

RIETI Policy Symposium

Quo Vadis the WTO?

The Future of the Doha Round and the
Management of the International Trade
Regime

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Where Do We Go from Here—an Indian Perspective?

Since India is today much more integrated in the world economy than it was in recent decades it needs a well-functioning rules based trading system more than in the past. Success in the Doha Round is expected to consolidate and strengthen the system and this will be important for India. Further India needs to continue the process of internal and external liberalization to propel its economic growth further. If the Doha Round were successful it would normally be expected to provide external impulses for liberalization. For this reason also a successful conclusion to the Doha Round should benefit India. All this is conventional wisdom.

The current reality is that the rules-based multilateral trading system is intact except for the ever-growing numbers of regional trading arrangements, to which everyone seems to be reconciled. Protectionism is always lurking round the corner in every country and occasionally the situation assumes menacing proportions. That does not seem to be the position now. The dispute-settlement machinery of the WTO has been functioning reasonably well. The international trading system does not need immediate shoring up. Remember the early 1980s's and the days of gray area measures and subsidy wars, when the dispute-settlement machinery of GATT had become virtually non-functional. There is a vast difference now from those troubled days.

India is being well served by the international trading system and during the past three or four years it has been able to achieve impressive rates of growth in trade in merchandise as well as services. International trade now constitutes more than thirty percent of the GDP and its growth has contributed in no small measure to the GDP growth touching 10 percent in the latest financial year. Foreign direct investment flows look like being transformed from a trickle to a flood.

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A sad fact is that in the country's political environment external stimulus to liberalization is generally counter-productive. External pressure serves to increase the resistance to liberalization. The Indian Government's initiatives for reform in two major service sectors, insurance and retail trade, have been blunted by domestic resistance on account of strident demands by a few large foreign enterprises.

The Doha Round is in disarray but public concern is muted in India. With the Democrats taking control of the Congress in the United States there is little possibility of a quick renewal of the US Trade Promotion Authority. A long hiatus in the negotiations is inevitable. The spring of 2009 is the earliest when serious attempts can be renewed to conclude the Round.

There is another reason for indifference of businesses in India. The Doha Round has to end with ambitious results in order to excite its economic operators. Since the market access situation in non-agricultural products in its principal trading partners was better than in the other two areas India's priorities were in agriculture and services. What can we say about the outlook in these two areas?

In agriculture the agreement to eliminate all forms of export subsidies has been a very positive development. However, by itself it means very little. As we all know export subsidies have been and will be effectively substituted by domestic support. Obtaining cuts in this pillar therefore constitutes the key to success. It is important for access not only in the subsidizing country but in third country markets as well. I cannot pretend that what is on offer by the EC by way of reduction of overall trade-distorting support or Final Bound Total AMS is not meaningful, and in the case of the U.S. the gap between 16 billion US \$ reported to have been offered and 13 being demanded is unbridgeable. However, there must be adequate discipline to ensure that the permitted domestic support is not loaded disproportionately on a particular product. Further, the negotiations have not focused on one important point that has been made by G20 for putting some limitation on decoupled income payments. We know that one of the main deficiencies of the Uruguay Round package on domestic support was that it merely brought about a re-

instrumentation of such support. The architecture of the Agreement on Agriculture was based on the belief that fully-decoupled income support caused no or minimal distortion to trade and production. Since then two aspects have come to light. First that in the real world there is no such thing as fully decoupled income support. Second economists now agree that it was not quite right to characterize even fully decoupled income payments as minimally distorting. As observed in a OECD study ‘any policy that transfers income to producers could conceivably have some effect on production decisions by increasing farm incomes and farmers’ wealth, by reducing income risks and by altering farmers’ expectations’. The latest Chairman’s text does not even mention this point. Unless deep reform is accomplished in domestic support by the developed countries developing countries cannot be expected to reduce tariffs on important agricultural products, which provide the means of livelihood to a large section of the population. In India the dependence on agriculture for employment is as much as two thirds. If we want developing countries to lower their expectations on special products, both in coverage and treatment, the route has to be radical reform in domestic support including not only what has been hitherto regarded as trade distorting but also certain Green Box payments which put more money in the hands of the farmer from publicly funded government programmes.

In market access progress has been made in narrowing the gap in the proposed tiered reductions. But the important question of tariff caps embracing sensitive and special products is still contentious. Can we really continue with tariff levels, which are multiples of 100 percent? Doha Round results that do not bring about deep reform in agriculture would not be worthwhile.

In services India’s major interest is the liberalization of cross-border trade (Modes 1&2) and 4. In cross-border trade India has requested for broad-based commitments across a wide range of service sectors. In Mode 4 the main request by India is in respect of admission of independent professionals and contractual service suppliers for provision of services. It has been pressing for reduction of impediments such as visa and immigration procedures, economic needs test, work permit norms etc. Its main trading

partners have not been forthcoming in offering openings for professionals under Mode 4. Most Members have not offered any commitment in the categories of contract service providers and independent professionals. Where a response has been forthcoming it is lacking in sectoral spread. Efforts to take up visa and immigration matters in the discussions on Domestic Regulations have also not gone very far.

India has autonomously liberalized Mode 3 in many sectors. Today FDI is allowed in all service sectors except retail trade, and establishment restrictions exist in accountancy and legal services. Among important service sectors foreign equity caps of less than 50% apply only on insurance, print and electronic media covering news and current affairs, air transport and higher caps apply to telecommunications and private sector banking at 74 %. India should be in a position to bind most of these, and perhaps go even further but there is no promise that reciprocity would be forthcoming in the areas in which we have made requests.

In NAMA, as the world is aware, India had peak tariffs above 150 percent during the pre-reform days. India bound two-thirds of its tariffs during the Uruguay Round at levels in the range of 25-40 percent. Since the Doha Round began, India has brought down its import tariffs successively every year and the peak tariffs are now 10 percent (except for a handful of products). The objection about accepting a lower co-efficient in the Swiss formula arises from the need to provide assurance that we are dealt with fairly. The WTO rules and the Doha Ministerial Declaration speak of less than full reciprocity in reduction commitments being expected from the developing countries. Less than full reciprocity appears to be far cry in present situation in which even full reciprocity is being denied to us. In the negotiations some confusion has been created on the measurement of reciprocity. But we have to look at past practice. In the past reciprocity was a function of two factors viz., trade coverage and depth of reduction. If all the trade is being covered the extent of reduction becomes the sole measure of reciprocity. Viewed from this angle any coefficient, which secures greater proportion of reduction from a developing country than from a developed country cannot be said to have delivered reciprocity.

It is futile to argue that the developing countries must lower their tariffs by a larger proportion because their tariffs are higher at the outset. The situation at the end of the Uruguay Round represented the balance that was struck during that Round. This balance has to be the starting point in any future negotiations. If India has been autonomously reducing tariffs since the launching of the Round it must get paid in negotiating terms for that. If the proportionate reduction by the developed countries is less reciprocal balance can be established in one of two ways. Either the developed countries deliver additional concessions in other areas (Mode 4 in services for instance) or India should be allowed to restore parity in reciprocity by adopting a an appropriately high coefficient. Ambassador Gerard, who was the first Chairman of the NAMA Group, understood the niceties of the requirements of law and practice in the WTO and for that reason had proposed that the average of bound tariffs of a Member should be the coefficient for that Member. It has been disappointing for India that negotiations have moved away from that proposal.

There is despondency in India on the Doha Round and the need to have a quick resumption does not stir up either the opinion maker or the policy maker. Is a prolonged impasse going to do great harm to the international trading system? Could the trend towards regional arrangement strengthen? Could trade conflict intensify? My answer is that the geo-political dynamic which drives regional arrangements will remain unaltered as it did despite the successful conclusion of the Uruguay Round and such arrangement were broadened and strengthened and new ones were created with redoubled vigour at that time. As for increasing trade disputes, yes, this is a distinct possibility especially in agriculture after the demise of the Peace Clause. But trade friction could eventually prove to be a tonic for the trading system if it helps to create a sense of urgency among the major players and a political will to effect deep reform in agriculture by the time they return to the negotiating table.