

Abstract of the Ph.D. Thesis

Abstract of the Thesis submitted by the Research Scholars who carried out studies at the Gokhale Institute of Politics and Economics, to the University of Pune for the Degree of Ph.D.

Title: Impact of Trade Liberalisation on the Level of Protection of Indian Industry

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Background of the Problem

The starting point of this study was the need to explore the impact of recent trade liberalisation in India on the level of protection of Indian industry. This search led to an exploration of the phenomenon of trade liberalisation in general, and the process in India, in particular, and this provided the backdrop for the study. Trade liberalisation refers to freeing foreign trade of the restrictions imposed on it, in the form of tariffs, non-tariff barriers, like quotas, import licensing or exchange control regulations etc. The objective of trade reform is to move toward freer trade and enhanced competition; and trade reform policy involves a number of design issues eg. the extent and sequencing of trade reforms that have to be determined by the authorities, in the light of their economic necessity, political feasibility and the administrative capacity.

The Indian trade regime was graphically described by Bhagwati & Desai (1970) and Bhagwati & Srinivasan (1975). By the early 1990s it was characterised by an extremely complex licensing system based on twenty six lists of commodities that classified all importables; different approval procedures for each list and ten different types of licenses, applied to over 4000 of the approximately 5000 codes in the HS classification, used in the Indian tariff schedule. There were export controls on over 440 items of which 50 per cent were on agricultural goods, 25 per cent on minerals and metals and 10 per cent on chemicals. In addition, the exchange rate was a crawling peg fixed periodically by the Reserve Bank of India.

The tide turned in 1991. The events that shaped the transformation were manifold and the changes that followed were unprecedented. Trade liberalisation which had begun in the mid 80s was firmly embraced in India.

In March 1992, the Government of India eliminated in one step the restrictive and complex licensing system for imports of intermediaries and capital goods, which was one of the building blocks of the inward oriented industrial policies pursued since independence. Several rounds of tariff reduction cut peak tariff rates from 400 per cent in 1990-91 to 50 per cent in 1995-96. The import weighted average nominal tariff was down to 27 per cent in 1995-96 from 87 per cent in 1990-91. Export controls were slashed - from controls over 440 items in 1990-91, the controls were limited to only 48 items restricted in 1995-96. Also, the foreign exchange regime has been liberalised. The rupee was floated in March 1992, and near full current account convertibility established in March 1994.