REMOVAL OF QUANTITATIVE RESTRICTIONS : SOME CRITICAL ISSUES

*B.K. Keayla**

There is considerable concern amongst economists and industrialists on the issue of removal of quantitative restrictions on imports to India. It is feared that Indian industry particularly small scale industry shall not be able to withstand competition from large multi-national corporations having gigantic all-round potential in free-import regime. Similarly, there is threat to agricultural sector from the imports of developed nations which are able to sell their products at a much cheaper rate. The present paper empirically analyses whether these threats are real or imaginary. The paper concludes that Q.Rs. will destabilise Indian agriculture and industry substantially.

INTRODUCTION

The removal of Quantitative Restrictions (Q.Rs.) by the Government has become a **hot subject** for debate in India. The related **issues have serious implications both for the Industrial Sector as well as Agricultural Sector. In the Industrial Sector particularly** many small scale and the medium scale units have already started facing strong threats of annihilation. Surely, they would not be able to withstand any competition from the large Multinational Corporations having gigantic all-round potential during a regime of free imports. Similarly there are great doubts about the Agricultural Sector maintaining a steady growth as it would not be able to compete in prices with various imported agricultural produce which are highly subsidised by the governments of the developed countries. Instead of growth this sector may face imbalances and degrowth in the globalised scenario. The threat of the removal of Q.Rs. is thus no doubt serious and requires a pragmatic approach to safeguard our national interest in both the sectors. The eighth round of GATT negotiations known as the Uruguay Round took nearly eight years of negotiations to conclude the Final Act of the Round which is totally unequal Treaty. The developed countries succeeded in their objectives to ensure pry opening of the growing markets of the developing countries through reductions in trade barriers i.e. both reductions in tariffs rates (custom duties) as well as removal of non-tariff barriers (quantitative restrictions) on imports. The new global trading system is now sought to be totally restriction free. The reduction commitments of tariff barriers were ensured under the Final Act through a Protocol signed by the member countries in early 1994 i.e. immediately after the conclusion of the Uruguay Round negotiations in December, 1993. In so far as the removal of Q.Rs. in India is concerned government agreed to the disinvocation of Balance of Payment cover in January 1997 and consequently it became impossible to maintain Q.Rs. on imports, Government

*Convenor, National Working Group on Patent Laws, New Delhi.

gradually removed the Q.Rs. and the total removal process is getting concluded in the course of next few months i.e. by the end of March 2001.

GATT PROVISIONS

One of the basic disciplines provided in GATT 1947 regulations and which was carried forward to GATT 1994 related to inter-national trade in goods pertaining to removal of Q.Rs. The relevent Article XI of the GATT prohibits the use of Q.R. and accordingly the imports are required to be regulated only by tariffication.

There are a number of exceptions which have been provided for in Article XI about Q.Rs. The developing countries under Article XII could use the exceptions in a situtation of foreign exchange problems to safeguard its interest. Even Article XVIII (B) was framed to help the developing countries whose economy could only support low standard of living and were in the early stages of development. This Article recognises the problems of the developing countries which faced balance of payment shortages arising mainly from efforts to grow their internal markets as well as their low performance in the international trade. The GATT Declaration of 1979 further clarified the balance of payment provision under Article XVIII(B) of GATT 1994 which is now a part of the WTO agreement as "Understanding on Balance of Payments Provision". The application of Article XVIII(B) provides for certain limitations such as:

(i) Only one type of restricted measure can be adopted for a particular product,

(ii) The restriction on imports should not be broad-based and the same should be applied in relation to balance of payment difficulties, and

(iii) The measures taken for balance of payment reasons should not in any way be used to protect the indigenous industry.

This scheme also enjoins upon the developing countries that they should gradually eliminate the measure with the improvement in their balance of payment position.

It is under the above provisions of GATT that India was maintaining Q.Rs. on imports. There were as many as about 10,000 items on which Q.Rs. were being maintained in early nineties through the Import policy announced every year. Since early nineties these Q.Rs. have been gradually reduced.

REVIEW OF BOP

As decided during the Uruguay Round of GATT Negotiations and the conclusions provided in the Final Act, the Committee on Balance of Payment Restrictions held consultations with India during 1994, 1995 and 1997. During 1995 consultations the Committee observed as follows:

> "The committe noted the views expressed by India, that in the context of a deteriorating balance of payments situation, it would be neither prudent nor feasible to consider the general lifting of quantitative restrictions on imports at this stage".

India had further consultations with the Balance of Payment Committee Restrictions in January 1997. On the basis of IMF statement that India's BOP position had improved, the Committee members virtually pressurised India and came to the conclusion that India's Foreign Currency Reserves position was quite comfortable and that there was no justification to continue BOP cover. During this period, however, the foreign exchange reserves position was as follows:

Status	
1991	US$ 1 billion
1994-1995	US$ 20 billion
1995-1996	US$ 17 billion.

As compared to 1995 the position in the following year was no better.

In addition to the above situation the exchange rate of rupee was also depreciating. It was Rs. 31.4 to a dollar in July 1995 and it went down to Rs. 35.7 to a dollar in August 1996.

On the basis of the above status of our foreign exchange reserves our Government without much resistance and any debate in Parliament agreed to the disinvocation of BOP cover in January 1997. The mind set of the Finance Ministry at that time was that by projecting comfortable BOP position it would be possible to attract foreign direct investments (FDI). Thus the political leadership at that time sacrificed the BOP disinvocation to attracting FDI which also did not fructify as expected. The removal of Q.Rs. crisis was thus in a way created by our government.

PHASING OUT OF Q.RS.

In view of the disinvocation of BOP cover immediately pressure was mounted by the USA, European Countries and many other countries on India to remove all Q.Rs. In January 1997 India was maintaining Q.Rs. for BOP reasons on as many as 4433 HS-Lines. The initial proposal to the WTO by India was that it would phase out all Q.Rs. in a period of seven year. The USA, EU, Australia, Japan, etc. did not agree to this offer.The Government made a revised offer of total removal of Q.Rs. in a period of six years. Many countries agreed to this revised phasing out programme but USA rejected this offer and filed a dispute in WTO. The dispute panel of WTO while upholding the USA contention stated that potential trade opportunities were being rendered void by India on account of import curbs. India argued in its appeal before the appellate body of WTO that its import curbs on BOP grounds were justified and that a comfortable foreign exchange reserve position could not disprove it as half of the exchange reserves were volatile comprising foreign institutional investments and NRI investments or deposits which were almost to the tune of $ 15 billion and these could be withdrawn at the slightest economic or political distrubances which might occur in the country. Finally the appellate body of WTO going along with USA contention suggested to India and USA to negotiate settlement. It was in this context that India agreed with USA to remove its 50% of the remaining Q.Rs. of 1429 by April, 2000 and the rest by end of March, 2001.

The immediate impact of this agreement with USA is that the agreement reached with other countries has also become redundant. India could not maintain their earlier decision of removal of Q.Rs. by 2003 in the face of the settlement forced on it by the WTO panel in the context of dispute raised by the USA.

AGREEMENT WITH USA

It was in December 1999 that USA and India mutually agreed pursuant to Article 21.3(b) of Understanding on Rules and Procedures Governing the Settlement of Dispute that the reasonable period of time to remove all quantitative restrictions could finally expire on April 1, 2001 by notifying removal of restrictions on 715 items on or before April 1, 2000 and for the remaining 714 Q.Rs. items to be finally removed from import restrictions on April 1, 2001. Some

of the important items which were listed for removal of Q.Rs. during this period are as follows:

(i) Milk and Cream of a fat content by weight exceeding 6%.

(ii) Milk food for babies of a fat content by weight, not exceeding 1.5%.

(iii) Dairy spread, Processed cheese.

(iv) Dried egg yolks and egg yolks.

(v) Coconuts fresh and dried.

(vi) Oranges fresh and dried, grapes fresh.

(vii) Coffee not roasted and Tea green in packets.

(viii) Wheat for human consumption, meals of wheat.

(ix) Rice in husk, Basmati rice, other rice, Broken rice, meals of rice.

(x) Sandle wood chips and dust

(xi) Mango pickles and mango chatnies, Tomato chatnies. and Lemon chatnies.

(xii) Mashrooms, other vegetables, fruits, nuts, mixtures of vegetables.

(xiii) Potato chips fried frozen.

(xiv) Cigars and cheroots

(xv) Rubber cushion, Leather sofa covers.

(xvi) Letter pads, exercise books, folders etc.

(xvii) Men's or boys' overcoats, Women's or Girls' overcoats, Men's and Boys' jackets.

(xviii) Baby garments, Track suits, ties, bow ties.

(xix) Women's or Girl's night dresses.

(xx) Sanitary fixtures of Aluminum, Lead, Zinc etc.

(xxi) Motor Cars, Second hand motor cars, jeeps and land rovers.

(xxii) Motor cycles, Scooters, Auto Rickshaws, Bicycles.

(xxiii) Toys.

The above is an indicative list of items (out of the remaining 1429 items) which could be freely imported after the removal of quantitative restrictions. For all the above and other items our country is not only self-reliant, but have sufficient capacities surplus to produce for export also. Free imports will render large number of capacities impaired.

VULNERABLITY OF INDIAN ECONOMY

Free imports from other countries are certainly going to make our economy vulnerable. There is going to be serious setback as stated earlier to both the Industrial Sector and the Agricultural Sector: Indian industry developed mainly as import substitution industry. Only recently in starting establishing capacities to have showings in the global markets. The over all Indian share in the international trade has been thus just 0.6%. Similarly only recently India has become self-reliant in Agriculture. Globalisation of economy with all weaknesses is full of more or less risks. Let us examine the two sectors.

Agriculture Sector

Agricultural products abroad are significantly cheaper as compared to similar products produced in India. The main reason being that the developed countries still continue to maintain high direct and indirect subsidy

levels for farmers. The Agreement on Agriculture provided for 24% reduction in the Aggregate Measure of Support (AMS). However, despite the need for reductions in AMS, overall levels of support on the whole have increased, rather than getting reduced. The Green Box subsidies provided by governments are not required to be subjected to reduction. In other words governments are free to provide such subsidies without limits. This is the only category of support in the Agriculture agreement where no limits were set on support. The OECD countries despite reduction in Blue Box subsidies went on increasing overall levels of support. The European Union countries increased their total subsidy from 9 billion ECU in 1986-88 to 22 billion ECU in 1996. Similarly subsidy levels in USA increased from US $ 24 billion in 1986-1988 to US $ 58 billion in 1998. There may have been further increase in overall support to farmers/agriculture sector during subsequent years. The Producers Support Estimate (PSE) by OECD countries has increased from US $ 247 billion in 1986-1988 to US $ 274 billion in 1998. For the European Union Countries the PSE figure has increased from US $ 100 billion in 1986-88 to US $ 130 billion by 1998. For the U.S.A. the PSE figure increase has been from US $ 41 billion to US $ 47 billion.

The manipulative strategy adopted by the developed countries channelled their domestic support programme away from the disciplined AMS to the undisciplined Green Box support, hence avoiding the need to make real domestic support reduction. How can Indian Agriculture Sector with woefully low subsidy level compete with such powerful economies who are **manipulating their support and subverting the level playing field for genuine free market competition in the agriculture Sector. In this context India should take a hard line course to shut its markets for Agricultural produce so long the huge subsidy support mask is not dismantled by the developed countries.** Many other countries, have also raised with the WTO the question of overall subsidised levels going up in the developed countries. India should make a common cause with them and vehemently raise the issue during the review of Agreement on Agriculture and ensure for an effective level playing ground to safeguard its self - reliant position in Agriculture Sector and food security angle. While the developing countries lack in resources to provide higher levels of subsiidies, the developed countries have tremendous potential to raise subsidies levels. Mr. Prakash Singh Badal Chief Minister of Punjab in his Valedictory address at Agro Tech - 2000 organised on December 5, 2000 in Chandigarh has 'predicted doom saying the implementation of WTO Agreement in the present form would lead to bloodshed in the country'.........Signing of the WTO according to him 'amounts to signing the death warrant for the farm sector'. These are serious statements and should be given serious consideration by the national leaders at the Centre.

Industrial Sector

The situation in regard to the Industrial Sector is no less alarming. Already across the border warfare of a different kind has started after massive cheap imports from China which are hitting our domestic makets. Calculators for Rs. 20, watches for Rs. 14, and cigarette lighters for Rs. 2 are available at footpaths, street corners and traffic junctions. All these goods made in China are edging out Indian small scale industry from its home turf. These are the

figures given out by the Business Times Bureau report published on August 24, 2000 in Times of India. The report further says quoting an entrepreneur "China does not need to make a nuclear bomb for India. It will anyway bring the economy to its knees". The report also analyses that the explanation lies in the Chinese Government setting up export zones with extraordinary infrastructure facilities, importing latest machinery, buying raw materials in bulk from the world markets in slump, giving export incentives and making bank loans available at 4-6% rate of interest. In contrast the Indian businessmen claim that they are combating power cuts, high-interest rate of bank loans, lack of exit laws for labour, corrupt inspectors (dealing with nearly 20 inspectors yearly) and expensive raw materials. The report also quotes another entrepreneur about the taxes saying, "We pay excise duty of 16%, sales tax varying from 4-12% and make investments to meet pollution norms, plus Delhi has the highest minimum wage of Rs. 2340/–p.m. while there are no exit laws for labour".

With this disturbing story how can we avoid annihilation of lakhs of tiny, small scale and medium scale units in the country who have to face unequal competition. Ground realities are extremely weak for global competition. Removal of all Q.Rs. by April 2001 would further extenuate the situation. We may have surplus trade with China but dumping of goods at below the cost price (apparently) would result in serious consequences of destabilizing our economy. The routes taken by Chinese products into our country are smuggled through land and sea routes, re-exports through Nepal and dumping. Plugging of unauthorised routes should be tackled on priority basis.

In addition there is another major problem of dumping chemicals and similar products from abroad which is also threattening many small and medium scale enterprises. Recently, the Chief Minister of Tamil Nadu has written to the Prime Minister and the Commerce Minister about the cheap imports of safety matches flooding the domestic markets, to the detriment of thousands of small and tiny producers of the country.

The Hindu reported on December 28, 2000 that though India enacted a law several years ago empowering the government to impose "safeguard duty" in case of excessive imports, without reference to dumping norms, practically nothing has been heard of that by way of levies. It is also stated that Union Cabinet has decided to amend the foreign Trade Development and Regulation Act to enable the imposition of Q.Rs. in case of excessive imports, obviously keeping in mind the total elimination of Q.Rs. from April 1, 2001, as committed during the bilateral negotiations with the US. Let us watch the developments during 2001. Apart from excessive imports environmental issues also should be extensively applied to the genetically modified food, sub-standard and second hand equipments like second hand old cars which would further extenuate pollution situation in big cities like Delhi.

PERFORMANCE OF SSI IN INDIA

The Small Scale Sector is the backbone of our economy in many ways-significant share in export efforts, self employment and providing employment to unskilled and semi-skilled labour in the country. The overall performance of SSI Sector in India is commendable and has been as follows:

Table 1: Number of SSI units

(In lakhs)

Year	94-95	95-96	96-97	97-98	98-99
Number	25.71	27.24	28.57	30.14	31.21

In four years the numerical growth of SSI units have been over 20%.

Table 2: Growth of Employment in SSI Sector

(in lakhs)

Year	94-95	95-96	96-97	97-98	98-99
Number	146.56	152.61	160.00	167.20	171.58

The growth in employment provided by the Sector in four years has also been quite significant i.e. over 16%

Table 3 : Output and Exports by the Small Scale Sector

Year	Output- at current prices (Rs. crores)	Year	Export at current prices (Rs. crores)
94-95	2,93,990	94-95	29,068
95-96	3,56,213	95-96	36,470
96-97	4,12,636	96-97	32,249
97-98	4,65,171	97-98	44,437
98-99	5,27,515	98-99	49,481

The increase in output and exports by the Small Scale Sector have risen in four years nearby by 80% and 70% respectively.

The overall performance of SSI Sector has been magnificent and as such safeguarding the interest of the Sector should be the top national priority of the government.

Combination of Removal of QRs. with Reductions in custom Duties

There is yet another similar disturbing story in the Agriculture Sector in regard to imports of rice. Many years ago India has agreed to the bound rate of duty for the products like rice and maize at zero level. Finance Minister in his budget proposals for the financial year 2000-2001 had provided for custom duty imposition in a flexible range of 60-80% on such products. However, in regard to the broken rice with a broken percentage of 50% and above, the custom duty continues to be at zero level. Rice imports by private traders into the country

was in the neighbourhood of 40,000 tones during September 1999 and February 2000. Some importers misdeclared first class (unbroken rice) as broken rice in order to import under OGL and at zero custom duty for sale in the market since the price of indigenous rice in the coastal states of Maharastra, Gujarat and West Bengal has been ruling far higher than the international prices. The misdeclaration of rice as broken rice instead of first class rice has helped the private traders to make huge profits.

Such instances would become common and not so easy to manage. The result would be disastrous for the Agriculture Sector.

Immediately after the conclusion of Urugay Round Negotiations in December 1993, the government were called upon to bind their tariff rates in the prescribed schedule. Our government at that time thought that it would be possible to maintain Q.Rs. for BOP reasons for long and as such adopted a liberal approach when flexibility was available to us to reduce tariff barriers (custom duties) from an average level of 110% to 40%. This blunder was committed without combined approach to reduction of custom duties and possibility of removal of Q.Rs. for BOP reasons. The consequences of political failure to take perspective view are before the nation.

The Government recently in November, 2000 advertised levels of Custom duties on the Agriculture products (see Table).

Table 4 : Custom Duties and Import Restrictions on Agricultural Products notified by Government

Sl. No.	Item Description	Cumulative Duty	Current Import Policy
Cereals			
1.	Wheat (other than meslin)	55%	Canalised
2.	Maize (Corn) seed	50%	Restricted
3.	Maize (Corn), if imported under TRQ upto an aggregate of 3,50,000 MT in a financial year	15%	Restricted for use as animal feed or poultry feed/Otherwise Canalised through FCI and PEC
4.	Maize (Corn), if imports are not under TRQ	50%	Restricted for use as animal feed or poultry feed/Otherwise Canalised through FCI & PEC
5.	Rice in the husk	80%	Canalised through FCI
6.	Husked (brown) rice; broken rice	80%	Canalised through FCI
7.	Semi-milled or wholly milled rice whether or not polished	70%	Canalised through FCI

Table Contd...

8.	Millet, Jowar, Shorghum	50%	Restricted if seed quality. Otherwise Canalised through FC
Cereal Products			
9.	Atta	44.04%	Free
10.	Maida	44.04%	Free
11.	Sooji	44.04%	Free
Dairy Products			
12.	Fresh milk and cream	44.04%	Free
13.	Butter, dairy spreads and melted butter (ghee)	44.04%	Restricted
14.	Cheese	44.04%	Grated, powdered and blue-vein cheese free; others restricted
15.	Milk Powder upto 10000 MT under TRQ	19.60%	Restricted for milk food for babies; low fat milk powder other than skimmed
16.	Milk Powder	66.40%	milk and unsweetened whole milk powder; Others-free
Meat & Poultry			
17.	Poultry meat & Chicken legs	118.4%	Restricted
18.	All other meat	44.04%	Restricted
Horticulture			
19.	Apples	56%	Free
20.	Grapefruit, plums & sloes, prunes	30%	Free
21.	Fruits (other than 19 & 20)	44.04%	Free (except coconuts fresh oranges and grapes)
22.	Fruits juices	62.90%	Free
23.	All vegetable (other than onions)	38.5%	Free (except fresh garlic, cauliflowers, sweet potatoes and potatoes)
24.	Arecanut	108%	SIL

It has to be seen as to what extent the tariffication can help in safeguarding our farmers interest and food security and Small Scale and tiny units.

BALANCE OF PAYMENTS STATUS

The Economic Survey of 1999-2000 deals with the balance of payments in an extensive manner. It is claimed by the Government that despite significant pressure on balance of payments being experienced by the developing countries all over the world, India's balance of payments position remained comfortable during the year 1998-1999 and 1999-2000. It is also stated that a deficit in the current account of the BOP during 1998-1999 had declined to about 1% of GDP as against 1.4% in 1997-1998. The data of trade balance since 1990-1991 as stated in the Survey is given in Table 5.

Table 5: India's Trade Balance

Year	Foreign Trade Balance US $ Million
1990-91	(–) 9438
1993-94	(–) 4056
1994-95	(–) 9049
1995-96	(–) 11359
1996-97	(–) 14815
1997-98	(–) 15507
1998-99	(–) 13246
1999-00 (1st six months)	(–) 7531

The factual position as stated in Table 5 regarding our foreign trade has not been satisfactory. With the total opening of import after the removal of all Q. Rs. foreign trade imbalance would further extenuate.

The capital account position of our foreign exchange reserves has also been mostly volatile. The highest FDI Investment was US $ 3.5 billion in 1997-98. The total net capital inflow during 1998-99 was of the order of US $ 7.87 billion which was, however, inclusive of US $ 4.23 billion from the Resurgent India Bonds. This inflow of US $ 1.53 billion was lower than 1997-98 during which year Foreign Direct Investment was the highest as stated earlier. The Economic Survey further gives the data about foreign currency reserve at the end of 1998-99 as US $ 29.52 billion. This increased to the level of US $ 34.90 billion during January 2000. During the week ended December 29,2000 the reserves touched a new level of US $ 40.01 billion. This spurt is due to the inflows of proceeds of the State Bank of India's millennium deposits amounting to $ 5.9 billion.

The latest position of our balance of payments as reported in RBI bulletin is given in Table 6.

These assets expressed in dollar terms include the effect of appreciation/ depreciation of non – US. currencies such as euro, sterling and yen held in reserves. This track record of our external finance environment cannot be judged as comfortable in the regime of free imports of industrial as well as agricultural products after all the Q.Rs. have been removed on 1st April 2001. Foreign exchange disbursements on imports and servicing of foreign debts would certainly be the major problems before the country. These issues will have to be encountered in a comprehensive manner taking into consideration the BOP situation, removal of Q.Rs. likely FDI trends and the reduction of custom duties and a long term strategy will have to be developed. How we will meet the situation

when the small scale sector and the agriculture sector would be threated by the free flow of imports and the country's inability to meet disbursements for accelerated imports.

Table 6 : India's balance of payments

($million)

	July-Sept.1999 (net)	April-June 2000 (net)	July-Sept.2000 (net)
(A) Merchandise	–3393	–4743	–4491
(B) Invisibles of which	2281	2418	2818
a) Services	217	179	332
i) Travel	142	–18	71
ii) Miscellaneous	236	592	412
b) Transfers	3084	3422	3370
c) Income	–1067	–1183	–884
Current account balance (A+B)	–1112	–2325	–1673
(1) Foreign investment	1066	1197	569
of which			
(a) Direct	648	662	517
(b) Portfolio	450	603	81
(2) Loans	214	–161	632
(3) Banking capital	157	1250	–196
(4) Other capital	77	–455	411
(5) Rupee debt services	–3	–460	–1
Total capital account (1 to 5)	1511	1371	1415
E & O	–912	–67	–155
Overall balance	–513	–1021	–413
Foreign exchange Reserves	519	1047	413