Reintegrating India with the World Economy by T. N. Srinivasan and Suresh D. Tendulkar, Washington, D.C., Institute for International Economics, 2003, xiv + 167 pp.

Since the conclusion of the Uruguay Round of negotiations and the formation of the World Trade Organization (WTO), India has attracted keen interest amongst international trade policy analysts. This has not only been due to the position of the country in the community of advanced developing nations, but also due to interesting positions India took during and after the Uruguay Round of negotiations. The launch of the Doha Round in 2001 pushed India to the fore as one of the key players in the WTO negotiations. The recently concluded Cancun Ministerial Summit of 2003 was characterized by serious diplomatic efforts on the part of India, to cobble the G20 together in a last ditch effort to stall the imposition of a unilateral agenda of global trade by the North. Despite the attention India has been getting, analysis of India's stance in the WTO has not gone beyond assessment of the country's stated positions on the sensitive issues such as agriculture, intellectual property rights (IPRs), and sanitary and phyto-sanitary issues. Very few scholars have attempted to dig deep into the foundations of India's economic policies to explain India's stand on the WTO agreements. It is against the background of this deficiency that one needs to consider the work of Srinivasan and Tendulkar. Their book is a splendid effort to look at the underpinnings of India's trade policies and trade negotiation positions in terms of the country's national economic imperatives, prior to and after the economic reforms process of 1991. What is equally interesting about the book is its ability to transcend narrow analytical and econometric explanations of the empirical phenomena and come out with compelling arguments for altering India's current course in the WTO negotiations. This then makes this book worthy of a close study by both academia and the practitioners of trade diplomacy. The book is divided into five concise chapters.

The first chapter surveys the dynamics of the macroeconomic policies pursued by India both prior to and after the serious economic crisis of 1990. The chapter describes the events that led to the Government of India initiating the process of structural change and liberalization in the true spirit of achieving economic reforms. Many ideas and ideals, which were considered sacrosanct until the 1990s were boldly abandoned in favor of a market-based reforms process. The authors describe the change as a shift from a public sector dominated, centrally planned, autarkic industrialization process to a regime which was pro-market and pro-international trade and which aimed to promote the cross-border flow of goods, services, and factors of production.

The second chapter is an effort at critically assessing India's position in the world trading system from an evolutionary perspective. The different phases of trade policy have been classified in an interesting manner. In the wake of independence, India adopted a development strategy that accorded the public sector a position of central importance in the industrial map of the country. This was fortified by an elaborate licensing system that regulated expansion of the private sector. An overvalued exchange rate for the Indian rupee, which while ensuring almost free access to foreign exchange for priority uses by government, also served to actively discriminate against exports. The authors view the foundations of the quantitative restrictions (QR) regimes in India to be an offshoot of this development strategy. Protection in the form of QRs was a prerequisite for the government to manage deficits in balance of payments. Had the Government of India allowed the rupee to float and find its market level, it would have been possible to give up on QRs and avoid the situation of persistent deficits in balance of payments in the 1970–90 period. The authors consider India to have become insulated from the world economy between 1950 and 1973 with exports crawling by a mere 2.7% during this period and imports showing no signs of any let up. This situation fatally affected India's capital utilization efficiency as the absence of serious domestic and international competition had precluded the possibility of utilizing the enhanced investment resources generated during the period for achieving higher productivity. Though during 1974 to 1991 there were efforts to liberalize trade policies, the structural constraints to exports were not removed, thus disabling the government from exploiting the advantages of a natural depreciation in real effective exchange rates (REER). By 1991 the current account deficit reached the record level of 3.2% of the GDP with debt-service payments amounting to 35.3% of the current foreign exchange receipts at that point in time. This prompted a major foreign exchange and payment crisis. The reform process that followed attempted to correct the situation through devaluation of the rupee. There were also efforts to reduce the share of QR protected goods in total tradable GDP, besides liberalizing industrial investments through effective deregulation in the post-1991 phase. As a result India's exports of engineering goods and chemical and allied products went up. Its direction of trade shifted from East Europe to the dollar areas. India was also able to capitalize on its advantages in the software sector through a substantial export effort resulting in surpluses in the invisible segment of the current account portfolios in the late 1990s. Nevertheless, the authors note that the restraints put on foreign direct investment (FDI) flows and the high bound rates of tariffs negotiated by India in the Uruguay Round effectively curtailed India's potential to go up the global trade scale in the WTO phase. The authors however, discount the widely pervasive thinking that the unemployment and poverty situation in India worsened in the 1990s. Rather, citing the work of Sundaram and Tendulkar in the year 2002,[1] the authors conclude that there was more than an average 1% a year decline in poverty (head count ratio) between the years 1993–94 and 1999–2000 and that this was a faster decline than compared with what was achieved during the decade preceding reforms.

The third chapter surveys the role played by India in GATT and the WTO. The main argument here is that India had not made a serious effort to optimize the potential gains from the Uruguay Round on account of its protectionist approach in trade particularly when it came to the agricultural sector. Rather, for the agricultural sector the effort was to substitute steep tariff walls in the place of QRs that had to be phased out in 2001. Similarly, it is argued that India has not been able to enjoy a conducive environment for the movement of its software personnel across borders, on account of the absence of a liberal multilateral environment that could have facilitated such movements. The authors consider India's intransigence at the Seattle Ministerial of 2000 to have affected the country's ability to modulate the Doha Round issues to its advantage. By premising their arguments on high moral grounds, proponents of labor and environmental standards could successfully muffle voices

[1] K. Sundaram and Suresh D. Tendulkar, "The Working Poor in India: Employment-Poverty Linkages and Employment Policy Options," Issues in Employment and Poverty, Discussion Paper 4 (Geneva: International Labour Organization, 2002).

of dissent from developing countries. Its excessive flogging of the "implementation issues" to resist a new post–Uruguay Round have, according to the authors, weakened the country's ability to swing the Doha Round to its advantage. The authors also argue that India's flirtation with regional trade agreements like those with South Asian Association for Regional Cooperation (SAARC) countries have not been desirable. Similarly, India's noninterest in supporting reforms of the WTO decision-making procedures and dispute settlement mechanisms are also points that do not meet with the approval of the authors. It is interesting that the authors consider the participation of the NGOs in the WTO process not to be desirable in the larger interests of an optimal liberalized trade regime. This approach is consistent with the authors' misgivings about the incorporation of environment and labor standards in the WTO trade negotiations.

The fourth chapter assesses India's domestic constraints in international participation in trade negotiations. Many factors are considered to have affected India's integration with the world economy to the optimum extent. These factors include: (a) constraints of sustainable macroeconomic management, (b) constraints in physical infrastructure including energy, transport, and telecommunication, (c) failure of financial sector reforms, (d) absence of labor sector reforms and industrial restructuring, (e) problems in enacting bankruptcy laws, (f) continued reservation of production for small-scale industries, and (g) inadequate progress in disinvestment and privatization.

In the final chapter, the authors, after surveying the first and second generation reforms in India and the unmet challenge of integrating India's agriculture with world markets, exhort on the need to carefully consider the political economy of reform in terms of the principal stakeholders namely, large industrialists, farm interest group, bureaucrats, and labor unions. The chief argument advanced here is that these stakeholders need to optimally benefit from liberalization and globalization in a manner that integrates the national economy with the global economy. By reducing tariffs and nontariff barriers and ensuring that world markets remain open for both traditional exports and new goods and services such as software, India would be in a stronger position in the global arena. It is felt that India should exploit the offers and requests principles underlying market access and tariff negotiations, by unilaterally liberalizing its over-protected sectors, and thus morally compel its counterparts to make matching concessions. The authors are also for India continuing to oppose the Singapore issues. They also call for India to play an active role in reforming the "legalistic" dispute settlement mechanism of the WTO and resisting the temptation of using preferential trade arrangements that deflect the country from its commitments to multilateral trade rules. To sum up, the book makes a strong argument for twining the process of economic reforms with trade liberalization. While noting that the pace of reforms has been satisfactory, the authors call for extending and deepening the progress already achieved so that India finds the WTO to be an opportunity rather than a threat. It is the implicit message of the book that efforts in this direction can make India a leading player in the WTO process and a major force behind the restructuring of the organization moving it toward greater transparency and a more "inclusive" decision-making process.

As has already been stated, the book makes an effort to approach India's trade policy in terms of its structural economic underpinnings. Indeed, studies on India's pre–economic reforms phase have also pointed to the negative effects of overvalued nominal exchange rates in depressing the country's trade competitiveness in the pre-1990s.[2] The authors go a step forward and consider these policies as logically responsible for India's inward-looking trade negotiation stance in the Uruguay Round. There is also considerable merit in the argument that inadequate progress in economic reforms in the 1990s could have restrained India from approaching the Doha Round proactively. Where the authors could have been more forthcoming, is on the structural policy rigidities that have affected India's agricultural sector and compelled it to be a party to the "dirty tariffication" process that was adopted in the Uruguay Round. The refusal to open India's agricultural sector to the logic of land markets and the deep distrust towards innovative ideas such as contract farming for restructuring the supply chain of India's cash crop sector, have also been major reasons for India's reticence on agriculture liberalization in the Doha Round. Intriguingly, even while the 2004 national elections have propelled to power a national government in India led by proven reformers, India's stance on agricultural issues has tended to be more and more protectionist in the conventional trade theory sense. The reasons are not far to seek. The anger of India's rural constituency, which showed up in the recent national elections, clearly indicates the peril of signing onto an unqualified free trade regime for farm goods. However instead of taking refuge behind conventional tariff and nontariff walls to enforce protection, India has, in recent times, been harping on socioeconomic ideals such as livelihood security to defend its agriculture from predatory import competition. This is apparent from India's stance at the recently concluded framework agreement summit in Geneva in July 2004. These facts would, however, by no means diminish the persuasive logic of the economic arguments advanced in this book. (A. Damodaran)

Market Institutions in Sub-Saharan Africa: Theory and Evidence by Marcel Fafchamps, Comparative Institutional Analysis, Cambridge, Mass., MIT Press, 2004, xx + 521 pp.

The book is based on more than ten years of research by one of the most productive development economists of our times. Professor Marcel Fafchamps explains at the beginning of the book that its goal is to develop a better understanding of market institutions in sub-Saharan Africa and that the book is motivated by his observations from more than twenty years ago when he was an associate expert at the International Labour Organization. Throughout the book it is apparent that the author has made painstaking efforts to organize his earlier studies. The book, therefore, is not a mere collection of previously published papers by the author and his colleagues on African markets. Rather the book is organized under several theoretical themes which contain previously published and unpublished materials.

[2] See Vijay Joshi and I. M. D. Little, *India: Macroeconomics and Political Economy 1964–1991* (Washington, D.C.: World Bank, 1994).