

Trade Liberalization, Poverty,
and Income Inequality in India

Rajat Acharyya

Nontariff Barriers Affecting
India's Exports

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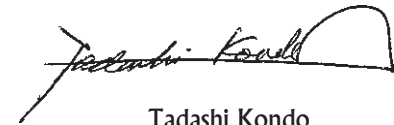
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Foreword

The India Resident Mission (INRM) Policy Brief Series is sponsored by the Asian Development Bank (ADB) and is designed as a forum to disseminate findings from policy research work undertaken on the Indian economy. The series is primarily based on papers prepared under the Technical Assistance (TA) 'Policy Research Networking to Strengthen Policy Reforms in India'. The main purpose of the TA was to provide assistance for developing policy research networking capacity, in order to build support for, and consolidate the reform process. The INRM Policy Briefs provide a nontechnical account of important policy issues confronting India.

A handwritten signature in black ink, appearing to read 'Tadashi Kondo', with a large, stylized flourish at the end.

Tadashi Kondo
Country Director

Trade Liberalization, Poverty, and Income Inequality in India

Rajat Acharyya

This paper is a study on the impact of India's trade liberalization as part of its economic reforms and structural adjustment programs initiated during the 1990s on poverty and income inequality. Policy recommendations are made on the basis of these findings.

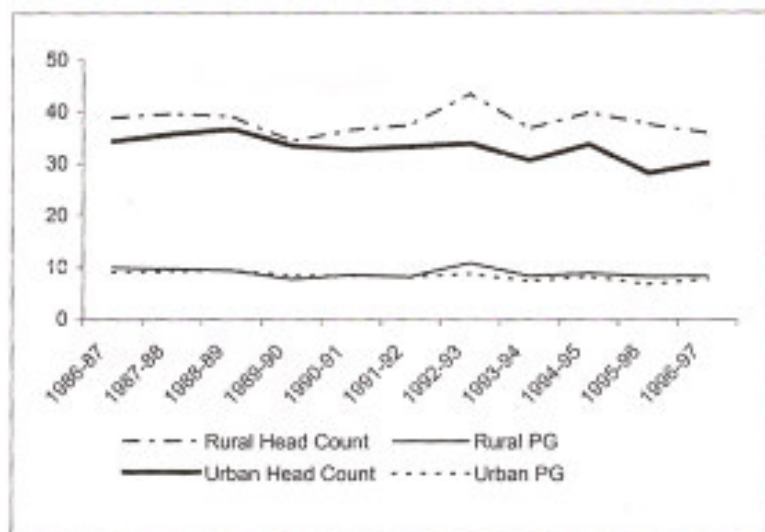
Major Findings

Trends in Poverty and Inequality

Poverty and income inequality in India, as measured by the head count ratio (poverty gap ratio) and the Gini coefficient, respectively, show considerable fluctuations during the reform period 1985–97 (see Figure 1). The adjusted estimates of Deaton and Drèze (2002) show decline in both rural and urban poverty ratios in the period 1993-94 to 1999-2000: from 33% to 26.3% for rural India and from 17.8% to 12% for urban India.¹ But statistically speaking, though urban poverty showed a declining trend during this period, rural poverty showed no trend of decline or increase.

On the other hand, the all-India Gini coefficient showed an increasing trend during 1987–97, in a complete reversal of the trend of decline during 1960–73. The inequality between the top and bottom 10% of

¹ Adjusted poverty estimates of Sen and Himangshu (2003) place the figures at a higher level for 1999-2000: 28.8% for rural India and 25.1% for urban India.



Source: Based on data reported in Jha (2000) and Ozler et al. (1996).

Figure 1. Rural and urban poverty in India during 1986–1997.

the population was disproportionately higher than that between the top and bottom 20% during 1994–2000. Thus, most of the income was still concentrated in the top 10% of the population. There was also a general increase in inequality among wage-earners of different skills (Marjit and Acharyya 2003).

In other words, during the period of economic reforms and trade liberalization urban poverty declined but income inequality increased. The issue is how far these changes can be attributed to the liberal trade policies.

Role of Trade Liberalization

Free trade is not necessarily a pro-poor strategy. Trade creates both winners and losers in the short term, and sometimes that may be quite unfavorable for the lower-income groups. That is, in the short term, trade liberalization acts more like an (indirect) income redistribution policy than a poverty alleviating policy. Rather, the long-term or growth

impact of trade liberalization is more important as well as sustaining for poverty alleviation. With acceleration of growth of output, opportunities for upward income mobility for the lower-income groups increase. Similar observations, summarized below, emerge from the background research papers.

- During the reform period most Indian states experienced high average growth rates in real unskilled informal wage and real unskilled agricultural wage. This may explain the fall in poverty rates.
- Declining urban poverty and increasing income inequality were associated with growth in manufacturing exports and imports.
- Among manufacturing exports, during the 1990s, there was a phenomenal growth in exports of skill-intensive high-technology goods. This change in the skill composition of Indian manufacturing export basket offers a plausible explanation of the rise in income inequality during the 1990s.
- Three unskilled labor-intensive manufacturing goods—clothing, textiles, and leather—still account for around 40% of manufacturing exports. Expectedly, their growth had a favorable impact on urban poverty through increase in the unskilled money wage.
- Growth in aggregate output—both in per capita net state domestic product (PCNSDP) and gross domestic product (GDP)—appears to be another source of lower urban poverty and higher income inequality. Exports found to be (Granger) causing GDP growth means that the growth impact of trade may be an important factor underlying the observed changes in poverty and inequality.
- Growth in exports of high-technology goods seems to be one major source of such trade–growth nexus.

These findings essentially reflect the paradox of trade and development policies in the era of globalization. With technological changes causing large shifts in the demand for high-technology goods, such as aerospace, chemicals, pharmaceuticals, scientific instruments, machinery, and data processing and office equipment, export composition should be changed accordingly to realize higher export growth and stronger trade–growth nexus. This triggers both short-term and long-term effects on poverty and inequality. In the short term, as the composition of GDP gets biased in favor of services and skill-intensive manufacturing, the demand

for skilled labor increases more than for unskilled workers, with obvious implications for wage inequality. Through complementarity of export goods, unskilled wages may still rise; and provided aggregate unemployment does not grow, may lower the incidence of poverty.

In the long term through dynamic links with the rest of the economy and productivity shifts, GDP growth is accelerated. Such growth creates opportunity for upward income mobility. Opportunities arise for unskilled workers as well, primarily for those engaged in complementary or ancillary sectors, such as the construction sector (which also grew significantly during the 1990s). These do have some favorable impact on poverty in urban areas. But due to persistent differences in individuals' capacity to exploit such opportunity and lack of access for a larger section of wage-earners to improve upon such capacity, or capability, trade-induced growth sooner or later accentuates the income inequality.

Agenda for Trade Policy

Free trade alleviates poverty, if at all, through its growth impact. Acceleration of growth of output increases opportunities for upward income mobility for the lower-income groups. Thus, for making trade work for the poor, the trade–growth nexus must be strengthened. Growth may tend to increase inequality, but that may be a reflection of unequal opportunities for people in the lower-income group to formal and technical education and skill formation. Whether income inequality per se is bad and should be a policy target may be debatable. But if opportunities for upward income mobility can be created through rapid growth, the immediate fallout of skill-intensive export boom and the induced GDP growth biased in favor of the relatively skilled workers should not be the bone of contention. The effort, instead, should be to remove other physical and policy constraints to strengthen export–growth linkage and also to ensure that larger sections of the masses can improve their productive capacity, skill, and capability to take advantage of the opportunities for upward income mobility created by such growth.

From this perspective the following recommendations are made, beginning with the general export–import policy and then sector-specific trade policies to make trade work for the poor.

Export–Import Policy Recommendations

Free Trade as Development Strategy

The primary gain from participating in international trade is efficiency gain. By importing commodities that a country cannot produce at a lower cost relative to what some other countries can do, it can free scarce domestic resources for use in other lines of production where it has a competitive edge over other countries. Thus, resources are reallocated more efficiently through imports. This efficiency argument rests, however, on a distortion-free competitive mechanism, which means that market prices correctly signal the comparative (cost) advantages of a country and identify the efficient lines of production where resources should be reallocated. Distortions may arise due to technology (the problem of externality) or domestic market regulations and imperfections. In neither case the optimal policy intervention should be restricting imports, in particular, and trade, in general.

Protectionism may still be justified in specific areas of critical national importance (often confused with the notion of self-sufficiency) and for infant-industry protection. But utmost care should have been taken in identifying such areas of critical national importance and the timeframe for protection for infant industries.

Now that most of the quota regime has been replaced with equivalent tariff rates, which has freed up resources earlier engaged in wasteful directly unproductive profit-seeking (DUP) lobbying activities, the tariff rates have to be lowered successively and within a pre-announced timeframe. With domestic market distortions and rigidities still prohibiting full realization of efficiency gains of trade liberalization, a sequencing approach rather than the big-bang approach would allow economic agents, particularly those in the lower-income groups, to adjust to the changes and reduce the pangs of transition.

Export Promotion Policies

To varying degrees, Indian exporters are constrained by lack of infrastructural facilities, including for transportation of goods from the factory shed to ports, lack of market and price information, and by poor impressions of foreign buyers regarding actual quality of the products. Complicated administrative procedures, including application, approvals, and processing fees for trade, and complexity of eligibility

criteria for different export-related government supports also make transaction costs very high in many instances. All these discourage small manufacturers and traders from taking part in international trade.

In the past, export promotion measures instead of addressing these problems focused on providing entitlements or duty credits under different schemes for imports of inputs. These were essentially indirect input subsidies. Nonavailability of critical indigenous inputs of comparable quality and the general restrictions on imports may have justified these measures. But whether such imports have at all facilitated quality enhancement of exports is not clear.

Export promotion measures should have components targeted at (a) improving export-related infrastructure; (b) reducing the transaction, marketing, and network costs of exports; (c) encouraging in-house R&D to enhance quality of export goods; and (d) improving poor perceptions of foreign buyers regarding quality of exports through encouraging producers to obtain ISO-9000 series certificates.

Sector-specific Recommendations

By accelerating GDP growth trade liberalization can have a pervasive and sustained favorable impact on poverty. With changing world demand in favor of more skill-intensive high-technology goods, production pattern and export composition should adjust accordingly to strengthen the export-led growth effect.

At the same time, it needs to be ensured that unskilled workers displaced from import-competing industries as a consequence of import liberalization can be absorbed in export sectors. For this, both supply and foreign demand constraints should be removed on exports of those goods in particular which are a potential source of demand for unskilled workers, such as leather and leather manufacture, cotton fabric, and textiles.

The state of poverty in rural India has remained virtually stagnant during the 1990s. With little nonfarm activity and small growth in agricultural output, it could not have been otherwise. Agricultural trade liberalization thus seems to offer a good prospect for lowering the incidence of rural poverty through increase in agricultural output. The specific export promotion policy recommendations are focused on these three sectors, namely, export of high-technology goods, ensuring employment for unskilled workers, and agricultural trade liberalization.

High-technology Goods

Even with a phenomenal recent growth in their exports, the share of high-technology goods in manufacturing exports is still around 6%. One major impediment to growth is quality. Sharma et al. (1997) have reported cancellation of consignments and future orders by a few EU countries even of electronics. These sectors are plagued by both technological constraint and foreign demand constraint. For most of these goods quality cannot be observed before actual use. But since foreign buyers have a poor perception of the quality of Indian goods in this sector potential producers of better-quality products are discouraged from raising their quality above the average industry quality. Export promotion policies for this sector should, therefore, be targeted at minimizing the cost of obtaining ISO-9000 series certificate for Indian firms, similar to the policy for small-sector units.

For exports of software the problem is qualitatively different. As Basu (2001) observes, software services predominate Indian software exports rather than software packages. Indian firms primarily focus on custom computer programing, manpower training, and consultation. In 1990 the share of service in software exports was 90% and increased to 97% in 2000. The phenomenal growth of Indian software industry and its exports in the 1990s has been primarily due to outsourcing of low-value-addition activities by foreign multinationals. With the revolution in communication technology and information technology (IT) making knowledge transfer costless and easier than ever before, availability of cheap skilled labor in developing countries like India has attracted US and European multinationals to outsource low and middle stages of production activities.² Growth of private institutions in building human skills in IT and the liberal import policy for hardware components have certainly helped Indian professionals to take advantage of the situation, but with only low-value-addition activities being outsourced, such service-oriented software growth would not bring much benefit in the long run in terms of product development and output growth as in many newly industrializing countries (NICs). It is of utmost importance, therefore, that export promotion policies are designed to encourage development

² Fragmented production structure is not limited to software. Recent estimates reveal that in East Asia trade in fragments and components is growing much faster than trade in final products.

of final software packages by highly skilled Indian professionals instead of performing low-value-addition outsourced activities.

Making Trade Work for the Poor in the Short Term

Trade can work for the poor and reduce inequality in the short term if it raises the demand for unskilled workers. Trade policies, therefore, should target to make unskilled-labor-intensive exports more competitive.

Product-specific policies are needed to boost exports of unskilled-labor-intensive products like textiles yarn and fabric and leather and leather manufacture, which account for almost 40% of exports. Problems underlying their falling shares include environmental concerns, poor qualities related to asymmetric information, and competition from rival countries like China and Bangladesh.

Technical backwardness and failure to meet the standards, both quality and environmental, imposed by the industrialized importing countries, have been major obstacles to export growth of leather and leather manufacture (Roy 2000). Germany, the major importer of Indian leather, has banned items containing pentachlorophenol (PCP) in excess of 5 mg/kg, which Indian leather manufacturers use as the cheapest antifungal preservative. The leather industry is also highly fragmented. Small-scale production keeps overhead costs small, but small firms lack the incentive to build reputation in the long term (see Naidu 2000 and Sinha and Sinha 1991). The contestable character of India's leather market is a major obstacle in building reputation and investing in quality-improving production technology. Since the quality of leather products is not known to the buyers before actual consumption, highly fragmented industrial structure per se generates negative informational externality regarding average industry quality. This, in turn, induces potential producers of better-than-industry-average quality to offer lower qualities.³

This problem of information externality can be overcome with a two-pronged approach. First, decentralized production of large fragmented firms should be brought under centralized management and marketing. Regional Leather Export Promotion Councils can play a greater role in this. Italy, the largest leather exporter (with world share hovering around 20%), has a similar decentralized production and

³ See Chiang and Masson (1988) for a theoretical discussion of information externality in case of experience goods explaining the Taiwanese export problem.

centralized marketing structure. Second, fragmented small firms should be encouraged to obtain ISO-9000 series certification, which acts as a signal to the foreign buyers as better quality of products than their perceived average industry quality. As estimated by Raychaudhuri et al. (2003), the proportion of ISO-9000 in exporting companies in this sector was only 0.40 in 1998 and 0.49 in 1999. They also observed favorable impact of such proportions on the export performance both within and across countries. Thus, providing information regarding internationally recognized certifying bodies and subsidizing the costs of obtaining such certificates can have sustained favorable effects on export performance of this sector.

Phasing out of the Multifiber Agreement (MFA) has increased the potential market for cotton textiles and fabric in developed countries. At the same time, China, Indonesia, and Bangladesh offer stiff competition both in prices and quality. As estimated by Raychaudhuri et al. (2003), the proportion of ISO-9000 firms in this sector had increased only marginally from 21% in 1996 to 26% in 1998. The textile and garments sectors' cost competitiveness is also constrained by technological obsolescence and limited scale of operation. The garments sector still managed to do relatively well in the world market during the 1990s primarily due to decline of the Indian Rupee against the US Dollar. This brought down the unit cost of production at constant prices in dollars though the real cost increased due to poor productivity performance.⁴

A beacon of hope to provide the much-needed impetus to the textile industry and make textile exports more competitive is the Technology Upgradation Fund Scheme (TUFS) introduced by the Ministry of Textiles in 1999. With the Rupee gaining against the Dollar in the recent past, success of the TUFS is all the more urgent to keep unit cost of production in dollar terms down. At the same time, large-scale production of garments is to be encouraged since diseconomies of scale seem to have been the major constraining factor to productivity growth in this industry (Hashim 2005). A proactive policy measure for cotton textiles is cooperation at the level of the South Asian Association for Regional Cooperation (SAARC) or at the bilateral level with Bangladesh,

⁴ Hashim (2005) observes a negative total-factor productivity growth in cotton yarn and garments industries. Partial-factor productivity of capital, energy, and materials also declined.

in particular, to agree to specialize in different stages of vertical chain of production according to each one's comparative advantages instead of competing with each other for markets in the US and the EU for exports from raw cotton to cotton textiles and garments. This will entail efficiency gains for both, raise their world market share, and accelerate export growth in such intermediate and finished products.

Agricultural Trade Liberalization

Food security and instability of world agricultural prices, which may adversely affect small farmers as they cannot stock their produce and wait for a better price, make the decision to open up agricultural trade a hard one. But with very little nonfarm activity in the rural areas and majority of Indian population engaged in agriculture, if trade policies are carefully administered to minimize these costs and uncertainties, agricultural exports can go far in ameliorating rural poverty and inequality. Creation of agricultural export zones would be an important step in this direction.

In ensuring that small farmers can also benefit from increased agricultural exports, developing rural infrastructure would be a major step. Assistance to states for export infrastructure development under the Assistance to States for Infrastructure Development for Exports (ASIDE) program should be geared to develop the rural infrastructure, including roads and transport system and connecting them to nearest ports. Warehousing and storage should also be improved.

Small farmers also suffer from a lack of export marketing network and information regarding potential foreign buyers. Large variations in prices between the time of sowing and harvesting also bring up the need for a well-developed rural credit and insurance market. Alternatively, the mandate of government agencies like the Food Corporation of India (FCI) can be changed to include marketing and insurance. With a 'hired' professional board of managers, the FCI can be assigned the role of pooling the produce from small farmers and exporting it. Economies of scale achieved through volume of exports would also lower marketing and transport costs significantly and make Indian agricultural exports more competitive.

Nontrade Policy: Human Capital Formation

The workforce must be skilled and capable enough to benefit from market opportunities that free trade ushers in. The increased short-term inequality that trade liberalization brings about simply reflects persistent differences in individuals' capacity to exploit market opportunities or to achieve access to productive employment and property rights. Education, training, and skill development can prepare individuals better for upward income mobility. Therefore, an environment needs to be created where every member of the lower-income groups gets access not only to formal primary education but to opportunities for acquiring technical skills that help them exploit market opportunities.

Much of the problem lies, however, in the demand rather than supply of education. Current market opportunities are heavily skewed in favor of potential workers with at least graduate-level formal education and technical skill, with very little premium on secondary or intermediate education. Therefore incentives for schooling should be provided by reducing not only direct costs of acquiring education and skill but also opportunity costs of households for sending the younger family members to at least graduate level of education.

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Nontariff Barriers Affecting India's Exports

Rajesh Mehta

Indian exporters face trade barriers in many developed-country markets, especially the US, EU, and Japan. The range of barriers are illustrated in this study, before suggesting policy responses.

Trade barriers, imposed by countries on imports to protect domestic industry from external competition, may be tariff, para-tariff, or nontariff measures (NTMs). Tariffs used to be the preferred mode till the 1970s, but successive rounds of negotiations of the General Agreement on Tariffs and Trade (GATT), resulting in restriction on tariff barriers, have brought NTMs to the fore. These include quantitative restrictions, tariff quota, voluntary export restraint, orderly marketing arrangements, export subsidy, export credit subsidy, government procurement, import licensing, antidumping and countervailing duties, and technical barriers to trade. Some NTMs (as in the areas of customs valuation, import license, and rules of origin) are GATT-consistent. Others have been put in place mainly or partly to limit imports. NTMs being nontransparent are difficult to detect but their protectionist effect is more certain than of tariffs.

The approach in the Uruguay Round for curbing NTMs was to bring existing barriers into the realm of multilateral negotiations, strengthen rules governing their use, develop surveillance mechanisms to enforce compliance, and offer improved dispute settlement procedures. The aim was to minimize NTMs' trade distorting and trade restricting effect. Some notable success was achieved in reaching substantive agreements limiting, clarifying, or disciplining the NTMs regime. Noteworthy among these measures are Article III.8.b, allowing subsidies to domestic

producers; Article III.9, allowing internal price control measures; Article VI on antidumping and countervailing duties; Article VII on methods of customs valuation; the Agreement on Agriculture converting all quantitative restrictions into tariffs; the Technical Barriers to Trade (TBT) Agreement defining members' rights and obligations in development and application of technical regulations and criteria for assessing products for meeting specialized technical standards; and the Sanitary and Phytosanitary Measures (SPS) with respect to human, animal, and plant life. Many rules, however, fall short of disciplining NTMs. Their flagrant violation is also common. Measures like antidumping are used to unsettle foreign suppliers or as a goad to force changes in foreign trading practices and policies. The NTMs' burdensome regulations, restrictive standards, and expensive compliance costs make it difficult for developing countries to access developed-country markets.

Identifying NTMs

Some trade economists (for example, Baldwin 1970) define nontariff distortions as 'any measure (public or private) that causes internationally traded goods and services, or resources devoted to the production of these goods and services to be allocated in such a way as to reduce potential real world income'. The definition does not, however, clarify what is 'potential' real world income. Other trade economists (e.g. Dearnorff and Stern 1997) prefer the term nontariff barriers (NTBs) to NTMs. NTBs in their view lead to reduction in quantity of imports, increase in the price of imports, and change in elasticity of demand for imports. They are also variable and uncertain in implementation. These economists propose a classification system for NTBs and a much smaller subset called 'hardcore measures'. These include quantity control measures excluding tariff quotas and enterprise-specific restrictions, finance measures excluding regulations concerning terms of payment, and price control measures. However, this classification excludes many internal regulatory measures that can discriminate against imports such as production subsidies, tax concessions, and discriminatory government procurement. It does not also distinguish between GATT-consistent and non-GATT-consistent NTMs. Finally, there is the World Trade Organization (WTO) inventory of NTMs based on notifications collected from national sources. It includes licenses, quotas, prohibitions, voluntary export restraints plus information related to customs surcharges, minimum

import prices, additional taxes, and charges and approval process for imports and exports. To sum up, there is no single internationally agreed list of NTMs. NTMs cover in general all measures restricting trade, other than tariffs; and hence any list of NTMs will be very long, and is probably continuously growing.

As to the distinction between NTMs and NTBs, in the literature sometimes the rationale given for using the term 'measure' instead of 'barrier' is that policies that stimulate trade rather than retard it are not a barrier. Export subsidies are cited as an example. This interpretation will keep similar internal regulatory measures, such as production subsidies, out of the NTB bundle. In this paper, however, we treat all those measures/policies employed by foreign governments as 'barriers' when used unreasonably or prejudicially against imports from India. A departure from the accepted international norm is one way to judge whether a particular measure is a barrier. To illustrate: overly stringent SPS or TBT norms on imports, though legitimate, restrict trade unreasonably and hence are barriers.

Database

The TRade Analysis and INformation System (TRAINS) of the United Nations Conference on Trade and Development (UNCTAD), covering NTMs for over eighty countries, is the most comprehensive international database available on NTMs, but the quality of its data is suspect. TRAINS is basically a frequency data and does not measure impact. The data are compiled piecemeal. Further, the data have not kept pace with great changes in NTMs. Some studies using TRAINS database have, in fact, observed a decline in the use of NTMs while business surveys show increasing prevalence of NTMs. The WTO's database based on notifications submitted by member countries is even more limited than TRAINS. In the circumstances, we go by TRAINS data.

Barriers against Indian Exports

The Commerce Ministry's two reports on 'Non-Tariff Barriers Faced by India and Policy Measures', based on UNCTAD's TRAINS, reveal three striking points.

First, a sizeable share of India's exports to developed-country markets face a range of NTBs. For instance, 44% of US imports from India

faced one or more NTBs, the most frequent being TBT and SPS. Indian goods most affected by these NTBs are woven apparel (19%), knit apparel (7%), textile floor coverings (9%), edible fruits and nuts (5%), fish and sea goods (3%), cotton yarn and fabrics (2%), iron and steel products (2%), and vehicles (2%). In the EU, 25% of imports from India faced various types of NTBs as compared to 12% of imports from all other countries. The EU's discrimination against Indian goods disregards the fact that the multilateral treaty calls for special and preferential treatment for developing countries. In Japan, 45.9% of Indian goods are affected by various hardcore NTBs as against only 39.5% of imports from other countries.

Second, the types of NTBs vary between countries and from product to product. For instance, UNCTAD's TRAINS has recorded that the US applies 26 hardcore NTBs on imports, the EU 23, and Japan 36. Many Japanese imports are also subject to multiple NTBs, mostly applied on commodity groups like mineral fuel (HS chapter 27), organic chemicals (chapter 29), pharmaceutical products (chapter 30), fur skin and artificial skin (chapter 43), and wood and wood products (chapter 44). In addition, imports of many commodities to Japan require licenses, need to meet particular specifications, and can be imported only through specific agencies.

Third, some of the most commonly applied NTBs on Indian goods, such as standards, testing, labeling, and certification, impose additional costs on exporters. Other cost-imposing NTBs are port fees/taxes, customs procedures and administrative procedures including valuation, port of entry, quota, etc.

An additional data input is the US Food and Drug Administration's (USFDA) information about preinspection detention of shipments. The data show that many Indian consignments were detained or rejected for multiple reasons, including salmonella, filthy, insanitary conditions, and pesticide residues.

No Transitional Period

The EU rejected an Indian consignment of egg powder on the ground that it did not pass through the Minimum Required Performance Limit (MRPL). The exporting company had a valid equivalence certificate issued by the EU, yet a Rapid Alert was issued in the European Community (EC) to all member states as a routine. Even after the consignment was cleared as meeting MRPL, the alert was not withdrawn.

This episode raises the question of 'timeframe' and 'reasonable time interval' between the announcement and enforcement of a new directive as per WTO's SPS agreement. The Doha Declaration identified the following issues:

- 'Reasonable interval' between publication of a country's SPS measure and its enforcement.
- Longer timeframe for developing countries to comply with other countries' new SPS measures.
- Equivalence (Article 4)—steps to make it easy.

The EU's MRPL formed part of the foundational EC Directive 96/23/EC on measures to monitor certain substances and their residues in live animals and animal products, but the Indian consignment was the first to be tested under this directive. In this case, the EC bypassed both transitional period and reasonable time interval claiming that its decision 2002/657/EC of August 2002 was in fact a directive for implementation. In March 2003, 2003/181/EC amended the MRPL decision setting MRPL for certain residues in foods of animal origin.

In this context, applications from Indian companies for providing equivalence have been lying with the EU for seven to eight years. Unable to process them, the EU grants temporary equivalence annually. These Indian companies have been set up partly as export-oriented units (EOUs) and have EU approval for exporting egg powder to EU member countries.

Other illustrations of EU discrimination are the ban on African peanut on the ground of aflatoxin (suspected to cause liver cancer), rejection of fish consignment from Kenya because of the bacterium that causes cholera, and the ban on shrimp imports from India and Bangladesh on the ground of drug residues.

To sum up, a sizeable share of India's exports to developed-country markets—US, EU, and Japan—face a wide range of NTBs, mostly connected to SPS and TBT—standards, testing, labeling, and certification requirements. There are also instances of 100% testing of imports from India whereas for certain other countries only a few samples testing is done. These restrictions push up the cost of exports and also affect their competitiveness in other ways. For example, marine products exported to the US, EU, and Japan have to be tested for chloramphenicol by high-performance liquid chromatograph/mass spectroscopy (HPLC/MS). This equipment costs about Rs. 1.5 crore.

Policy Response: What Needs to be Done

A multipronged approach is required to counter this discrimination. The multilateral trade forum and the bilateral regional free trade agreements (FTAs) should be used to exert pressure on developed countries to eliminate NTBs. There also needs to be harmonization of domestic and import policies and coordination between various departments dealing with implementation of various standards.

Multilateral Trade Forum

In WTO negotiations, the agenda should include the following:

Removal of NTBs. While on tariffs commendable progress has been made—even the formulae for tariff reduction have been arrived at—progress on NTBs has been nil. Indian policymakers should insist on removal of NTBs as a precondition for negotiations on market access. The Doha Declaration has already pronounced that NTBs are an integral part of negotiations coming under the ambit of the Non-Agriculture Market Access (NAMA). The Negotiating Group on Market Access (NGMA) is expected to identify and examine various types of NTBs, categorize them, and deal with them on the basis of modalities—request-offer, or horizontal, or vertical approaches. The Doha mandate, however, offers no precise guidance on how NGMA is linked with other WTO bodies such as the Negotiating Group on Rules and Trade Facilitation (which also handles nontariff issues) and the ones handling NTMs as a part of their regular work program, such as Committee on Customs Valuation, Committee on Rules of Origin, and Committee on TBT. NGMA's open mandate can conflict and overlap with the work program of other negotiating groups.

Plug Loopholes in the Multilateral Rules and Make the System Less Restrictive. In the Uruguay Round, notable success has already been achieved in controlling the abuse of NTBs by way of strengthening the disciplinary rules, developing surveillance mechanism to enforce, and offering an improved dispute settlement mechanism, a major achievement in itself. Similarly, the Agreement on Agriculture has made it virtually impossible to impose any type of quantitative restrictions. Negotiations are also continuing in other areas such as customs valuation, preshipment inspection, import licensing procedures, rules of origin, and TBT and

SPS measures. Hence, suggestions for improvement of these agreements, including how to close the holes in the system, are warranted.

Financial and Technical Assistance to be Given to India and Other Developing Countries. The work program mandate under para 12 of the Doha Declaration on 'Implementation Related Issues and Concerns' has laid out a six-point action plan for implementation of SPS measures. One of them is financial and technical assistance to developing countries for capacity building. However, the data of Trade Policy and Regulation, under which SPS-related technical assistance comes, show that expenditure on TBT- and SPS-related technical assistance for capacity building (TACB) activities declined from \$127 million in 2001 to \$58 million in 2002. One suggestion is that TACB formats need to change their focus from merely providing better understanding of WTO rules to ones actually implementing the SPS agreement.

Bilateral/Regional FTAs

In the past three or four years a large number of bilateral/regional FTAs have taken shape. Also called comprehensive economic cooperation (CEC), they lead to reduction of tariffs and deal with the removal of NTBs. India has already signed more than six FTAs; more are envisaged. India-ASEAN Regional Trade and Investment Area (RTIA), signed in October 2003, lists the removal of NTMs as one of its proximate goals. India's agreement with Thailand for establishing an FTA is on similar lines. Little progress has, however, been made practically in removing NTBs, while all efforts continue to focus on tariff reduction. For instance, Singapore applies tariff rates only on four commodity lines of the beverages industry. If in the proposed India-Singapore FTA tariff reduction is focused upon, India need not expect big gains; but the gain would be substantial if NTBs are removed.

Unilateral Initiatives

Under this head the following actions could be taken.

Proactive Approach. Poor participation by developing countries and a lack of developing-country perspective have been the hallmark of the past five years of SPS committee meetings. Since the developed countries are regular participants, the discussion in these meetings would be skewed in their favor. Concerted action is warranted from India and other

developing countries to seek greater participation in technical committees and subcommittees where standards are specifically discussed.

Coordination of Different Agencies' Work under a Unified System. In the food sector, a major problem in India is the multiplicity of food laws and enforcement and standard setting agencies, which confuse consumers, traders, and manufacturers. For example, SPS issues come under the Department of Agriculture, Department of Animal Husbandry, and Ministry of Health. Since there is little coordination among them the government is yet to respond to some 8000 notifications received from WTO. Many countries have comprehensively reviewed food legislation and executive structures responsible for administering food safety, quality, and export-related issues. The trend is towards one law and one apex regulator.

Keep Own House in Order. While trying to dislodge trade restrictions against imports from India it is equally important to keep own house in order. Restrictions imposed by Government of India on imports of certain products need review if future negotiations are not to end up in a quid pro quo. These restrictions may even affect the flow of inputs required for exports.

Prepare an Inventory of NTBs Facing India's Exports. Building a sufficiently detailed inventory of NTBs country-wise and product-wise is a must before going for multilateral negotiations in this area. The United States Trade Representative (USTR), for instance, prepares a detailed annual report of significant trade barriers to US exports. In a similar fashion, the Government of India should prepare a complete inventory of NTBs facing India, their estimated impact, identify the NTBs that unduly inhibit trade, and list actions taken or to be taken.

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