

# Issues for Parliamentarians

To facilitate informed discussions among Indian Parliamentarians on key economic policy issues

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## Good Economics is Good Politics



Parliamentarians' Forum on Economic Policy Issues (PAR-FORE)

## WTO Hong Kong Ministerial Conference *What is at Stake for India?*

### BACKGROUND

The forthcoming World Trade Organisation (WTO) Ministerial Conference at Hong Kong, China in December 2005 is expected to provide an important step in bringing the comprehensive Doha Round of negotiations, commonly known as the Doha Development Agenda (DDA), to a successful completion. The DDA was launched in the 2001 Doha Ministerial Conference of the WTO. The Doha Round, with the stated goals of improving the livelihood of billions of people living in the developing world, is at a critical point and is of immense importance both to the rich and poor countries.

In 2003 the Cancún Ministerial Conference of the WTO ended abruptly due to conflicting interests of the poor and the rich. While the developing countries wanted to finish pending issues mostly on agriculture that affect them most, the rich wanted to talk on new issues that would benefit them most.

After Cancún, initiatives were taken by the WTO members to restart the talk in Geneva. Finally, an agreement was reached to have a

packaged framework called "July Package" by the end of July 2004. It provides broad guidelines to move forward on key negotiating areas. India played a major role in arriving at this framework.

The framework of modalities decided by the WTO members in July 2004 is guiding the current negotiations. It is expected that negotiations before, during and after the Hong Kong Ministerial are going to determine the future of global trading system under the WTO and, more significantly, will have a serious implication on the long-term development agenda, particularly that of the poor countries. WTO members are expected to conclude this round of negotiations by the end of 2006.

### PRESENT SCENARIO

#### Agriculture

Increased trade (i.e. more market access) through tariff reductions, reduction of domestic, and export subsidies are the three pillars of agriculture negotiations. The Doha agenda calls for reductions of, with a view to phasing out, all types of export subsidies, substantial reduction in trade-distorting domestic subsidies, and substantial improvement in market access.

### Box 1: India & the WTO

We often read statements like "WTO is a necessary evil"; "India should remain at the WTO". They are uncalled for. If India is not a part of this rules-based system, the country would have to deal with issues unilaterally and in a situation, which can best be described as "survival of the fittest".

Indeed with about one percent share in global trade, India can challenge the mightiest at the WTO if its interests are violated. This has happened, as India won several disputes at the WTO against rich nations like the EU and US. For that matter this can happen with any WTO member. This explains why China was desperate in joining this body and big countries like Russia are expected to join soon.

While the first two are not applicable to India, the third one is and here lies the importance of “special products”. India insists on maintaining substantial tariffs on those products, which are concerned with the livelihood of millions of farmers (thus ‘special’). Oilseeds could be a product on which India could ask for ‘special’ status.

No concrete agreement has been reached on any of these issues. Rich countries are still providing huge subsidies and high protective measures to their corporate agriculture.

### Box 2: Issues at Hong Kong

The Ministerial Conference is the topmost decision-making forum of the WTO, where trade ministers from among its members meet once in two years. From December 13-18, 2005, trade ministers will meet in Hong Kong, China to take stock of the progress made since July 2004 on the ongoing Doha Round of trade negotiations, launched in November 2001.

There will be negotiations and decisions to achieve greater market access and reduce all types of discriminatory and trade distorting barriers that hinder free and fair trade. Poor countries will try to ensure that their interests are taken care of in trade agreements. Following are the key areas of negotiations:

- *Agriculture*
- *Industrial Goods*
- *Services*

The following reasons explain the current deadlock in agriculture negotiations:

- reluctance on the part of the EU and US to reduce export subsidies, domestic support and import duties on agricultural products;
- non-agreement on a specific tariff reduction formula; and
- lack of consensus on defining special products and special safeguard mechanisms in order to address food security and rural development.

India has taken a stance that it will not accept any formula for tariff cut unless and until the EU and US reduce domestic and export subsidy and also provide concession to the Indian exporters. India insists on no tariff reduction (or minimum tariff reduction) and special safeguard mechanism for special products identified on the basis of land holding pattern to ensure food security and rural development.

### Industrial Goods

In WTO's language, negotiations on industrial goods are known as 'Non Agricultural Market Access' (NAMA). The Doha agenda aims to reduce tariffs and non-tariff barriers (NTBs) on industrial goods. At present negotiations are progressing slowly as no substantial progress has been made on the issue of the formula for tariff reduction. Different countries and groups are pushing for different formulae.

Current state of play of negotiations on industrial goods are summarised as:

- none of these formulae for tariff cuts has gained a critical mass of support among the WTO members, and developing countries are asking for a lower cut compared to the rich countries; and
- rich countries are in favour of binding all tariffs, while the developing countries insist on some flexibility (with the option of increasing tariffs in a situation of sudden import surge) for sensitive products.

Along with Argentina and Brazil, India has proposed for a tariff reduction formula, which will help developing-country industries to compete globally. On sectoral issue, India will look at it only after a formula for tariff reduction is agreed and that too on voluntary basis. It is against any “zero-for-zero” tariff cut proposal, i.e. if the EU cuts its tariff to zero for a particular product, India may not reduce its tariff to zero for that product. India also favours disciplining and elimination of all NTBs.

### Services

Services negotiations are based on bilateral “request” and “offer” approach. For instance, if India is interested in opening up the market for unskilled labour in the US, it will place a ‘request’ to do so and US will make an ‘offer’ (may not offer as well) on the basis of India’s request. Similarly, India can offer opening of its services sectors to other WTO members.

However, as on date, this approach has not yielded a balance and substantive outcome. Rich countries like the EU and US have not offered much in terms of providing greater access to other WTO members, particularly the developing countries. More importantly, their offers are much less on sectors, which are of importance to India.

The following are some reasons for the slow progress in services negotiations:

- many developing countries, including India, see their major interest in temporary movement of workers and at present commitments on the part of the rich countries on this count are minimal and that too are subject to unnecessary restrictions such

as strict visa procedure, non-recognition of qualification;

- rich countries want the developing countries to open more sectors (such as telecommunications, retail) for foreign direct investment (FDI), while the poor countries are unwilling to provide more access to the rich through this FDI route (which could also reduce policy-making space of the poor countries) unless there is reciprocity in providing substantial access to temporary movement of workers; and
- services negotiation has become more complex as it has reached a stage where countries are preparing for inter-sectoral bargaining.

Sensing a growing opportunity in services trade and experiencing a robust growth in its services sector (domestic and external), India has become very pro-active in the services trade talks. India has made it clear that it wants satisfactory progress on services in the Doha Round. India’s major interest lies in cross border trade (i.e. business/knowledge process outsourcing) and temporary movement of professionals (skilled as well as unskilled).

### Box 3: Taking Positions at the WTO: Let the Realpolitik Rule

There are no permanent friends and foes in politics. Politics can have strange bedfellows. Perhaps there is no better example than India, which supports these statements.

This should be the case when India takes its position at the WTO. Because the world has changed since the old-fashioned third-worldism of 1950s to 1980s. India has also learnt this lesson at the WTO forum. For example, at the first WTO Ministerial Conference held in Singapore in 1996, India (supported by many so-called third-world countries) opposed inclusion of issues like competition, investment, trade facilitation to the WTO agenda. During the Ministerial, all so-called friends of India started taking different positions and these issues became part of the WTO agenda.

This is not to say that India should not be part of coalitions of WTO members. But such coalitions have to be issue-specific (as the G-20 coalition on agriculture) and should be entered into after a thorough analysis of India’s offensive as well as defensive positions on specific issues. For example, on trade in services some positions of India are similar to those of rich countries and they are offensive in nature. India should explore the possibility of forming more and more issue-specific coalitions of WTO members. The bottomline is to take positions in a manner so that the Doha Round of WTO negotiations is a *development* round, not just a *market access* round.

There are ample examples from other fields where India has entered into a coalition of countries with whom it may not have common position on some other issues.

## Issues for India at the WTO

### *Agriculture*

- ◆ The extent to which India can push the EU and US for eliminating domestic and export subsidy is crucial.
- ◆ Negotiating criteria to protect (i.e. from imports) special products on which the livelihoods of millions of Indian farmers are dependent upon.
- ◆ Elimination of existing special safeguard mechanisms, which are used primarily by rich countries.

### *Industrial Goods*

- ◆ In rich countries, high tariff rates on sensitive sectors like textiles, footwear exist and there should be sectoral negotiations (for tariff cuts) *vis-à-vis* these sectors in order for increased market access for Indian products.
- ◆ India should take an aggressive approach on the issue of NTBs (on account of environmental standards, etc) faced by its exporters in rich countries' markets.
- ◆ India should offer preferential access for specific products of interest to least developed countries (LDCs), as that would, to some extent, compensate these countries' loss on account of erosion of preferences that they are currently receiving in rich countries' markets.

### *Services*

- ◆ Given the emerging composition of the Indian economy, on balance, India has an advantage (offensive interest) in services liberalisation. The same is true for many rich countries. The challenge is to complement these interests, without compromising India's policy-making space.
- ◆ India should liberalise sectors like retail, telecommunications for FDI only when rich countries are willing to provide more and better access to Indian professionals (skilled as well as unskilled) in sectors such as information technology, health services, construction.
- ◆ Besides rich countries, India should look for better access for its services exports (such as environmental services, energy services) to other developing countries, as it has competitive advantages.

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