BY INVITATION

INDIA & THE WTO

With its obstructionist stance around trade talks, India is perhaps inadvertently killing off its success at Bali. India which lost out on globalisation earlier may be doing so again.

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Over the last two decades the global economy has been transformed dramatically. Countries are now more interconnected than before through trade in goods, services, capital, people and information moving across borders. More markets have been opened up across the world, especially the emerging markets that are now the key drivers of globalisation. For example, the various parts of the popular iPhone travel across 100 national borders (centred around developing countries in Asia), before being assembled. The global collaboration in manufacturing happens everywhere—on everything from simple garments, food products to aircraft.

India's economy has indeed responded to these developments. Its average tariffs have decreased from 113 per cent in 1990 to 13.7 per cent today as successive governments have simplified business licensing schemes, gradually deregulated state enterprises and overregulated sectors like retailing and telecoms. The benefits of trade liberalisation and structural domestic reform have contributed to the high investment and GDP growth rates that India has reaped—until the reforms started to lose momentum. Despite having a expanding and promising domestic market, stable democratic system, educated workforce with linguistic skills India failed to match the success of countries with less fortunate circumstances on the export markets, perhaps most notably China.

India's economy is today the least integrated into global production chains among the world's top-25 exporting economies. It is a simple logic for trade economists—companies will not invest or export from India unless they are sure that necessary parts, staff and patents from abroad can move into India freely. This is the concept of global value-chains. India is failing in sectors it chooses to protect, and is only competitive in sectors where it chose to liberalise, for example its IT services sector and the outsourcing business.

INDIA AND THE WORLD TRADE ORGANIZATION (WTO)

Sectors of the Indian economy that still remain protected include agriculture. India's endeavour to protect its farmers is now painting it into corner, as against the rest of the world at the WTO, where 150 countries have unsuccessfully negotiated for 13 years to deliver a global trade deal to liberalise trade.

In these negotiations dubbed the Doha Round (because negotiations started in Doha in 2001), developed economies like the United States (US) and countries of the European Union (EU) were expected to lower tariffs or subsidies on all products, but especially on farming, textiles and other items that emerging countries are so successful in exporting. In return, developing countries were expected to marginally cut tariffs on industrial goods and bind their existing market opening into a treaty, especially for sectors like logistics, telecoms and financial services. Given that

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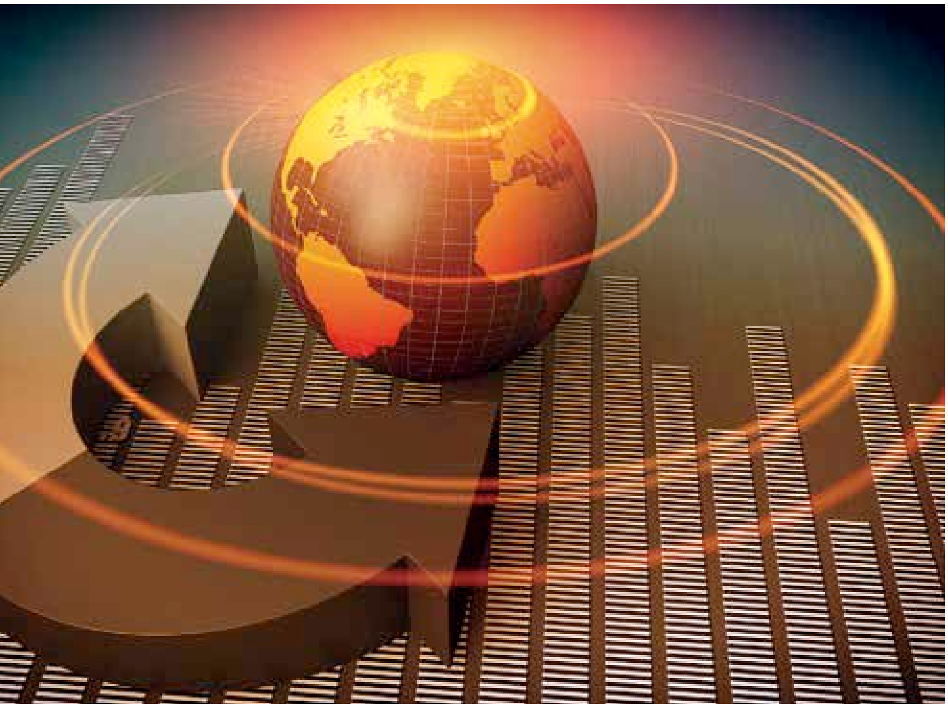

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every country in the WTO—not only the US and India, but countries such as the little island of Samoa—retains the right to veto any deal, this complex exercise proved to be, perhaps inevitably, a colossal diplomatic failure.

That was until December last year, when the trade ministers successfully carved out a mini-package at a summit in Bali, including trade benefits for the least developed countries and an agreement on trade facilitation—a very technical issue, concerning cutting bureaucratic red tape at the customs and simplifying border procedures for importing products. Trade facilitation has immense impact on trade. India's exports, for instance, are regularly harassed over paperwork at the border. Large values are at stake—days, sometimes weeks of delays in delivery cause unnecessary damage to the reputation of Indian suppliers. Fresh produce can easily rot or require costly refrigeration awaiting customs clearance. Yet agreeing on universally beneficial rules for customs procedures are far less politically sensitive than the tariffs issue—or so it was thought.

INDIA'S VETO TO THE BALI PACKAGE

India's much criticised veto of the WTO Bali package has, however, nothing to do with trade facilitation and its relatively unequivocal gains. India's condition for a 'peace clause'—a period to resolve its illegal farmer subsidies, before upping its demands to a permanent exception—is simply unacceptable to other WTO members. This is not necessarily because of the interest of other WTO members to have the Indian market opened, but because giving such unique exceptions destroys the rule-based system in the WTO where everyone—small and large, rich and poor—abides by the same rules. India's caveat would provide a justification for others to keep their protectionist subsidies, including the EU's upkeep of its wealthy industrial farmers that consume nearly half of its annual budget.

Now, most economists may argue that no country is able to become entirely self-reliant on domestic food producers alone, as volatility in production, variety of crops in demand, and feeding a major population can rarely be resolved; and also as all previous attempts at self-reliance have led to famine. But this prospect is an internal affair of India.

India's veto to the Bali package reflects the problem with the WTO system overall. Trade is increasingly controversial, whereas it is perceived there is not enough value at stake in new trade deals—the commitments in the Bali package form just a nanoparticle of the original agreement that was stipulated in Doha, 13 years ago. Whatever remains is vague, non-committal and unenforceable, typical of texts produced by diplomats. Moreover, the package was contested by the developing countries that are the biggest winners. So, from the viewpoint of the West—why bother paying for a package that not even the beneficiaries of the package seem to want?

INDIA IN A WTO-LESS WORLD

This leads us to the next problem: when the WTO fails, India's competitors will engage in bilateral free trade agreements (FTAs). Europe, the US and the countries of the Asia-Pacific region are competing to conclude FTAs that are far more ambitious and tailor-made. In all fairness, India has also concluded FTAs, most notably with Korea, Japan and Association of South East Asian Nations (ASEAN). However, India's FTAs are far narrower in scope and less ambitious. The Indian Ministry of Commerce has some of the world's best negotiators who carve out exceptions for domestic interests. For example, India's FTA with Japan failed to abolish the tariffs on cars and motorcycle parts which only resulted in increasing the price of producing them in India and fewer exports.

Perhaps the only FTA that could have a significant economic importance is India's FTA with the EU, which is in a dead-end over similar political sensitivities in services, beverages and pharmaceuticals, just to name a few; neither is an FTA with the US in the stars, and nor is India likely to join the Trans-Pacific Trade Partnership (TPP)—the largest trade agreement currently negotiated between Asian-Pacific economies under the stewardship of Washington DC. The level of ambition in the TPP is simply too high for India.

These trade agreements reflect a real need in the business community. India's participation in the global supply chains is almost non-existent. It has few manufacturing exports, and multinationals would rather invest in China for its openness. India is trapped in low-end services, e.g. off-shoring in customer management, while failing to enter into more advanced R&D services, business consulting or business analytics.

In short, India needs trade liberalisation to catch up. It must cut tariffs, deregulate, and open up for investments to address the lack of efficient logistics and infrastructure that holds back the local business. As it stands, the countries unable to conclude major FTAs are more dependent on the future of WTO than others. The country may inadvertently be killing off its international success in Bali. CFO

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