably since 1986-87. As pointed out by Joshi and Little (1994), after 1986-87 there was no reversal, but only minor advances. The absence of any reversal is what lends continuity to reforms of 1990s, though the latter have been at a substantially increased pace. In the next sub-section we describe the reforms of the 1990s.

3.2 Economic reforms of 1990s

The economic reforms of 1990s were undertaken as a response to the inflation and balance of payments crisis culminating in June 1991. The proximate causes of the crisis were (i) the Gulf War which led to an increase in the oil import bill on one hand, and a drying up of inward remittances and markets in the region, on the other (ii) the collapse of the Soviet economy, India's largest trading partner in the end-1980s, and (iii) domestic political instability, which postponed critical decisions and loosened fiscal discipline.

It is debatable whether the 1991 crises was merely a short run liquidity crisis (Sengupta 1995), or was due to the medium term unsustainability of the domestic policy regime of the 1980s (Joshi and Little, 1994), or due to very unsuitability, in the long run, of the import-substitution strategy of economic development (Bhagwati and Srinivasan 1993).
If merely a liquidity crises, it could have been dealt with through a conventional stabilisation programme. In the event, however, the government took the opportunity to introduce a comprehensive stabilisation and structural adjustment programme opening up the economy to the forces of globalisation. The program components are described below.

Stabilisation:

The stabilisation programme was necessary to deal with the crisis situation. It included the usual package of temporary import and fiscal/ monetary compression, accompanied by a sharp increase in the interest rates in the economy. The devaluation of the rupee that was undertaken can also be looked upon as a part of the package of stabilisation. The extent to which these stabilisation measures have been effective can be judged from the data presented in Section 4.1, which evaluates the macro economic performance of the economy since the reforms.

Financial Sector Reforms:

The financial sector reforms were undertaken largely in accordance with the recommendations of the Narasimham committee. The statutory liqidity ratio (SLR) of the banking system was reduced from a high of 38 percent in 1991 to 25 percent by 1996. This has considerably reduced the pre-emption of deposits by the government, making more resources available to the private sector. Following recommendations of the Chakravarty Committee, the government has moved to market determined rates of interest for its own borrowing. Interest rates have been largely deregulated, the interest paid by a borrower depending upon his credit worthiness.

The other reforms in the banking sector include new income recognition norms based on international accounting of public sector banks. Under the new norms the ratio of non-performing assets (NPA) to all advances has been reduced from 24 percent in 1993-94 to 16 percent in 1998. The writing-off of bad debts involved in the process, of course, meant that several public sector banks have shown large losses in the mean time. With re-capitalisation of banks the capital adequacy ration is projected to 10 percent in 1999-2000

In the capital markets, the policy of deregulation has resulted in the abolition of the Office of the Controller of Capital Issues, free pricing of equity issued to public and the establishment of the Securities and Exchange Board of India (SEBI) for the regulation of the capital markets.

Industrial Reforms:

Industrial reforms formed the corner stone of the structural adjustment programme. These were initiated in accordance with the Statement on Industrial policy 1991 with the objective of the dismantling of the system of controls and to facilitate increasing competitiveness in the economy. This was to be achieved through the abolition of the industrial licensing regime and amendments to the Monopolistic and Restrictive Trade Practices (MRTP) Act. Pre-investment scrutiny of investment decisions by the MRTP companies was abolished. Industries reserved for the public sector were reduced from 17 to 6. Private sector participation was allowed in many industries reserved for small firms and the public sector. Price controls were reduced and today are confined to a limited number of goods, mainly essential drugs.

External Sector Reforms:

The external sector reforms undertaken in 1990s are significant from point of view of globalisation. These reforms are in terms of exchange rate, trade regime, foreign direct and portfolio investment, and patent regime.

After a 20 per cent devaluation of the rupee in June 1991, the Reserve Bank of India instituted market determination of exchange rates by March 1993. The rupee was also mode convertible on the current account. Steps were also taken toward capital account liberalisation.

Partly to meet the obligations to the international trade regime under the WTO, there was a significant liberalisation of trade both in terms of elimination of quantitative restrictions and reduction in tariff rates. Import quotas were largely eliminated by allowing open general license (OGL) imports of a large number of items, with the exception of agricultural goods and, initially, also consumer goods. Through a ruling of the dispute settlement body of the WTO, quantitative restrictions on the imports of consumer goods are to be phased out in a period of three years. Steps have already been initiated in this direction by moving over 700 items of consumer goods to the OGL category in the budget of 2000-2001. Unlike in 1980s, when the liberalisation of quantitative restriction on certain imports was accompanied by higher tariffs, the liberalisation of imports in the 1990s was accompanied by a substantial reduction in the average tariff rates. As reported to the Trade Policy Review Body of the WTO in April 1998, on an import-weighted basis, average tariffs were reduced from over 150 percent to less than 50 percent between 1991 and 1998.

In the realm of capital account, domestic firms were selectively allowed to access to overseas commercial borrowings. In 1993 Foreign Institutional Investors (FII) and registered Pension Funds were allowed to invest in Indian stock exchanges. Permission was granted to some categories of residents to retain foreign exchange abroad. Domestic exporters were permitted to retain their earnings abroad for 180 days, as short-term investments. Domestic banks were permitted in 1997 to invest up to 15 percent of their Tier I capital abroad. These measures linked the domestic money market with the foreign exchange and prepared the economy for convertibility of the rupee on the capital account. India would have moved over to such a convertibility but for the Asian currency crisis of 1997 which has led to a rethinking on the issue of capital account convertibility in India, and a slowing down on it within the IMF.

Foreign direct investment was liberalised and the Reserve Bank of India was authorised to grant automatic approval to foreign investment up to 51 per cent equity in 53 industries. Though the new policy demarcated areas in which foreign investment could takes place, the government reserved right to approve any investment on a case by case basis. The use of foreign brands has been permitted and foreign trading firms have been allowed to operate in India. Access to foreign technology has been made much easier. Technology imports and payments for technology license fees or for hiring of foreign technicians have been eased.

All the above measures add up substantially in the movement toward deregulation and liberalisation of the economy. The effects of these policy measures on the different facets of the Indian economy will be examined in detail in Section 4.