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Killing WTO softly

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Brazil's Roberto Carvalho de Azevêdo will be only the second WTO Director-General from a developing country.

Over the last decade or so, emerging economies such as China, India, Brazil, Indonesia, Mexico, South Africa and Turkey have come to dominate the global economic scene. The International Monetary Fund forecasts that the share of emerging and developing economies in world GDP will increase from 38 per cent (51 per cent on purchasing power parity basis) in 2012 to roughly 44 per cent (55 per cent) in 2018, with China alone to account for 15 per cent (19 per cent).

These countries, in line with their increasing economic power, want to have a greater say in the management of world affairs, hitherto dominated by the US.

Ideally, this should lead to the growth of 'multilateralism', but contrary to expectation, that is not happening. The prevailing flavour now, instead, is 'bilateralism', as reflected in a series of free trade agreements (FTAs) being negotiated across all regions of the world.

A sputtering economic recovery in the US has led to policymakers there focusing their attention increasingly inwards, though the country is even more dependent on overseas markets to generate growth and save jobs. But this is something it is now seeing as not easily achievable through the multilateral route, given the diverse trade interests of the increasingly assertive 159 member-nations in the World Trade Organisation (WTO).

Bilateral is the flavour

This does not mean that there is no urge for trade liberalisation. It is just that the US — most advanced economies, for that matter — given the situation it is in, is wanting to negotiate trade pacts today purely on commercial terms serving its domestic constituencies, rather than any idealistic development agenda of the Doha Round.

Existing WTO rules do not seem to serve this purpose, which explains the US indifference to the Doha Round that is heading nowhere after almost 12 years since commencement of negotiations.

Going forward, the US wants to rewrite the rules of trade by including evolving issues such as labour and environmental protection, reform of state-owned enterprises (SOE) and trade-related investment measures in the deals it is pursuing on a bilateral basis.

That includes two major pacts — a transatlantic trade agreement with the EU and a similar transpacific deal with major nations of Asia-Pacific, excluding China.

Besides trade, one of the key objectives of the US administration in the latter agreement is containment of China, which is seen to be exerting growing influence in the Asia-Pacific region causing concerns to old American allies such as Japan. Disputes over Senkaku islands involving China and Japan, and those over the South China Sea involving China and ASEAN nations, only further underline the strategic importance of a US-promoted Trans-Pacific Partnership (TPP) regional FTA. Not being left behind, China too is working on an ambitious trade pact called Regional Comprehensive Economic Partnership (RCEP). This aims to bring together both ASEAN and non-ASEAN members of the Asia-Pacific region, including Japan, Korea, Australia and New Zealand, which excluding the US, of course.

The major casualty in this commercial and strategic tussle between China and the US is the WTO or 'multilateralism'.

Beyond WTO

Member countries of both TPP and RCEP are India's key trading partners. Together, they account for roughly one-third of its trade. That means India may have to deal with diversion of trade and capital inflows, if it wants to remain outside these trade blocs. As of now, India has reluctantly joined the talks on RCEP. If the country decides to be a party to the TPP, a major issue that it would have to confront is aligning its domestic investment and trade regulations with TPP guidelines, which are ‘WTO-plus’ in nature. On the other hand, China’s not-so-impressive record at playing according to its own rules of trade is something that does not really inspire.

As the US Trade Representative Office’s latest report on China’s WTO Compliance has noted, “China continues to pursue industrial policies that seek to limit market access for imported goods, foreign manufacturers and foreign-service suppliers, while offering substantial government guidance, resources and regulatory support to Chinese industries. The principal beneficiaries of these policies are SOEs and favoured domestic companies attempting to move up the value chain.”

The above claims have been further substantiated by a recent study by Usha C.V. Haley and George T. Haley on Chinese subsidies to its solar panel, steel, glass, paper and auto parts industries. The study has shown labour costs to comprise only 2 to 7 per cent of the total cost in these industries, and yet Chinese manufacturers could supply 25 per cent cheaper.

Government subsidies, in the form of cheap loans, raw materials, components, energy and land, is what explains this under-pricing.

When it comes to its own market as well, China uses non-tariff barriers to restrict imported goods.

The best example of this is the use of unique Chinese national standards, despite the existence of well-established global standards, for restricting import of automobiles, telecom equipment or even cosmetics into its territories.

India’s options

US reluctance to implement WTO decisions on cotton subsidy or continued Chinese violation of its WTO accession protocol terms has systematically undermined multilateralism over the years.

Bilateralism diverts trade away from the most efficient producers towards less efficient ones. Nor does it lead to an increase in the size of the global trade pie.

Either way, it is clearly a sub-optimal solution and will not help a country like India to tide over the shrinkage of its export markets caused by the protracted global economic slowdown alongside an increasing trend of protectionism.

India’s FTAs, on the other hand, have at best had a modest success in pushing its exports, thereby demonstrating the limitations of the bilateral route.

The multilateral framework of the WTO, with decision by consensus and enforcement of trade rules backed by its Dispute Settlement Mechanism, is much more suited to India’s trade interests.

India should, therefore, push for early conclusion of the Doha Round at the WTO next Bali Ministerial in December, by showing some flexibility on contentious issues such as agriculture and trade facilitation. That remains its best bet. May be the time has come to substitute the policy of “nothing agreed till everything is agreed” by implementing what has already been agreed and setting aside “contentious issues” for the future. This is necessary to save the WTO from losing its relevance.

Opening up India’s market for farm goods and phasing out the system of minimum support price-based government procurement will pressurise developed nations to agree to reduce their farm subsidies.

It would, in fact, be in India’s own interest to use the resulting subsidy savings to step up investments in rural roads, warehousing facilities and other agri-infrastructure.

An effective ‘competition policy’ can, likewise, deal with the concerns over trade related investment measures (TRIMS).

All this, no doubt, requires gutsy leadership on the part of India’s trade negotiators.

India has greater stakes than the US or China in promoting a multilateral trading framework.

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