# CHAPTER III

## Global Trade Dynamics of India

After the previous chapter the authors discuss the WTO (World Trade Organization), the author of this chapter will discuss the dynamics of India in international trade. At first, the author will discuss the development of the Indian economy. Then the author will explain how the India's position in international trade, ranging from the inclusion of India in the WTO to how the contribution of India in the international trade organization.

### A. India Economic Growth

India experienced a slower rate of economic growth for several decades, an average of only 3% a year. Later in the end of Rajiv Gandhi administration, in the late 1980s, especially after 1991, Finance Minister, Manmohan Singh, launched a comprehensive economic reform program, the India's economy began to grow more rapidly. India trade performance since the 1980s progressed very rapidly. Between 1978 and 2005 nominal exports and imports, are valued based on current prices, the overall economy grew twice as fast. Of approximately US $ 10 billion in 1978, exports and imports of goods and services of India respectively reached US $ 164 billion and US $ 188 billion. India trade growth has also increased since 2001. Nominal growth of exports and imports increased by 28% and 30.2% between 2001 and 2005, compared with 9.1% and 8.3% for the period between 1978 and 2001.[1]

Since the economic liberalization of the early 1990s, India is emerging as a major country in information technology (IT), communication and BPO (Business Process Outsourcing), which managed to increase the average growth of 6% a year. Increasingly rapid economic growth, especially since 2002, making India aligned with China, the second Asian economic superpower. The economic reform program includes financial sector deregulation and liberalization of protectionist trade policies and foreign direct investment policies are very restrictive. The cumulative impact of economic policy reform program successfully encouraged direct private investment, including foreign private, so that an increase of 7% -8% of gross domestic product (GDP) of India in 4 to 5 years. [2]

Since independence in 1947 until 1990, India's economic activity is running very slow. This condition is a result of economic policies that are not pro-market; government intervention is very strong and relies on import substitution. However, since balance of payments difficulties in 1991 forced India should carry out reforms in various fields of economic and non-economic.

This paradigm shift turned out to have a positive impact on the Indian economy. Reflected in the increased foreign trade, flow of foreign capital flowing in the form of a

[1] Sarah Y. Tong, *Comparing Trade Performance of China and India*, EAI BackgroundBrief No.398, Date of Publication: August 20th 2008
[2] Kompas. November 17th 2009

protease inhibitor (Investment Portfolio) and FDI (Foreign Direct Investment) and economic activity began to passionately. Progress liberal policies applied in this case has led to increased inflows of foreign investment in the country, both in terms of direct investment (FDI) and portfolio investment. Aggregate annual foreign investment inflows varied between US $ 4 billion to $ 6 billion over the period 1993-1994 to 2001-2002.[3]

India is known as a country that is relatively closed and difficult to penetrate the market by foreign parties. The dominant factor is relative market forces followed the strong spirit of swadesi (subsistence). The government's role is dominant which is arranging everything. This strategy was not effective to development and even the results obtained rampant poverty. Under the leadership of Prime Minister PV Nashimha Rao and Finance Minister Manmohan Singh, since 1991, India started to open them self to liberalize the economy. The government was started to disarm License King (in terms of investment), industrial and import licensing), ending the state monopoly in many sectors, and allowing foreign investors to cultivate the domestic business. The paradigm changes in market forces and foreign touch to bring India into a world power.[4]

Two sectors are left untouched from government interference are the field of information technology and the film industry turned out to be a great power of India in the future. India IT (Information Technology) progress very phenomenon, even the city of Bangalore has become the IT hub of the world. Almost all of the giant IT industries

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[3] AbdurahimOkhunovAbduraxmonovich, *Economic Cooperation between India and Central Asian Republicswith Special Referenceto Uzbekistan.* RIS DISCUSSION PAPERS, RIS-DP #53/2003, June 2003, p. 8-9

[4] Ibid

open an office in the city from Microsoft, IBM, Infosys, and Wipro. All of them are supported by the quality of information technology education with an international reputation. The film industry in India is an industry wide screen world has even beat Hollywood films in production quantities. The film industry has a very big role in absorbing labor. As many as 2.3 million people in India work in this sector.

One crucial step that became the beginning of the rise of India is the magnitude of the government's attention on the quality of education. System and the quality of education in India have the world standards. In fact, India is known as a supplier of skilled workers in the world. As an illustration in the 1990s than 150,000 foreign laborers working in IT companies USA, 60,000 of who are software experts from India. Rapid technological advances frightening other developed countries. According to JP Morgan analyst, with a predominantly young population and high knowledgeable, then in the next 20-30 years India unseeded in the ministry of information technology-based or knowledge with remote services.

Progresses of the Indian entrepreneur have gone worldwide. A number of Indian companies are known as world-class players such as Tata, Infosys and TVS Motor Company. Lunge Tata has even become a world player to be reckoned with. Currently Tata has operations in 40 countries with 90 companies. Tata business is very broad diversification of the automotive, steel, IT and communications, services, consumer products and agriculture.

In the pharmaceutical field, India is also known to be very spectacular and is included in the global arena. India supplies 40% of the world's bulk pharmaceuticals. India today is capable of producing drugs much cheaper than any other country that is only half the cost of production in the United States. With a very strong intellectual capital, India is capable of producing up to 10 generic drugs in a year, while foreign manufacturers only a maximum of two products. India is now also targeting the market of medical services. With 80% lower costs in the appeal in the United States, several companies in the United States are exploring health care services in India.[5]

## B. India Position Within the WTO System

Trade regime was born in the middle of the conflict between the US negotiator in the United States and Bretton Woods. British compromise agreement - the US ended up creating an international trade organization known as ITO (International Trade Organizations), which makes the trade issue remains unresolved. Then the arbiter of his actions in 1948, the United States has created a GATT (General Agreement on Tariffs and Trade).[6] After going through various rounds, the Uruguay Round of trade negotiations is a stage which was signed in Marrakech on 15 April 1994. GATT consists of 128 countries which was later renamed the WTO (World Trade Organization). The establishment of WTO is on January 1st, 1995, to the point that marks a form of formalization and institutionalization of global free trade. WTO Uruguay Round which

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[5] Heri Ispriyahadi, *Kemajuan Iptek Mendongkrak Kebangkitan Ekonomi India,* dalam India, Bangkitnya Raksasa Baru Asia (Calon Pemain Utama Dunia di Era Globalisasi), Editor: Irwan Suhanda, PT. Kompas Media Nusantara, 2007.

[6] Gilpin, Robert. ‘TheChallenge of Global Capitalism: The World Economyinthe 21st Century’. Vol.1, p.56

gave birth to a new phase in the history of world trade in a new era of neoliberal globalization.

Various new agreements reached in the Uruguay Round largely taken a heavy toll on the economy of developing countries, especially with the elimination of export subsidies applied products became the mainstay of developing countries. Traces the history of the formation of the WTO through the Uruguay Round, cannot be separated from domestic and international interests of the United States trade. Which gave birth to the WTO, Uruguay Round cannot be separated from the issue of trade deficit experienced by the United States in the 1980s. Uruguay Round of trade agreements pose a problem as the agreement was not fair for poor countries worse off, the Uruguay Round made unfair rules of the game are becoming increasingly unfair. Developed countries set higher tariffs in developing countries than developed countries.[7] However, the Uruguay Round achieved a number of important successes in the agricultural sector; inclusion of agricultural trade in the WTO framework.

In November 2001, the trade ministers of WTO members met in Doha, Qatar. Negotiations received refusal of developed countries to cut agricultural subsidies. According to Stiglitz, shows that the United States issued a new plan in the field of agriculture said it would add the subsidies almost doubled. The Doha Round failed to reach an agreement. WTO negotiations are filled with a variety of talks on agricultural subsidies which started in July 2006.

[7] Stiglitz, Joseph. ‘MakingGlobalizationWork’. United States: W.W Norton & Company, Inc. 2006, p.142

It followed the ministerial meeting on the EU in 2008 resulted in a disagreement between the export of agricultural commodities and related agreements special safe-guard measures to protect farmers from the impact of import policy.

Since gaining independence, India has set an open economy. According to Narayan, after the adoption of economic reforms in 1991, India became the main destination of global retail investment, operations of multinational companies, and the absorption of foreign direct investment and dominates the Indian market.[8] In addition; India is active in international multilateral forum that is meeting the WTO and the World Economic Forum. However, in 1999 and 2000, the Indian delegation left the WTO meeting in Seattle, where the United States and the European Union set standards for labor rights and environmental standards, as well as multilateral investment and competition. In both these forums, India led the developing countries to sustain demand for trade liberalization. Trade and Industry Minister, Murasoli Maran offered to lead the developing countries in the negotiation process, including the developed countries that agree to the WTO reforms and efforts to remove the issue of "non-trade". India is an important economic player and its emergence into one superpower.[9]

India joining the WTO on January 1, 1995 had a negative impact. This is a result of WTO policies governing trade subsidies and trade-related provisions. A group of farmers in India generally regard the WTO as an enemy who plays one of the

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[8] SudhaNarayan, 2009, *A RevolutionintheMaking: The Case of Agro-FoodRetailingin India*, dalam Andersen, Pinstrup Per &Fuzhi Cheng (editor). *CaseStudiesin Food Policy For Developing Countries*. Vol.II. New York: CornellUniversity Press, DomesticPolicies For Markets, Production, and Environment. p.23

[9] Alangir. Jalal, 2009, *India'sOpenEconomyPolicy. Globalism, Rivalry, Continuity*, New York: Routledge, p.26

globalization. The price of some crops has decreased dramatically after the government imposed a number of restrictions as a result of the merger of India to the WTO. The incorporation of India to the WTO brings the consequence which the Indian government should reduce trade barriers.

The role of India in the WTO is the Semi periphery country. As a country that is included in that category, India became one of the countries that are stabilizers in the system built. India is categorized as a state-owned Semi periphery based on criteria, such as in the products exported and imported goods and those dominating and dominated by India in international trade. India exported goods products include: automobile, car parts, rice, oil that has been refined, the packing of medicines, raw sugar, and jewelry. Of the products are exported, it is known that India is an exporter of raw materials, intermediate goods, and finished goods. Car products and refined oil products that have a product that requires high technology in the process of producing goods.

It can be concluded that India is not a country on the periphery where the periphery countries basically just exporting the raw materials and have mastered high technology. Then the products India imported goods such as crude oil, computers, telephones, broadcasting equipment, and gold. Products imported from India, it is known that India is also a net importer of raw materials, intermediate goods, and finished goods. It can be concluded again that India is not a country on the periphery where basically the periphery countries tend not to import raw materials.

In international trade, the Indian market dominated by a few other countries such as China (11%), the USA (4.2%), Switzerland (6.2%), and Germany (3.0%). Besides dominated by products imported from Core countries, India also dominated exports to some periphery countries such as Bhutan (72.3%) and Nepal (50.6%). This shows that India is not a Core country, because India is still exploited by other countries. India is a country Semi periphery because regardless of their exploitation of the developed countries, India also exploit to some other countries, especially other developing countries.

India is one country that plays a role linking Core and periphery countries where India linked by the developed countries, especially in terms of capital and technology. India also did the bond against the periphery countries to distribute the flow of goods and services to countries Core. India's position within the world capitalist structure is about to give more chances and role in the structure. The capitalist system as a system that dominates the world today responded by India to make adjustments to the development of the system. This adjustment is made so that its position as the semi-periphery can still be maintained. India today as one of the countries with the nickname The New Emerging Country should pursue policies that ensure to avoid collisions with Core countries for capital flows coming into India are from the category of the country.