KAULIS Globalization Series No. 04 - November 2001

Agricultural Situation In Kerala

Current Issues

Prepared by

Documentation Division
University Central Library
Kerala Agricultural University

Main Campus, Vellanikkara, Thrissur - 680 656

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Business Line

2001, October 15

P. No. 8

Boosting global trade after September 11

TWENTY TWO trade ministers met in Singapore to pave the way for a rescue job of the World Trade Organisation (WTO) meeting next month. But a decisive breakthrough would be too much to expect under the present troubled circumstances. The shocking terrorist attacks of September 11 have rocked not just the US economy but also many countries that depend on exports to the US for growth. Singapore recently disclosed the grim news that its economy would shrink massively as a result of the September 11 aftermath. Several other countries are in a similar position.

The net result will be a further worsening of the health of the global economy. This will continue to be the state of affairs until the US, Japan and Europe recover and yank other economies out of the present global morass. But nobody expects this to happen any time soon, certainly not in the next quarter or two.

Apart from the US, another big casualty of the terrorist attacks is global free trade. That is why starting a new trade round has been such a big prob-

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lem. So, in the aftermath of September 11, any push for a new global trade accord is likely to be an uphill task.

It would be overly optimistic to expect trade ministers at the WTO's scheduled November 9-13 meeting in Doha, Qatar, to revive the chances of a new global round of trade talks.

The logical Plan B for free traders of the world is to rely on sub-regional groupings, such as the Asia-Pacific Economic Cooperation (APEC) forum, the Asean Free Trade Area (AFTA) and the North American Free Trade Agreement (NAFTA). Another logical fallback is bilateral free trade agreements, such as the one between Singapore and New Zealand, and those Singapore is negotiating with Japan, the US and Canada.

Despite the initial controversy, bilateral FTAs now face less resistance. One of its strongest critics was Malaysia. But even Ms Rafidah Aziz, Malaysia's ASEAN Trade Minister, is sounding more neutral, if not conciliatory, these days. She said in Singapore that Singapore's bilateral FTAs are not really FTAs but mere bilateral agreements. There are two ways of looking at Malaysia's latest position: One is that Kuala Lumpur is opposed to the bilateral pacts being called FTAs because that would have implications for AFTA.

Or, Kuala Lumpur has become comfortable about bilateral FTAs. Whatever the case, what is clear is that while the push for a new global round of trade talks may have suffered a temporary setback, closer trade between WTO members is a powerful trend that will not be hindered.

By arrangement with the Business Times, Singapore.

Business Line
2001, November 20
P. No. 14

Challenges from Doha

At Doha meet, India and the developing nations had a triumph of sorts — forcing the WTO forum to issue a Declaration and meet some of the developing countries' demands head-on. Despite the fierce negotiations, **V. R. Panchamukhi** says, helped take the world a step forward towards a new rule-based trading system. New Delhi should work to leverage all this to the country's advantage.

THE DOHA Ministerial Meeting has been a success to the extent that it came out with a declaration, which the Seattle meet held two years ago could not achieve. Despite the fact that the meeting had to be extended by a day and that it implied hard and concerted bargaining on the part of India and many other WTO members, the Doha meet has taken a significant step forward in evolving a new rule-based world trading system. For India, it has meant some sort of a triumph insofar as it could demonstrate unswerving steadfastness in putting forward its viewpoints and fighting until the desired results were realised. Contrary to the wide publicity before the Doha meeting, India was not isolated vis-a-vis its stand on some crucial issues — in particular the so called Singapore issues — aimed at safeguarding the interests of the developing countries. We should compliment the Commerce Minister, Mr Murasoli Maran, and his delegation for assuming a role of leadership for the cause of the developing countries. WTO negotiations are essentially part of a power game. It is not necessary that strength in negotiations be derived from one's share in the world trade.

Even countries that have a relatively small share in the world trade, or those with lower per capita income, can demonstrate their strength in negotiations if they have done their homework and are prepared to put forth their arguments articulately. Strength in negotiations is also the result of the ability to convince like-minded groups about the correctness of a particular stand and mobilise their support.

Prior and during the Doha meeting, efforts were made by the media of the powerful members of the WTO to project India as obstructionist and a factor hindering the reaching of a consensus. It was also argued that India was in the habit of taking a strong position initially and later succumbing to various pressures due to the fear of being isolated. Such characterisations were aimed at dispiriting India and also were part of the negotiation tactics at the meet. The fact that India could put forward its arguments in a cogent and forceful manner until the end speaks volumes of Mr Maran's leadership in the conduct of the negotiations. What are the pluses and minuses of the Doha Ministerial Declaration? The concerns of the developing countries about the problems of implementation of earlier WTO agreement commitments have received due attention in the Declaration. However, in emphasising implementation problems, India was not alone. Malaysia, Indonesia, Egypt, Tanzania, the African group, Brazil and other Latin American countries were also keen on having the implementation issues attended to on a priority basis. It is gratifying to note that these issues were adequately included in the declaration.

On trade and investment, and trade and competition policy, the Declaration has underscored the need for further studies until the next ministerial conference, two years from now, when a decision will be taken by explicit consensus on the modalities of the negotiations. The wording used in this part of the Declaration clearly indicates that India and other developing countries have been able to get the negotiations on these issues postponed by two years. However, it should be noted that the responsibility of intensifying New Delhi's preparedness on the various issues involved has significantly increased. Further work is called for on the clarification of the 'scope, definition, transparency, non-discrimination, pre-establishment commitment, development provisions, modality for voluntary cooperation, etc'.

As of now, few countries are equipped to conduct sound studies and provide analytical inputs to their delegations. India and a few other countries have the capability of conducting research on these issues and analysing the implications of the various options that might emerge in the negotiation process.

On the issue of transparency on government procurement, the Doha Declaration makes it clear that the negotiations shall be limited to the transparency aspect and recognises that the scope of the countries for giving preference to domestic supplies and suppliers could not be restricted. This is a major gain for the developing nations. Another major achievement for India and developing countries is in the declaration on the TRIPs agreement and public health. This agreement recognises many flexibilities, including the right to grant compulsory licences and the freedom to determine the grounds upon which such licences are

(contd.... 2)

V. R. PANCHAMUKHI

Will India manage all this?

granted. It provides each member the right to determine what constitutes a national emergency that leads to a public health crisis. This objective seeks to promote access to medicines for all — obviously at affordable prices and may be of great help to the Indian pharmaceutical industry. The commitment on subsidy reduction in agriculture and the removal of quotas in the textile sector have also been satisfactory and along the expected lines. However, India and the developing nations had to give way in to the EU in trade and environment to derive gains in other areas of the negotiations. Here also, Paragraph 32 of the Declaration recognises some concerns that developing countries have been putting forward. These include the implications of the environment measures for market access, the nexus between the TRIPs and the agreements on environment, labelling requirements for environmental purposes, etc.

The declaration on trade and environment envisages the reduction or, as appropriate, the elimination of tariff and non- tariff barriers on environmental goods and services — a welcome step forward. A landmark achievement of the Doha meet is the fact that China and Chinese Taipel could join as WTO members. For India, China's entry is significant. New Delhi should strengthen linkages with Beijing at official and non-official levels, increase opportunities for the exchange of views and identify common areas of concern. Even if New Delhi is not able to evolve a common stand, better mutual understanding could help evolve strategies to safeguard our national interests. Evolving a common strategy, at least on select issues, India and China could emerge as a formidable group in the negotiations process of the WTO. It is not the time to reflect on the victory of one group or the other or apportion blame for failure or claim credit for successes. The requirement here is of a detailed action plan to gear up domestic economic activities to meet the emerging challenges of competition. The Doha Ministerial meet clearly demonstrated that if a country does its homework and puts across its arguments firmly, its is bound to gain in the negotiations. The post-Doha challenges are many. The issues should be identified well in advance and strategic options readied to safeguard our national interest. There is much more that needs to be done to increase the competitive strength of Indian agriculture and industry to take advantage of the emerging opportunities of the emerging new trading system.

It is necessary that the Government and Industry work in a concerted and coordinated manner to leverage the emerging trading system to our national advantage. It is hoped that New Delhi adopts a positive approach to the task of dealing with the post-Doha challenges of trade and development.

(The author is Director General, Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi.)

The Hindu
2001, November 16
P.NO.12

THE DEAL AT DOHA

THE DOHA DECLARATION, approved by 142 countries at the fourth Ministerial meeting of the World Trade Organisation (WTO), comes at a time when the world can ill-afford a collapse in the multilateral global trading system. One way of measuring the outcome of the Doha Ministerial, which concluded after a day's extension on November 14, is to see if the Organisation was able to win the confidence of its member-states that any decision will not leave some countries poorer. To the extent that it has allayed fears of a steamrolling of the poor many by a powerful few, the accord reached at Doha is welcome. The three major declarations — on the negotiating agenda for a new WTO round, on the implementation concerns of the developing countries and on the political statement dealing with patents and public health — are indicative of the ability to move towards greater inclusiveness in charting out the further evolution of the multilateral trade order. That the concerns expressed by India were addressed, though not in substantive measure, makes the deal arrived at in Doha the best the circumstances could offer. True to form, India's negotiators did maintain their position with honour till the end and found a degree of success in ensuring that an explicit consensus on the contentious Singapore issues will be a precursor to further negotiations on these matters of concern at the next Ministerial, two years from now.

The outcome at Doha would have been much more beneficial for India and the developing countries if the coalition built over the years, opposing a broadening of the WTO agenda, had held. However, given the individual national susceptibilities in any round of multilateral negotiations, the measure of the Indian position is to be seen by the leverage it gained. The extended session of the Ministerial, complete with the closed-room politics of the WTO mechanism, comes as a reflection of the dynamics involved in multilateral negotiations. One clear area of benefit is in the pharmaceutical sector. The flexibilities provided for in the Declaration on the TRIPS Agreement and Public Health for protecting public health and promoting access to medicines for all, particularly the clause that gives individual countries the "right to determine what constitutes a national emergency" comes as a clear area of benefit for India. It is through such forms of flexibility that the process of multilateral negotiations aimed at providing a fair deal for all gains a sense of credibility.

However, behind the modest satisfaction gained at Doha, larger challenges remain for India's negotiators in the years ahead. With negotiations under the work programme mandated to conclude by January 1, 2005, the clock has, to put it in very simple terms, already started ticking. Moreover, China's entry into the WTO throws up a new dimension in the possible line-up of countries in future negotiations. With a whole range of issues on the agenda, the time from now will have to be occupied by continued attempts to further the country's economic interests. Needless to say, the task will be difficult, given the plethora of issues that have to be effectively addressed. Moreover, it is also important to take note of the fact that the Singapore issues — linking trade to foreign investment, competition policies, transparency in government procurements and trade facilitation — which were a main concern of India have now come centrestage. As much as India opposes these, there are countries that would like to link the future of the WTO to the accommodation of these issues. The time gained at Doha could be lost if the country does not take concerted steps to improve its economic bargaining power and prepare internally for change.

The Hindu

2001, October 3

P. No. 13

Defining moment for WTO

By Mike Moore

With the successful conclusion of negotiations on China's and Chinese Taipei's terms of entry to the World Trade Organisation, the way is clear for the WTO Ministerial Conference in Qatar in November to formally adopt the texts of the agreements. Thirty days after China and Chinese Taipei notify their acceptance of their respective agreements, they legally become members of the WTO.

It's difficult to overstate the importance of these developments. Taken together they constitute a defining moment for the WTO and for the international economic, political and security arrangements that will influence our world in this century and beyond. After the recent horrific events in New York and Washington, such cooperation is more important than ever before.

In joining an organisation which is based on binding rules, mutually agreed by consensus and enforceable through the dispute settlement system, China's leaders are locking in economic reforms that have been unilaterally put into place over more than 20 years. Moreover, in embracing WTO rules and our member-Governments' stated objective of ongoing trade liberalisation Beijing has accepted that openness not only to goods and services, but also to people and ideas, is the best way to ensure a prosperous future for her citizens.

Exposure to competition will ensure that Chinese enterprises become more efficient and productive. It is almost certain that this greater competition will lead to some dislocation and hardship for some. But with the surge in competition that will accompany increased trade and investment will come an influx of new technology and a tremendous boost to domestic innovation that will lead to greater opportunities for better paying jobs and a wider selection of goods of services for the vast majority of China's people. These positive changes are already clearly visible in the Chinese economy as a result of the impetus provided by the process of China's accession to this organisation.

China's entry to the WTO will mean immense opportunities for entrepreneurs around the world. China was the world's fifth leading importer last year, buying some $225.1 billion worth of foreign merchandise and $34.8 billion worth of services from foreign providers. In 1999, China was the world's 11th largest importer of agricultural products, purchasing nearly $14 billion worth. As China's people become richer through policies of greater openness and as China's market opens to foreign producers of goods and services those figures will rise substantially.

China's average bound tariff level for goods will fall to 8.9 per cent while the average tariff on agricultural products drops to 15 per cent. Foreign telecoms service providers will be able to own up to 25 per cent of companies operating in China immediately and up to 49 per cent within three years. Within five years foreign operators will be able to conduct business across the nation.

OPINION

Foreign banks can provide foreign currency services to Chinese customers immediately, and within five years they will be able to provide domestic and foreign currency services to all Chinese customers.

As important as the specific commitments China has made to open her markets, is the fact that foreign entrepreneurs will now have a far greater degree of certainty as to the rules of the game of doing business in China. Chinese officials have also pledged to establish contact points within the Government where foreign business can go to register complaints or to learn more about new regulations and laws.

Critics of China's accession have charged that China's human rights record and its relations with Chinese Taipei are grounds for

(contd.... 2)

MIKE MOORE

keeping China out of the WTO. Thankfully, this has not been the view of our member-Governments. Even those Governments critical of China in those areas have made clear that China's membership to the WTO should be decided on the basis of trade considerations. Those who have advocated such a course of action, have failed to understand that bringing China more closely into the international community has heralded positive developments in the past 20 years. Membership in the WTO will unquestionably continue this trend.

The WTO is an instrument of peace insofar as it acts as a mechanism to facilitate greater understanding between China and her trading partners, including Chinese Taipei.

Senior Government officials in Chinese Taipei have said that Taipei will establish direct trade and transport links with China after each becomes a member of the WTO. The removal of these barriers could not help but foster closer cooperation and understanding between the two.

The WTO offers as well, a forum in which disputes can be brought, argued and settled in a measured and equitable manner. In the past, trade disputes have had, in all parts of the world, a nasty tendency to flare into armed conflict. This becomes unnecessary when both parties know they will have a fair hearing in court. Such an international forum will help nurture stable relations between China and Chinese Taipei.

For the WTO, the accession of China and Chinese Taipei is also a great step towards becoming a truly world organisation. Now that they will both become members, the rules by which the great majority of global trade operates have been extended. Moreover, all of us will benefit by having officials from both places participate in the process of shaping new rules for the 21st century.

(The writer is Director, World Trade Organisation)

Business Line
2001, November 17
P. No. 10

Did we succeed in Doha?

Despite India's wish that the Uruguay Round's rules and policies must first be fairly implemented, new areas for the next round have been charted out. Mr Maran's term "constructively ambiguous" aptly describes the resolution on implementation with which the organisers have mollified the Indian delegation, says **P. R. Brahmananda.**

THE Fourth Ministerial Conference at Doha concluded with a few surprises. The original idea was perhaps to straight away move towards a further round of discussions, agreements and rules and in new, encompassing areas, such as trade-related investments, competition policy, and so on. For the present, the idea of a new round seems to have been kept in mind, but also kept in abeyance.

The country is now moving towards the next Ministerial Conference, to be held before the end of 2003, with a work programme of negotiations in a number of areas. This would include the new domains but a preliminary process of mutual negotiations with some unanimous conclusions will now precede the new round.

It is possible that in this period of two years of negotiations no consensus may emerge from all the members. In such a case, the definitive new round will also become problematic. The next two years' negotiations may see, it is hoped, the erosion of the uncertainties from the political and related dimensions which, at present, loom so large. The recessionary trends also may be overcome in this interregnum. Doha has reversed in some measure the fortunes of the WTO itself.

Looking to the various Ministerial documents from different countries, presented at the Doha conference, the following inadequacies in the WTO system were being highlighted.

■ There was tremendous dissatisfaction with the three-fold classificatory system of countries into developed, developing and least developed. Most countries were asking for a finer grade of differentiation based on the levels of development.

■ There was a measure of severe discontent on the neglect of the problems of small countries, some of which may be developed, some developing, and some least developed. The theory of international trade does take into account the heavy dependence of several small countries on the prospects of exports of one or two products in which the country may have a comparative advantage. This is the context in which the possibility of immiserising trade was put forth by Mundell and Bhagwati.

The dichotomy between small and large countries is not the same as that between developed and developing. This is important idea seems to have been missed by the founders of the WTO. During global recessions and depressions, it is the small countries that face the most serious upsets. Similarly, in the context of sudden capital outflows, it is the small export-dependent countries that face a virtual collapse of their economies.

■ Many countries wanted longer transition periods before the Rules could be applied to them.

■ There was a strong view that protectionist measures in the early stages of development were legitimate and a strong role of the state was inevitable in the above context. The theory of free trade and universal liberalisation had severe limitations from a developmental angle.

The Indian viewpoint was that before going in for a fresh round, and opening up new issues, the WTO had to examine whether the existing Rules and Policies flowing from the Uruguay Round were fairly implemented, especially in the removal of direct and indirect tariff barriers in agriculture by the developed countries. The Indian delegation was clearly against the WTO encompassing new areas such as investment, competitive policy, and so on.

It was also opposed to the WTO getting entangled with the discussion and enforcement of labour standards. India does not seem to have taken up any of the four issues mentioned earlier. Nor was it pleading for the general case of developing countries as such. One wonders whether the Indian delegation or the advisers to the same had tried to understand, from a unifying angle, the

ECONOMY — A PERSPECTIVE

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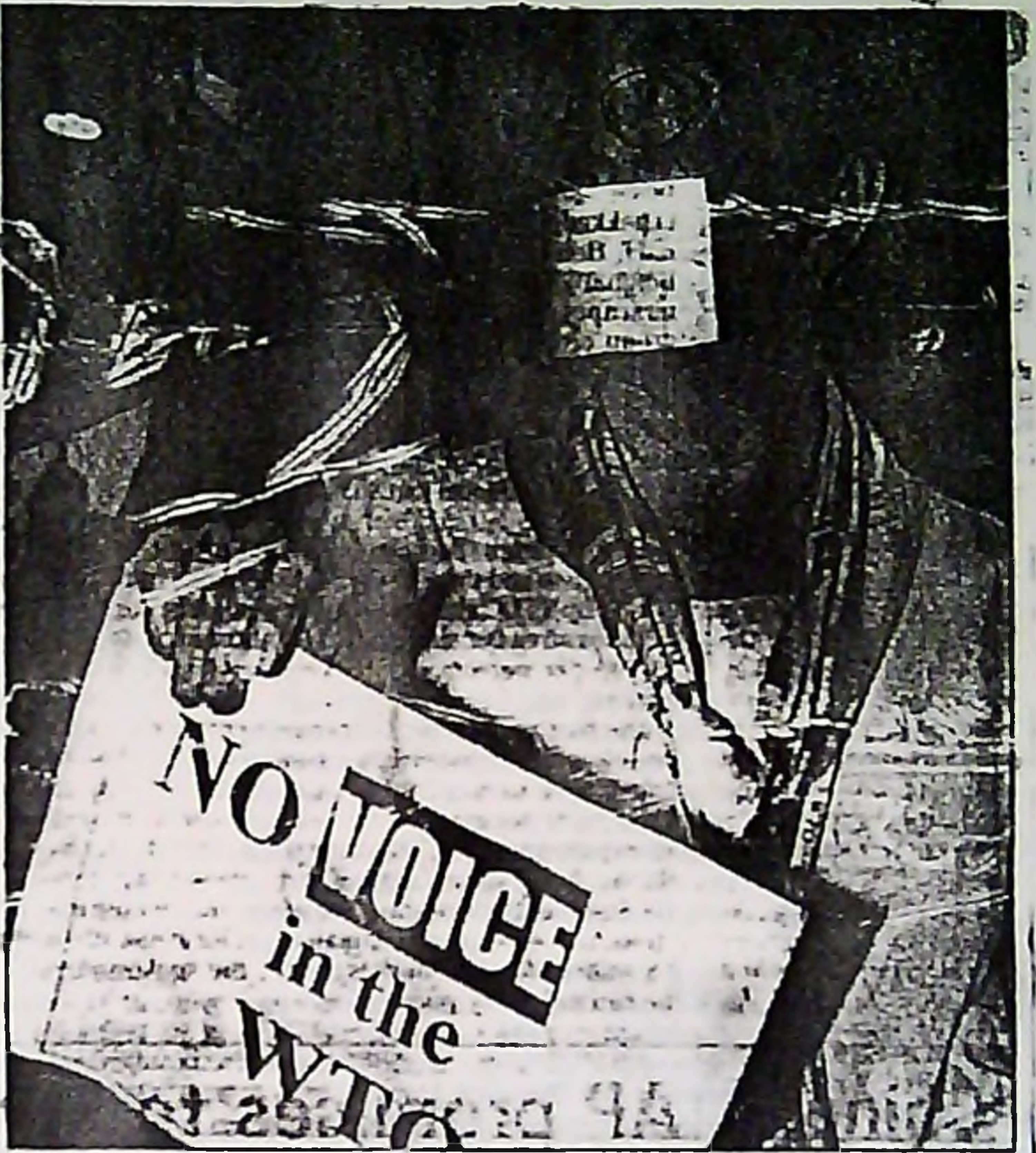
P. R. Brahmananda



A protester outside the WTO conference in Doha... Most countries asked for a finer grade of classification than the present trichotomous one. — Reuters

problems and pressures in the large number of developing countries which constitute the substantial majority in the WTO.

The organisers satisfied the Indian delegation by including a resolution on implementation. But the main declaration was substantially on the lines of the memorandum that the WTO had circulated. It is true that a period of negotiations has been interjected between the final agreements, even on the new areas. But this does not mean that India's viewpoints have been accepted. Actually, it seems they have not been accepted. The picturesque, itself ambiguous, phrase — "constructively ambiguous" — used by the Commerce Minister, Mr Murasoli Maran, conveys from his angle the gist of the declaration.

The problem still remains insofar as the future of Indian industry, agriculture and services is concerned. The Indian economy cannot politically and otherwise get rid of the subsidy element in the fiscal system. The wages system, especially in the organised sector, is inflexible downwards. No change has occurred in this after our membership of the WTO. We built a large number of industries on the basis of blanket imports and other restrictions over a long period.

The industrial system cannot weather full and free exposure to competition from international producers. Now that China has become a member of the WTO, it will be difficult for us not to permit large-scale imports of light consumer goods from that country. Already, as Commerce and Industry Ministry data tells us, a large number of food processing products are entering the economy after removal from the negative list.

The more serious problem is that we have large number of agriculture and related products that, owing to long neglect, cannot face competition from low-

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P.R. Brahmananda

priced imports. China's geographical diversities are the same as ours. But it can produce their goods at cheaper costs and sell them at low prices. China's internal production and wages system is more flexible than ours.

The worst effect of the pressures from the WTO, etc., has been in the removal of Customs as an important and growing source of revenues to the fisc. Potentially, we have lost more than 2 percentage points of GDP in Central Revenues because of the reductions in import duties, pruning of negative list, and so on.

The latter did encourage a large number of consumer goods industries to come into existence. A large measure of employment in the non-agricultural sector accrues from them. One does not know how we are going to cope with the prospects of large-scale imports at low cost.

The only way we can protect ourselves indirectly in a general sense is by continuous depreciation of our exchange rate. But this may not help in respect of competition from countries such as China. There are other effects of a policy of continued use of the exchange rate as a disguised general protectionist measure.

It is true that the alternative resort can be through heavy deflation of domestic prices. But this cannot help in respect of costs, especially wage-costs.

Our failure at Doha will dog us in the years to come. What we needed was the acceptance of at least moderate protection in a general sense as conformable with the case of free trade. Second, we wanted the transition periods to be extended. If we had worked on this point, we might have been successful. But that would require the breaking up of the trichotomous classification of countries. Our attack should have been on the latter point.

The concept of stages and levels of development is very important in development economics. There is no such nation as a developed or developing nation. All nations, as Joan Robinson pointed out long ago, are developing countries. The only difference is the level of development.

Further, imagine that India was hypothetically a union of small nations, like the European Union. The latter has representation in the WTO for each of its constituents. But we are one large country with one vote, though we know that within India several areas merit the label of being least developed, a category to which most WTO restrictions and rules can be waived.

Business Line
2001, November 8
P.NO. 14

The Doha imponderables

Editorial

IN THE NORMAL course, the fourth WTO Ministerial conference, starting in Doha tomorrow, should be an important date marking the progress of the world economy towards an open trading regime. But, going by current indications, not much warrants such a conclusion. There is every possibility of the conference going the way of the Seattle meetinghold two years ago and damaging irreparably the standing of the Geneva-based WTO. To the detractors of the WTO (not least the Indian contingent which made a forceful representation of its case in the capital on Monday) this would be welcome, even if does little to the cause of freer trade practices, which is today an indispensable instrument of any nation that aims to achieve its true economic potential.Seattle foundered on the anti-WTO movement and, more important, the inability of the developed countries to accept as genuine the fears of the developing world stemming from the inclusion in the multilateral trade regime of such subjects as labour and environment. Further, Washington, under the leadership of Mr Bill Clinton, wanted to ram through an agreement—a strategy that compounded the difficulties plaguing the conference. Not surprisingly, the meeting collapsed. The negative point about the Doha conference is its context: The world is going through a severe economic slowdown made worse by the September 11 events, a direct effect being the reduction in the size of a number of delegations, including of the US. Had the developed economies wanted it, there would have been no problem postponing the conference — till perhaps the middle of next year when the terrorist threat would have been overcome or at least better sized up. That power centres such as the US and EU were decisively against a postponement suggests a vested interest in holding the conference; perhaps, their reading is that this is the best time to push through their agenda. It is this backdrop that should be considered by the WTO members, particularly those favouring a calibrated opening up of international trade (basically give some more time to the developing world to strengthen domestic economies before they open up to foreign goods, services, investments, and so on).

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Editorial

Some world capitals like Washington saying that India is "isolated" in its stand on the launch of a new round of trade negotiations implies that New Delhi has been successful in making the point forcefully, and the Commerce Minister, Mr Murasoli Maran, should be complimented for this. It is an entirely different matter if the effort will succeed because the proponents of a new round wield immense clout. A range of issues — investment, competition, labour, environment, drug patents, and non-tariff subjects like New Delhi's policy of canalising certain imports, (not to speak of the recent action to keep Indian steel out of the US) — appears to have been introduced to serve as bargaining counters with idea of getting a new round (including agriculture and services) going even before the Uruguay Round decisions are implemented. Since the *realpolitik* would make it foolish for New Delhi to be totally inflexible on the new-round issue, a sensible negotiating line would perhaps be to extract as many concessions as possible as *quid pro quo* for an agreement on preliminary talks on a new round.

Business Line
2001, November 9
P.No. 14

Doha ministerial: A testing time

India's stand at the Fourth WTO Ministerial, in Doha, is strong and inflexible. But a beneficial strategy can be developed, with firm and constructive reconciliation to maximise the trade and other gains, without getting drawn into the interests of 142 member-countries. Especially since the forces against India are strong. Testing times lie ahead at Doha, says, Priya Mutalik-Desai.

THE DOHA ministerial to begin today is the fourth successive meeting after the establishment of the WTO in 1995. But its heightened importance can be traced to the lack of results at the earlier three meetings at Singapore (1996), Geneva (1998) and Seattle (1999). "Failure by members to reach agreement on a forward work programme would lead many to question the value of WTO as a forum for negotiation. It would certainly condemn us to a long period of irrelevance, because it will not be any easier next year, or the year after," said the WTO Director General, Mr Mike Moore, on July 30.

Foundation laid

The proponents of the new trade round contend that it is useful to address effectively the problems of economic slowdown, or preventing the further marginalisation of many developing countries through the weakening of the multilateral system.

They see this as the only route to lend momentum to the negotiations on agriculture and services for which the WTO is the only forum. They also maintain that the issues of internal transparency and participation have been looked into through 35 plenary meetings of the Council, formal and informal, devoted to the Doha process.

(contd....2)

PRIYA MUBARAK-DESAI

Hardliner

India has been a contrarian and has shown no appetite for such a hardsell. Thus, India has emerged the hardliner among all. Particularly since the draft ministerial declaration (DMD), for the meeting authored by the WTO's general council chairman, Mr Harbinson, was received, India has adopted a defiant stand. India had made its opposition very clear to the inclusion of such issues as investment, competition, government procurement and environment on the WTO's future negotiating agenda.

But India's, and in a way developing countries', concerns have been thoroughly bypassed in the DMD as they do not clearly surface anywhere in it. India also translates it as reflecting lack of any role for developing countries and India, in setting the agenda.

The pressure points in the declaration relate to investment, competition policy, transparency in government procurement and trade facilitation. The DMD seeks to discuss the modalities to commence negotiations on investment and competition policy in the fifth ministerial meeting to be held in 2003.

On the other hand, India has been insisting on the continuation of working groups on the subject with a report from them for the fifth ministerial.

India has also opposed negotiations on transparency in government procurement and trade facilitation, as a multilateral framework would tantamount to restricting the freedom of developing countries.

However, India does not object to the continuation of work on these issues with focus on only transparency-related aspects. As the Commerce Minister, Mr Murasoli Maran, has reiterated, "We want implementation issues arising out of the inequities of the present WTO agreements to be addressed. We do not want negotiations to start on new issues".

At the root of this inflexible approach is the disappointment where the actual gains for the developing and least developed countries have fallen far short of the hyped estimated gains from the earlier Uruguay Round (UR) of trade negotiations. While chanting the *mantra* of freer trade and trade liberalisation all the way along, the developed countries have not relented in their protectionist stance for goods of interest to developing countries by smartly using escape valves such as tariff peaks and escalation, while remaining within the average bound rates, and deploying a variety of non-tariff barriers.

Given the inability of developing countries to improve their competitiveness through internal reforms, these new hurdles have dampened their progress in export expansion.

Now, as the growth rates of world economy and world trade have slipped, developing countries find themselves fighting a loosing battle on international trade turf. This is where India wants the implementation of Uruguay Round commitments to receive the primacy over launching of a new round.

Delusion

DMD has been the last straw on the proverbial camel's back. Mr Maran is infuriated as he finds its scope, content, language and its disregard for India's stand appalling. Thus, the rigidity in India's stand has increased multifold at times verging on dubbing the WTO as a "necessary evil", and threatening to quit WTO, an expression of frustration of international power games against developing nations.

In the process, it is often forgotten that a forum such as the WTO represents a large number of countries with variations

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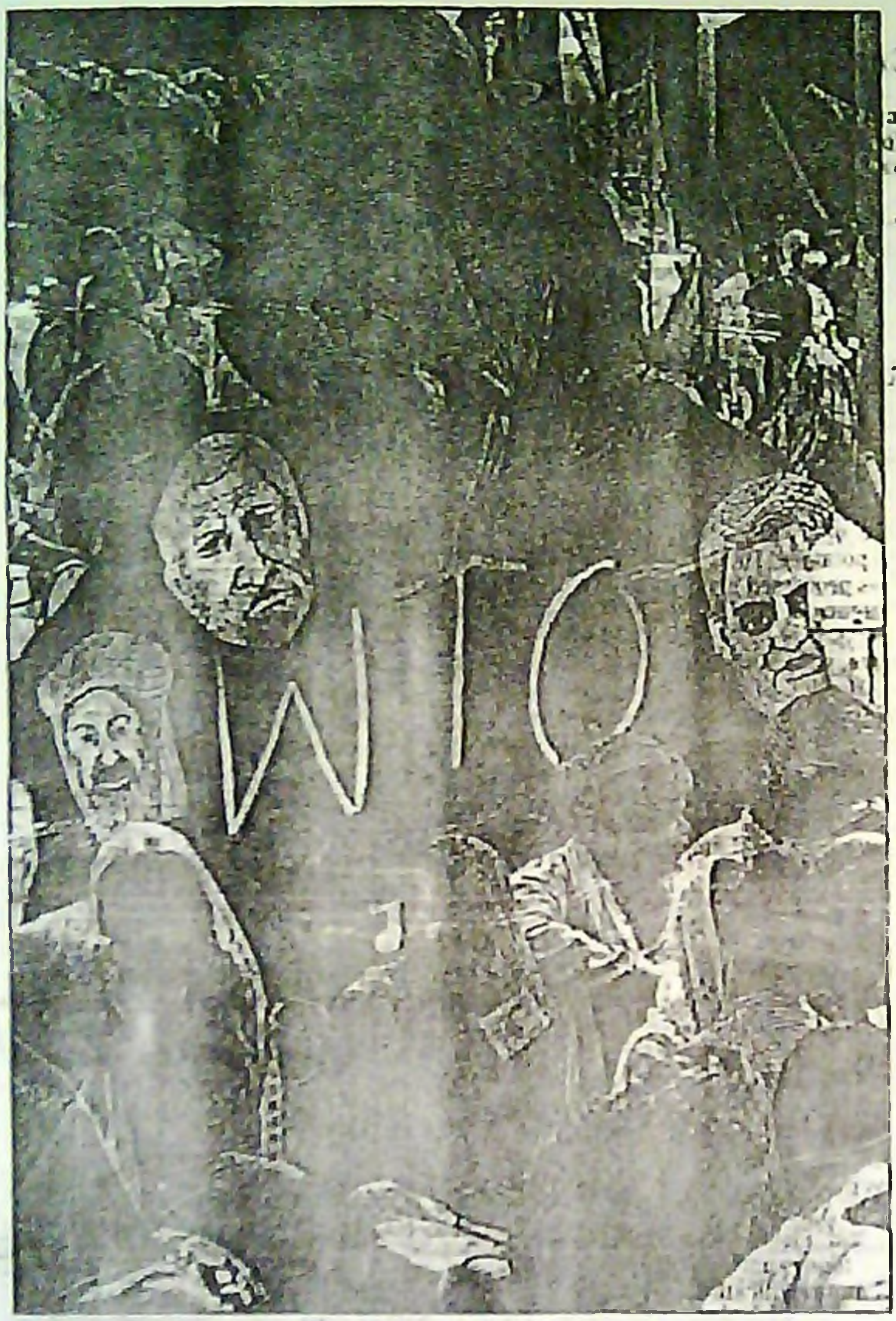
PRIYA MUTANK-DESAI



With the inevitability of the Doha ministerial, it may be better for the developing nations to influence its outcome. What price such protests, as this one in New Delhi? — AFP

in affiliations and a tremendous diversity of national interests.

While it is necessary to reduce the strength of power game in such forums to the desirable minimum, it is well neigh impossible to eliminate it.

During the last two decades, the realities of international trade relations have become increasingly skewed with the rapid spread of regional trade agreements (RTAs).

The process continues unabated as seen in the EU's ongoing expansion from 15 to 28 member-countries, as well as negotiations for Euro Mediterranean Free Trade Area.

Does it, therefore, stand to reason for a 1 billion-people strong developing country but not a strong trade power to arrogate oneself the role of a representative of the developing countries at large. Time and again, this has proved to be a delusion and this time too, it is no different.

Varied views

While India has opposed the launch of a new trade round repeatedly, the views as to the tenability of this position differs vastly. Mr Arvind Panagaria, a Professor of Economics at University of Maryland feels that unless it is intended to be a interim and tactical move, it will hurt India's interests. It is also viewed necessary that India actively engages in shaping its agenda.

While the justification for opposing the round is well accepted, it is thought to be beneficial to deploy energies and negotiating capital into shaping the agreement itself as the inevitable conclusion. What is in question is India's ability to learn from the experience of Uruguay Round (UR) that virtually pushed through a number of issues without giving any time to the developing countries to assess the damage they suffer.

Post-Round, there is huge dissatisfaction as to its outcome which has resulted now in throwing the baby out with the bathwater.

Among those who take a more positive and pragmatic approach to the WTO and international trade diplomacy is Dr Anwarul Hoda, former Deputy Director-General, WTO. In his view, "If we keep saying no to everything, people will stop taking us seriously and ignore us even when we are making a valid point. While endorsing India's political correctness in insisting on implementation issues and delinking of trade with non-trade issues, he advises on bonding together of like-minded countries on the issue and adoption of a rational stand as well on other issues such as implementation concerns and industrial tariffs.

Outcome

The DMD which has eliminated the option and imposed negotiations on various non-trade related issues, according to India, has been a bolt from the blue. It has increased the element of confrontation in its stand despite the loudly aired possibility of isolation.

The saving grace is that far more debate and preparation have preceded the ministerial with the team heading for Doha being better prepared than on earlier similar occasions.

One presumes that in all probability it has a fall-back strategy ready in its armour. As the developed countries such as the US and the EU have moved closer despite the initial differences, and have made marathon efforts to garner support from smaller developing countries, the question of the developed countries hijacking the ministerial can not be discounted. Thus, though the possibility of Seattle style failure appears rather far fetched, the fingers really remain crossed as to the outcome, as the five day saga in multilateral trade liberalisation and international cooperation begins.

There are more forces than India's hardline approach. A large number of NGOs, a vociferous lobby by now whose forces and role is reckoned by the WTO in view of experience at Seattle. So India, with its high-pitched voice, is not the only country to receive attention. A beneficial strategy can be woven around an attitude of firm and constructive reconciliation with highly calibrated negotiations to maximise the trade and other gains, by setting the priorities right, without getting drawn into the criss-cross of interests of 142 member-countries.

This time, forces against India are very strong. Developed countries such as Germany, Japan, the US and the EU have issued veiled and open threats on Indian ground, opposing its stand.

The New Indian Express
2001, November 19
P. NO. 14

Doha ministerial: Some gains, some losses

FROM OUR DELHI CORRESPONDENT

A delegate to the Doha ministerial described the atmosphere of the conclave with a telling story. In view of the high security concerns, even the official delegates had to stand in the same single file and go through the security checks before being let into the main negotiation venue. There was the long line of VIPs waiting to be allowed in and here comes Robert Zoellick, United States Trade Representative, with his entourage of 10 officials. Having come to Delhi as late as August and after his long and close parleys with select people here, Zoellick even recognised some of the Indians standing in the line and waved at them.

As Zoellick breezes in, a second gate is flung wide open and the US trade diplomat swept into the hall with his 10 attendants without ever waiting to undergo the same drill that others compulsorily underwent. "This was the visible manifestation of the power play which was the overwhelming undercurrent of the Doha meeting," said the Indian delegate to this correspondent. While all countries are same in the World Trade Organisation, some countries are more equal than others. The announcements in Doha have to be seen against this perspective.

The fourth ministerial of the World Trade Organisation at Doha predictably ended with a declaration for a fresh round of talks. India had opposed a fresh round all along, maintaining that before a fresh round it was important to take up other more urgent matters like the implementation issues. However, it would be wrong to believe that India had lost out at Doha. It is now widely admitted that but for the steadfast opposition of India, the developed world would have put much more stringent demands on the developing countries and would even have carried these along. A new round of negotiations would have been straight away launched from January next, rather than after two years of waiting.

From the perspective of underlying power play, the developments at Doha must be viewed from what has been resisted than what has been so far achieved, from what has not been done rather than what has been done. The upshot has been very well captured from this point of view by the Wall Street Journal's reportage on Doha: 'WTO Launches New Round at Doha – But After Years of Painful Talks – India's... Nearly Capsizes Deal'.

Take for instance the fact that the so-called Singapore issues had not been immediately taken up in the new round is a fall-out of India's criticism of the move. The developed countries had made a fierce bid to include and immediately start negotiations for introduction of investment and competition rules, transparency in government procurement and trade facilitation. As things stand at the end of Doha, these issues would now be taken up for negotiations for at least after the fifth ministerial. This gives a breather of two years to the developing countries to look at the different aspects of the issues and prepare themselves better for negotiations if these happen after two years.

The view expressed frequently before the Doha ministerial that India was isolating itself from other countries by doggedly opposing inclusion of new issues was found to be mistaken. India was certainly not the only country to criticise the bid to include non-trade issues like investment rules, competition law, government procurement into the WTO trade talks. It is a different matter altogether that the opposition to inclusion of these issues fizzled out later on.

Secondly, the developed countries could no longer push the implementation issues to the back burner.

MACRO VIEW

Remember, in the draft ministerial declaration issues by the WTO secretariat just before Doha these were virtually relegated to oblivion. The implementation issues, the wish-list of the developing world for gaining larger market access in the developed world, were hardly taken note of earlier. The developing countries have the satisfaction that many of these issues — 90 in all — will now be taken up on a time-bound manner. These could be achieved mainly because the developing world did present a sort of unified stand on at least some of the core issues affecting them.

To have their way, the developed countries had tried hard to break the ranks of the developing

> From the perspective of underlying power play, the developments at Doha must be viewed from what has been resisted than what has been so far achieved, from what has not been done rather than what has been done.

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INDIA AT THE WTO
(What we won, what we didn't, what we lost)

Public Health First: A big win. Countries now free to license even patented drugs to cheaper producers for epidemics like AIDS/TB

Less Farm Subsidies: Developed countries agree to negotiate phasing out farm subsidies. Yet, it was on the agenda well before Doha – France opposed this strongly, but capitulated. Besides negotiating is not the same as phasing out

Environment In: Could hurt later. Right now, negotiation to see if WTO rules compatible with environment agreements like, say, the Kyoto Protocol

Government Procurement: Would have made rules for govt procurement transparent. But countries free to give preference to local suppliers

Investment Rules: To provide common rules across countries. Would have prevented India from case-by-case approval of foreign investments

These 'new' issues kept out of negotiation for now, but will come up in 2-3 years

Textiles: India wanted more concessions here before new round. But, no go

Graphics/B.K. SHARMA

world by proposing some very very special packages for the least developed countries, thereby hoping that this group should at least not object to the demands of the developed economies. Indeed, they could have their way only by breaking up the developing countries by offering selective baits which were readily swallowed.

The other major victory is the concession made by the developed world on the wide-ranging exemptions from the patent regime for tackling health issues. The world body has now recognised the primacy of dealing with urgent public health issues over preservation of a strict patent regime. Until now, a member-country could not transgress the patent laws even when some pandemic had broken out, such was the hold of the multinational firms of the West on their respective governments.

It looks as though the Doha ministerial has been directly influenced by the events following the September 11 events. Without that, maybe, the developed countries would have been much more intransigent. Take for instance the case of the patents law. After all, the staunchest supporter of the strictest patents law, the United States, found itself caught in a situation where it was paying through nose for a drug (Ciprofloaxin) which was urgently needed for public health. Much to public chagrin, the same drug in generic form was available for one-fifth the price from manufacturer other than the patent holder for the medicine.

Nevertheless, this is a transient and partial victory. Fresh assaults will be mounted on the developing countries for further concessions. These will crop up at every turn. The developing world must remain watchful and preserve its fighting spirits. They must turn the World Trade Organisation to promote overall development, not the interests of only the developed world.

Business Line
2001, October 19
P.NO.14

Boosting economy

Export thrust, rate cut won't help

A. S. Firoz

WHETHER the RBI would cut interest rates in its forthcoming Credit Policy, a certainty till a few days back, is now under a cloud, as the Finance Minister, Mr Yashwant Sinha, seems to have seen the limitations of this measure as an economy booster. But a rate cut could, especially with tax revenues falling short of the target, help shore up the Government's finances.

Conventional economic logic that low interest rates would lift investments, generate income, increase consumption demand and also, directly and immediately, help consumption, as loans become cheaper, has not held ground in many countries — including the US, the European Union and Japan — in recent times. The effect of the rate cuts cannot be singled out, as the economies face different kinds of problems as well.

Investments have fallen worldwide not because of the lack of money, but because the current business opportunities are shrinking and new ones are not emerging. Huge investments have already been made in developing industrial capacity, which can sustain the global economy for a few more years. And given the barriers to trade, industrial capacity continues to grow in some countries, adding to the problem of overcapacity. These import-substituting investments act to reverse the rising trends in trade as a result of globalisation. Thus, if there is a crisis in the global economy, specific national and regional interests, justified in their own rights, will make the recovery that much more slower. But current business conditions and the perception that the global economy is slowing down could keep investments down for a longer period.

All that the information technology (IT) and telecommunications boom managed was to stifle employment opportunities in traditional areas of industry, especially where automation and the use of IT were strong. The excess capacity in most of the non-IT industries worldwide led to cut-throat competition and forced businesses to cut costs to remain competitive and alive. From the US to India, businesses' response has been the same

(contd....2)

A.W. FLPPZ

Cut jobs. The IT bubble burst has seen the employment scene reaching the depths.

The global recession has hit the Indian economy too, though exports account for only about 8 per cent of GDP. From the early 1990s till last year, the IT boom in the US drew hundreds of billions of dollars of foreign direct investment. So strong was the IT investment wave that, in the US, the share of the IT and telecommunications stocks in the total market capitalisation jumped from 18.3 per cent in 1990 to 33.3 per cent in 1999. In Europe, it rose from 8.5 per cent to 19.4 per cent, in Asia from 10.4 per cent to 22.3 per cent, and in India, from 0.2 per cent to 19.9 per cent.

> **The Government may be able to manage its external trade front better with a tighter policy, but increased globalisation would mean higher risks for industries with greater dependence on, and exposure to, the global markets. But if Indian industry were truly global in terms of size and efficiency, it can gain from globalisation. Alternatively, if the future of the country's economy is seen in the domestic market, then having a restricted regime would work better.**

With money aplenty in the IT sector, incomes rose sharply. The rising incomes fuelled an unprecedented consumption growth, which particularly benefited India and South-East Asia. But following the downturn in the new economy, people lost money as quickly as they had made them. Consequently, the consumption demand, too, whittled away.

During the IT-driven dream years, industrial capacity worldwide was phenomenal, expecting the global economy, especially the US, to grow at the same hectic pace.

The situation in India must be assessed in this background. The good years in the world economy resulted in an overly optimistic view that exports would be the prime mover of the economy. Efforts were made to create better infrastructure and a distinctly favourable policy environment that support export growth. Such efforts stand justified only if the results are in ... Exports did grow at a fast clip, but dropped when the tide changed.

The drop was neither because of a strong rupee, which in fact fell sharply during the period, nor a result of policies turning anti-export. The recession in the world market was the primary reason, perceived late by most. In April-June 2001, export of textiles dropped 21 per cent, engineering goods 5.87 per cent, and gems and jewellery 8.38 per cent. The drop was reportedly sharper in the second quarter and is likely to worsen in the third. Foreign currency denominated exports will fall further, not merely because of falling world prices due to competition but as Indian firms are likely to accept lower foreign currency denominated prices.

The Government may be able to manage its external trade front better with a tighter policy, but increased globalisation would mean higher risks for industries with greater dependence on, and exposure to, the global markets. But if Indian industry were truly global in terms of size and efficiency, it can gain from globalisation. Alternatively, if the future of the country's economy is seen in the domestic market, then having a restricted regime would work better.

It is a different problem that the country cannot head back to a regulated regime. Putting the domestic market ahead of the export market would call for measures that may not gel with the current policy of pampering exporters.

Increased attention to exports and a weaker rupee would, therefore, only fur-

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A.L. FIROZ

ther dent government finances, which can best be improved by an interest rate cut. Ultimately, it is the Government that is the largest borrower and a rate cut would reduce its expenses substantially. This is especially true when it faces a revenue slump following a slowdown in the economy, a higher outgo for food-grain purchases, and so on.

The Government has, among other measures, increased the drawback rates for a large number of items to make exports more attractive. If exports do rise as a result, much of the money sacrificed would be made good by revenue collections elsewhere. But if exports fail to pick up, the Government's finances will be hit further.

A rate cut will not take the economy out of the investment drought. Nor will an overtly export-oriented policy do so. But a larger thrust on exports would invite more troubles too, in the form of rising · protectionism manifest in anti-dumping law — precious time and resources would be lost chasing trade-related cases.

A lower deposit rate would no doubt reduce the incomes of many. But rather than switching to consumption, there may be a greater tendency — sensing a reduction of their disposable incomes — to spend less and save more. Further, the fear of job losses and uncertainty over future employment leads to excessive savings. These raise deposits with banks financial institutions, which are already surfeit with funds. Naturally, the interest payouts, especially by banks, are growing at a faster clip than interest receipts. Banks, in any case, will be required to adjust their lending and deposits rates according to the demand and supply conditions; there is already some flexibility in this regard.

The RBI, in its forthcoming Credit Policy, must provide a larger leverage for this. But if the RBI expects to boost the economy by cutting interest rates, it would be expecting too much.

(The author is Chief Economist at the Economic Research Unit, Ministry of Steel. The views are personal.)

Business Line
2001, November 6
P.NO. 15

Failure at Doha can be disastrous

Vikram Khanna

THIS week, the heat will be on the world's trade ministers — especially those from rich countries — to pull off something big at the ministerial meeting of the World Trade Organisation (WTO) meeting in Doha, Qatar. What are the chances and what are the stakes?

If there ever was a critical time to kick-start trade liberalisation, it is hard to beat the present. Even before September 11, the date of the terrorist attacks in the US that plunged the world into new depths of uncertainty, the news on the trade front was grim.

According to a recent report by the World Bank, the growth of world trade is set to collapse from around 13 per cent last year to around one per cent this year, thanks largely to the global economic slowdown. "One of the most severe decelerations in modern times" was how the Bank described its dismal projection.

Terrorism, or even the fear of terrorism, will of course, only make things worse. It will mean new border controls — on both the movement of goods and people.

It will also mean higher [illegible] taxes on trade, in the form of additional costs for shipping, insurance and security. And most dangerous of all, it could trigger a turning away from globalism toward a 'fortress' mentality — protectionism, in other words — among some of the world's trading nations.

So, the trade ministers have got their work cut out for them at Doha. What can we reasonably expect them to achieve? Yes, they will formally admit China and Taiwan to the WTO — a great achievement, albeit long expected, and long overdue. What else?

Before September 11, the prospects did not look good. The US, the EU and Japan were at odds with each other over trade in agriculture — an area where all three stand guilty of blatant protectionism. Some countries were continuing to insist on linking non-trade issues such as labour standards and environmental regulations to trade, to the consternation of developing countries.

For their part, many in the latter group wanted to focus on 'implementation problems' arising from the previous round of trade talks rather than launching a new round.

There were several other irritants that clouded the prospects for a new round, including differences on anti-dumping policies, intellectual property rights, trade in services, product standards and customs regulations.

The new sense of urgency has been accompanied by a softening of rhetoric on some of the issues by which developing countries felt threatened, such as the linking of trade to labour and environment standards and the pressure to adopt a multilateral accord on investment rules. There are even signs of flexibility from the US on intellectual property rights.

Pre-September 11, many trade-watchers expected the Doha meet to be a replay of the previous WTO Ministerial at Seattle in 1999, which collapsed amid mutual recriminations, further marred by unruly protests by 'anti-globalisation' activists.

While many of the differences of substance remain, there are signs of a major change in attitude — especially among the rich countries — post September 11. A new trade round is being seen as a way to kick-start globalisation, which is perceived to have taken a hit, following the terrorist attacks.

As the US Trade Representative, Mr Robert Zoellick, put it, a new round "will counter the repulsive destruction of terrorism", and the international market economy "offers an antidote to this violent rejectionism".

The new sense of urgency has been accompanied by a softening of rhetoric on some of the issues by which developing countries felt threatened, such as the linking of trade to labour and environment standards, and the pressure to adopt a multilateral accord on investment rules. There are even signs of flexibility from the US on intellectual property rights.

All this, perhaps, reflects a greater sensitivity to the interests of developing countries — a recognition that a freeing up of trade can help deal with the wretched poverty and inequality that breeds the 'violent rejectionism' of which terrorism is a manifestation.

If so, there will hopefully be a trade deal that is not merely symbolic, but provides some meaningful benefits for developing countries. Reductions in the (still high) tariffs on their manufactured exports to industrial country markets would be in order.

So would an opening up of trade in agriculture, where the US, the EU and Japan will need to set aside their petty squabbles. An acceleration of the painfully slow liberalisation in trade in textiles and clothing would also help. And developing countries would help themselves by opening up too, particularly in the areas of financial services and telecommunications.

A deal of this sort can only be arrived at if the trade negotiators can rise above narrow self-interest and adopt a wholly different approach to deal-making from what we have seen in past negotiations. Rather than asking themselves, 'How can I get the best deal for my country?', their question will need to be: 'How best can I ensure the greatest good for the greatest number?'

While the failure of the WTO's Seattle ministerial in 1999 was a disappointment, at least the world could take comfort from a booming global economy and rapidly expanding trade.

A failure at Doha, which would trigger a move toward bilateralism and regionalism in trade, would be far more serious — even a disaster. It would be a giant step backward at a time when the world can least afford it.

(By arrangement with Business Times, Singapore.)

The Hindu

2001, October 1

P. No. 5

Farmers' forum plea against WTO norms

By Our Staff Reporter

PALAKKAD, SEPT. 30. The National Farmers' Protection Committee has urged the Central Government to strive to scrap the 'green box blue box' clauses and modify the Aggregate Measure of Support (AMS) at the World Trade Organisation (WTO) meeting to be held in Doha.

In a statement here today, the chairman of the committee, Mr. K. Ravikumar, said the two documents recently released by the WTO on the new trade liberalisations negotiations and the implementation issues are against the stand taken by the developing countries, including India.

India and other developing countries should go a step further and seek to scrap the 'green box blue box' clauses and suitably modify the AMS regime. This is because through these clauses the developed world, the main producers of global food surplus, is striving to enforce a "planned scarcity" for food in the developing world.

The AMS is the cumulative subsidy given to farmers by a country as production incentive. The maximum AMS a country can extend to its farmers is determined as: (1) those countries whose present AMS is less than 10 per cent of the total value of the national agriculture produce cannot exceed that limit in future. (2) those countries whose AMS exceeds 10 per cent at present should reduce it by 20 per cent within six years if they are developed countries and 13.3 per cent in 10 years if they are developing countries. The reference year for calculating AMS is 1986-88, the statement said.

It said that most developing countries, including India, falls in the first category. A study by Dr. Gulati of the National Council for Applied Economic Research, shows that the subsidy given to Indian farmers is (-) 15 per cent. In other words, India cannot give more than 10 per cent subsidy as incentive to produce more food even if it has the need to produce more to feed its increasing population. Conversely, the U.S. which gives 45 per cent and the European Union which gives 65 per cent as production subsidy can still afford an AMS of 36 per cent and 56 per cent respectively after implementing the WTO provisions.

The statement said the developing countries cannot use the 'green box blue box' clauses because they aim at cutting down the production using limitless subsidy whereas the problem faced by these countries is to increase their production to feed their starving millions. Through the AMS regime, the WTO charter has put a cap on the subsidy that can be given to increase the production. In other words, the producer countries not only make the food grains scarce by resorting to the 'green box blue box' clauses but also ensure that the developing countries do not overcome the barrier of scarcity by producing more. This is hegemony at its worst, the committee felt.

Thus the 'green box blue box' clauses are regressive. Their only objective is to ensure better returns to the affluent farmers of the producing countries. This is not justifiable, and hence the clauses should be abandoned, the statement said.

The suggestion of the 'livelihood box' is welcome because it gives the freedom to a country like India to subsidise farmers to produce more without limit. But in the long run, the developing countries will have to plan for producing their own food without depending on import, because food has always been a weapon in the hands of the affluent to repress the powerless, the statement added.

The Hindu
2001, October 9
P.NO. 10

FINAL STRETCH AT WTO

WITH JUST A month to go before the Doha ministerial conference of the World Trade Organisation, negotiations on the agenda for a fresh round of trade liberalisation negotiations have reached a critical stage. After the terrorist attacks in the U.S. there is, of course, some uncertainty now about the Doha meet taking place; though for the record the WTO and the Government of Qatar insist that there is no change in the schedule. But whether or not the Doha meeting takes place next month is immaterial to the tussle at the WTO which has been taking place since at least 1998, when the first serious calls for a new round of talks were made. Cancellation of the conference will only postpone a final resolution to a later date, though trade and commerce Ministers from some of the more important members of the WTO — including India — are to meet informally in Singapore in the middle of this month to draw up the contours of a possible agreement.

The final phase of negotiations has been entered with the preparation of two draft agreements to be adopted at Doha, neither of which is to the liking of India and a number of other developing countries for whom history looks to be repeating itself at the WTO. The final commitments that the leading trading nations — the U.S., the E.U., Canada and Japan — have been able to come up with on the "implementation issues" fall far short of expectations and show scant respect for the energy and good faith that have gone into more than two years of negotiations. The many imbalances and defects in the 1994 Uruguay Round agreements that were identified are to be either ignored or in the few instances where definite commitments have been made, they are more in the nature of recommendations and not mandatory in nature. It is possible that this is a negotiating tactic with the more important issues being held back until India and the others opposed to a new round agree to a comprehensive negotiating agenda. But the draft ministerial programme on what has been tactfully called a new "work programme" is also disappointing since it reflects more the developed country interests than that of the admittedly myriad groups in the developing world. The contentious subjects of a global treaty on foreign investment and competition policy are still on the table while the developing country agenda for trade in agriculture has been given short shrift.

All this does not mean that an agreement to launch a new round is "a done deal". There are other fault lines largely within the developed world that have not yet been cemented. First, the agenda on agriculture — the cornerstone of a new round — is yet to be agreed to though intelligent formulations have been made in recent days to satisfy both the proponents and opponents of liberalisation. Second, the E.U., citing consumer concerns, remains adamant on negotiating new rules on food safety while the rest of the world sees this as a ruse for controlling agricultural imports. Third, the U.S., under pressure from Congress, is vehemently opposed to re-negotiating the existing agreement on anti-dumping duties; though here Japan, the E.U. and many other countries would like more transparency in what is potentially another device for protectionism. However, all these firm positions could be more in the nature of posturing. Given the right negotiating language none of these chasms are unbridgeable. An additional source of momentum towards striking a deal has come from the U.S. taking the moral high ground after the terrorist attacks and claiming that open trade is closely connected to the fight against terrorism. Far-fetched as this argument may be, a galaxy of political personalities in the U.S. and the E.U. have been using the horror about the events of September 11 to push ahead at the WTO.

The Hindu
2001, September 29
P.No.10

From WTC to WTO

By C. Rammanohar Reddy

THERE WAS a world before September 11 and there is one after that. The two are different and yet they are the same as well. Daily life was a grind for perhaps a majority of the world's people before the terrorist attacks on the World Trade Center and the Pentagon. And for them the routine has not changed for the worse after the crimes against humanity that were committed on September 11, just as it remained the same after similar horrific events in the past. It is the families of the victims of the horror and the millions of Afghan refugees whose lives have been turned upside down. But the world of global politics and diplomacy is unrecognisable after September 11 if only because this particular crime against humanity was perpetrated against and on the soil of the most powerful country.

The structural shift in global politics is working its way through many areas far removed from terrorism because there are always opportunists who are quick to invoke the "global war against terrorism" to push their partisan agendas. The U.S. economist, Prof. Paul Krugman, recently accused some members of the U.S. Congress of "wrapping themselves in the flag" while pushing for lower corporate taxes, lower capital gains taxes and related issues of self-interest. There are some using the occasion to even justify opening up the Arctic wilderness for oil exploration! But the most cynical use of September 11 in the past fortnight must surely be that by Mr. Robert Zoellick, the U.S. Trade Representative, who last week cited the terrorism attacks as reason for drawing up more national and global agreements on trade. In one article in *The Washington Post*, Mr. Zoellick elaborated on the role that trade had in the fight against terrorism: "Trade is about more than economic efficiency. It promotes the values at the heart of this protracted struggle."

In another speech earlier this week, this senior member of the Bush Cabinet argued that trade legislation was needed to signal that the U.S. would not retreat from its responsibility to defend free trade against terrorists and the critics of globalisation. The immediate context is

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C. RAMMANOHAR REDDY

It is a different kind of injustice that a tragedy like September 11 can be so cynically used for advancing trade interests.

the need to persuade Congress to enact trade promotion authority, required to give the U.S. President flexibility to negotiate agreements at the World Trade Organisation but which has not been available since 1994. But there are two objectives: one, use current domestic U.S. cohesion to have the trade promotion authority approved and, two, use the global moral high ground after September 11 to launch a new round of trade negotiations as part of the "global war against terrorism". News reports of the past few days suggest that the first has been more or less sewn up. The second is now within grasp as in the new situation countries find it more difficult to stand up to the U.S. (and the European Union) at the WTO. The Wild West "either your are with us or with the terrorists" statement has implications for alliances everywhere, including at the WTO. There was also Mr. Alan Greenspan, Chairman of the Federal Reserve, who was even more unequivocal about the connection between September 11 and trade. In a testimony to the U.S. Congress, Mr. Greenspan said: "As a consequence of the spontaneous and almost universal support that we received from around the world, an agreement on a new round of multilateral trade negotiations now seems more feasible."

MACROSCOPE

There is another way in which the WTC and Pentagon attacks are having an impact on the WTO. The recession which the U.S., west Europe and Japan were all heading towards before September 11 is now certain, no more so than in the U.S., where consumer spending has plummeted since September 11 and job losses over the past fortnight alone have approached the half a million mark. The argument is now made with renewed force that to end the downturn caused by September 11 the world economy needs as many confidence- building signals as possible — of which few could be more important than the launch of a new round of trade liberalisation negotiations at the WTO. Assuming that there can be such a connection, the problem with this argument is that even if negotiations begin now it will be years before a successful agreement can be reached. This makes the launch of a new round irrelevant for ending the current global downturn. There is also the slightly more important question that if a new round is more likely to focus on services and agriculture while the sliding fortunes of the global economy are related to a downturn in manufacturing, how would fresh trade talks at the WTO help?

Unfortunately, the swift developments over the past fortnight have suddenly made the situation extraordinarily difficult for India, which over the past two years had carefully assembled a WTO coalition of developing countries on the platform of first correcting the defects and imbalances in the existing WTO agreements before taking up an ambitious negotiating agenda for new agreements. That coalition of a "like-minded group" is now going to crumble even as only crumbs are being offered on the implementation issues. Egypt had already shown signs of leaving. Indonesia, after Ms. Megawati Sukarnoputri's visit to Washington last week, has indicated a change in stance on a new round and with the new Washington-Islamabad tie-up it is just a question of time before Pakistan too signals that it has had to succumb to U.S. pressure at the WTO as well. Malaysia too was a member of this coalition but its opposition was always narrower than that of other developing countries. That just leaves the Africa group opposed to the grand design at the WTO. Even if this group remains united — as it did indicate at a meeting of the Organisation of African Unity — it does not need much foresight to observe that

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C. RAMANOHAR REDDY

India and the Africa group cannot by themselves shape a decision at the WTO. The room for manoeuvre is now doubly reduced because other countries such as Brazil and the Cairns group of agricultural exporting nations (comprising developed and developing countries) which, while even earlier supportive of a new round had reservations about the U.S. and E.U. agendas, will now go along with the U.S.

It is by no means all wrapped up. Time is running out to strike a deal before the WTO's Doha ministerial meeting in early November — and it is not even clear if that meeting will be held under the shadow of possible military action by the U.S. And recent WTO proposals show that in this expanded global coalition against terrorism that is being fought on so many fronts there are still serious differences on WTO issues, especially between the U.S. and the E.U. on agriculture and food-related environment matters. That said, there is no disputing that the forces in favour for a new round of trade negotiations have gained considerable strength in the past fortnight.

It is an unfair world where while the issues and the essential arguments for and against a new WTO round have not altered one bit, a mere change in the global environment and the constellation of forces can make such a dramatic difference to the trade agenda. It is also a different kind of injustice that a tragedy like September 11 can be so cynically used for advancing trade interests. The Indian position at the WTO was this time round more carefully constructed, in spite of conflicts within the Government and gratuitous advice from domestic trade experts who are unconnected with reality. And unlike the embarrassing, unsolicited and unrequited willingness by the Government of India to join the alliance against terrorism, the stance at the WTO was more moderately crafted. However, unless yet another confluence of factors pushes a final decision at the WTO further into the future, giving us more breathing space, India has little choice now but to find ways to make the best of a very bad bargain.

Business Line

2001, November 8

P. No. 15

Get TRIPs out of the WTO

Bipul Chatterjee

THE WORLD is reeling under the scare of anthrax. Every day cases are reported mainly from the US but elsewhere too. People are scared, but for some sections of business the anthrax scare is an opportunity to make money. This raises the patents bogeyman. And on the eve of the Doha WTO ministerial meeting too.

The pharmaceutical giant Bayer holds the product patent on Cipro, the anthrax antibiotics, till 2003 and is surely working to maximise production. However, the US authorities are not convinced about its ability to supply enough quantities of the drug on time and is, therefore, considering issuing compulsory licences to generic manufacturers. It is even looking at importing anthrax antibiotics. Canada is also contemplating similar measures.

Drug companies may challenge these moves, as happened with AIDS drugs, when a consortium of pharmaceutical giants brought — but later withdrew — a lawsuit against a South African law that would have allowed parallel imports and compulsory licensing. This was partly due to pressure from consumer organisations, NGOs and so on. The battle for cheap AIDS drugs has now shifted to Kenya, where the Parliament is debating a Bill that would make it easier for the government to import and manufacture generic versions of patented medicines, particularly anti-retroviral drugs. This could set in motion the domino effect that the pharmaceutical companies fear on patented drugs.

Article 8 of the World Trade Organisation Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) defines compulsory licences on grounds of competition, health and public interest. It gives members the right to "adopt measures necessary to protect public health and nutrition, and to promote public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this (TRIPs) Agreement".

For example, in 1991, a German court granted a compulsory licence to a German firm with respect to a patent (relating to interferon) held by a US firm on grounds of public interest. The purpose of the licence was to allow the marketing of a therapeutical application of interferon developed by the German firm.

Parallel imports, on the other hand, are defined as buying of a product with the intellectual property content from a country where the product has been lawfully placed on the market by the owner of the intellectual property right or has been done with the owner's consent. For example, in 1999 a Bill was introduced in the US Congress to authorise parallel imports of pharmaceutical drugs, by simply eliminating regulatory barriers.

However, despite US moves, earlier and recent, to allow parallel imports (and compulsory licensing) of drugs, American trade officials have tried to prevent governments in many countries from authorising parallel imports. For example, in 1998, the US threatened New Zealand for removing restrictions on parallel imports sensitive to US pharmaceutical manufacturers. Interestingly, at that time the US Supreme Court ruled that America's copyright laws do not prohibit parallel imports into the US.

Now, the US wants to introduce compulsory licensing and parallel imports to cope with a possible anthrax outbreak. There is nothing wrong with this move, but it speaks of the US' double standards. Before the Seattle Ministerial Conference of the WTO, in 1999, American trade officials wanted intellectual property rights off the agenda of a possible new round of global trade talks. While improvements can be made to the TRIPs Agreement, a senior US trade officials at that time commented that "there is a risk that new negotiations could lead to backsliding in the current agreement".

Since the US is calling the shots in providing compulsory licensing and provisions of parallel imports of anthrax antibiotics, it would be interesting to see how pharmaceutical giants react. After all, they had pushed for the TRIPs Agreement at the time of the Uruguay Round of multilateral [illegible]. [illegible] time, a number of developing

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BIPUL CHATTERJEE

Bayer holds the product patent on Cipro till 2003 and is surely working to maximise production. However, the US authorities are not convinced about its ability to supply enough quantities of the drug on time and is, therefore, considering issuing compulsory licences to generic manufacturers.

countries opposed it, but agreed to it under the assumption that they would benefit from other agreements.

A common fallacy on the inclusion of intellectual property rights issues into the WTO was the claim by pharma, and other companies' that intellectual property has the same status as their tangible property. An essential characteristic of tangible property is the right to exclude other people from its free use. However, the last thing creators and inventors want to do is to keep what they have developed to themselves. They want to promote them and seek recognition, not just money. The interests of companies in the business related to creation and invention are different from the interests of creators and inventors themselves. Such companies want to [illegible] wide-ranging commercial monopolies, and to exploit for that purpose the protection offered by intellectual property.

On the other hand, public interest lies in ensuring that there is as much innovation as possible, that it happens quickly, and that it is disseminated widely. We need to provide incentives to innovate without allowing a previous generation of innovators to intimidate competition, block entry, or restrict the exploitation of new technologies. That means a balance needs to be struck and the solution lies with the companies. In the case of making the benefits of pharmaceuticals [illegible] available to those affected — of whom the majority is poor — the pharmaceutical industry must establish systematic mechanisms to make drugs available at low prices in poor countries.

The WTO TRIPs Agreement is the stumbling block to such a mechanism. The time has come for the international community to raise their voices unitedly to get the TRIPs Agreement out of the WTO, and put the issue back in the World Intellectual Property Organisation, where it belongs. There are several reasons why intellectual property should not be a part of trade agreements. Apart from the fact that the creation of a 20-year patent period (as per the TRIPs Agreement) fosters monopoly, the Agreement goes against the very principle of free and fair trade, which is what the WTO is said to be for.

The reasons why TRIPs Agreement should be out of the WTO include:

There are enormous discrepancies in experience with intellectual property law and policy among WTO members;

There is no consensus on the proper role and elements of intellectual property law and policy, particularly as applied to countries in vastly different circumstances and levels of development;

The WTO is a trade forum ill-adapted to handling intellectual property rights issues, which would risk becoming politicised; and

The possibility of applying WTO dispute resolution mechanisms to intellectual property rights rules poses risks to the independence and sovereignty of law enforcement authority.

Recent happenings — the breakout of anthrax and the South African AIDS drug case, to name two - have helped educate the international community on the ill-effects of the TRIPs Agreement. It is time to bury the WTO TRIPs Agreement and give back the intellectual property right its original meaning.

(The author is Associate Director of the CUTS Centre for International Trade, Economics and Environment, a Jaipur-based research and advocacy group working on trade and economic policy issues.)

The Hindu

2001, September 4

P-No-10

Globalisation and politics

By Supriya RoyChowdhury

IN RECENT months, there has been a fresh spate of public protests against globalisation, in Genoa, London and South Africa. Globalisation's inegalitarian implications are now no longer contested. As such, anti-globalisation politics and discourse have acquired a certain legitimacy. This activism, however, stems from a wide range of affected interests, which are not necessarily harmonious or even coherently related. This politics therefore lacks a paradigmatic framework as an alternative to the seemingly irreversible process of marketisation.

On the other hand, the defensive rhetoric around globalisation is remarkable not only for its coherence but also for its ability to coopt some of the central arguments of its opponent, i.e., the critical discourse, and transform it into its very own. At the same time, the defensive critique remains unshakable from the core grounding tenets of an individualistically oriented-market economy, and the palliatives that it offers for globalisation's imperfections remain vague and unstructured. More importantly, the awesome power of a predominantly consumption-oriented economic model works at multiple levels to create a reconfiguration of popular images of what is a desirable life.

This ideological apparatus obviously did not emerge overnight. And it is indeed a measure of capitalism's ingenuity that the marketisation model has traced a certain line back from the strident rightist conservatism of the Reagan-Thatcher decades to a greatly more nuanced, subtle and reassuring system of ideas that seeks to acknowledge globalisation's excesses while promoting its fundamental precepts. Thus in the 1990s, the scholarly literature that emerged from the United States on the politics of structural adjustment was barely tolerant of the critical challenges posed to liberalisation policies by popular sectors in many developing countries. This literature, reflecting the mood of the moment, focussed on the politics of economic reforms primarily from the perspective of political management. In other words, opposition and challenge to economic reforms had to be politically managed or manipulated. Scholars stressed the need for building supportive coalitions on the basis of groups that stood to gain from lib-

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SUPRIYA ROY CHOWDHURY

We need a new politics of welfarism in the context of globalisation.

eralisation, playing off such groups against others, which loose out. Another recommended strategy was to ignore protests, which were likely to die out from exhaustion, and so on.

This briskness became somewhat subdued in the 1990s. The reason for this perhaps was that challenges to globalisation could no longer be categorised as only a Third World phenomenon. Increasingly, sections of the working class in industrialised countries began to voice resistance to aspects of globalisation, particularly international trade, that threatened their well being. In the U.S., the low-skilled workforce appeared to have fared the worst out of a process of internationalisation where capital was free to locate in economies which provided less costly labour. Additionally, cheaper imports from cheap labour economies threatened jobs in the domestic economy. There is now a gathering groundswell of bitterness against globalisation as an economic model that is perceived to widen the rich-poor divide between as well as within nations.

Defenders of globalisation now agree that these challenges are frequently based on real issues of deprivation, and need to be seriously addressed. The Institute for International Economics in Washington D.C., which has contributed significantly to the evolution of thinking and policies on free trade and market liberalisation, has recently published a book called "Has Globalization Gone Too Far?" The author, Harvard economist Dani Rodrik, answers in the negative. But, his central concern is to admonish "the attitude of much of the economics and policy community for downplaying the problem". He locates the sources of tension in a globalising economy in the adverse impact on unskilled labour and in the decreasing propensity of Governments to provide social insurance. Thus in an open economy, protection for domestic producers is withdrawn, labour becomes vulnerable in the face of increasing competition and fast changing technology; and footloose capital is hard to tax, thus diminishing the state's capacity to provide welfare.

The threat to social stability arising from these imbalances is serious. "social disintegration is not a spectator sport — those on the sidelines also get splashed with mud from the field". To prevent such splashing, Rodrik stresses the need for social insurance, on evolving a via media between competition/efficiency and welfare. The bottom line, as Rodrik points out, is that "social spending is a way of buying social peace". Without social peace, globalisation may not be able to proceed.

Somewhat interestingly, there seems to be a convergence of conservative and leftist thinking on these issues. Prof. Pranab Bardhan, of the University of California at Berkeley, whose writings are identified with a broadly left of centre framework, in a recent article in the *Economic and Political Weekly* writes of the irreversibility of globalisation. Acknowledging that globalisation may indeed push the poor towards increasing economic precariousness, Bardhan nevertheless challenges the efficiency-equity trade off. According to him, micro-level solutions, at the level of "firms, farms, neighbourhoods and communities", can design "efficiency enhancing egalitarian measures not all of which are precluded by the forces of globalisation". Examples that he provides are the Grameen Bank in Bangladesh which uses the community to provide credit collateral for poor borrowers, or Japanese firms in which workers participate in a wide range of decision-making functions which enhance both equality and efficiency. These measures, supposedly, could work around the process of globalisation, providing some safeguards and opportunities for the disadvantaged, thus preserving the broad framework of the market from challenges by poorer sections.

Thus, defenders of globalisation incorporate protection of the poor as part of their discourse. This discourse, however, is largely silent on the politics of social insurance in a context of globalisation. The stress on social insurance harks back to the tenets of post-war welfarism. The essential element of the capitalist welfare state was to provide for the non-capitalist classes ac-

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SUPRIYA ROY CHOWDHURY

cess to a minimum livelihood, health and education. Welfarism was widely regarded as the only way to protect the broad framework of capitalism from lower class challenges. To this extent, the present-day defenders of globalisation have not said anything new in underscoring the importance of social insurance.

What is new is the political context in which globalisation is taking place, which is vastly different from the political dynamics which led to the formulation of the concept of the welfare state. The concept of state-provided welfare emerged in post-war western Europe in the background of decades of struggle, led by labour activists and socialist groups, for social and economic justice for large numbers of the population who did not stand to gain directly from the system of capitalist production. The organisational framework of large-scale capitalist manufacturing provided the framework for effective trade union activism. And, democratic political institutions along with socialist ideals empowered political movements for social and economic entitlements.

This context is completely absent now. As production processes are spread across countries, as enterprises take to outsourcing, subcontracting, and as a large numbers of workers are forced to work in the informal sector, the workforce is spread thin, and the conditions for organised labour activism largely disappear. Second, with the collapse of socialism, and the emergence of neo-liberalism as a monolithic ideology, there is no longer a paradigmatic reference point for those struggling to lead movements for social and economic justice. There is now a vacuum in the sphere of politics, which alone could generate and sustain a decisive shift to welfare concerns. Contrary to what the new liberal wisdom would have us believe, there are no ideal formulae for combining efficiency and equity which can be bestowed upon society by clever neo-classical economists whose hearts are in the right place. Nor can equity and justice be a gift from the state. In a market-oriented economy, rights are a question of continuous bargaining and negotiation, of systematic striving to sustain gains and moving on to the next stage of the battle. Ultimately, therefore, we need a new politics of welfarism in the context of globalisation.

The Hindu
2001, September 10
P- NO- 12

Implementation issues in the WTO

By Muchkund Dubey

MOST OF the agreements and understandings reached during the Uruguay Round trade negotiations are unequal and unbalanced from the point of view of developing countries. This was mainly because of the weak bargaining position of these countries, their general state of unpreparedness for the negotiations, their dearth of skilled manpower and financial resources to participate effectively, and the lack of transparency in the negotiating process.

Some of the agreements are inherently unequal and unbalanced. The Agreement on TRIPS is in contradiction with the objective of liberalising international trade, as it is designed essentially to protect the monopoly rights of patent holders. It has also been apparent that the implementation of this agreement will result in manifold increases in the prices of life-saving drugs in developing countries. The agreements on TRIPS, TRIMS, agriculture and subsidies have the effect of irretrievably closing for the developing countries macro-economic policy options which developed countries enjoyed till recently. These include granting process patent only and adopting investment policies to promote the use of local resources and skills. Subsidies normally maintained by developed countries have been made non-actionable, while several of those given by developing countries in pursuit of an export-led development strategy have either been prohibited or put in the actionable category. Subsidies to farmers maintained by major developed countries have, instead of coming down, gone up primarily because these countries were able to switch over to subsidies permissible under the Agreement on Agriculture, before the commencement of its implementation. In the case of export subsidies on agricultural products, the countries which had not used them before the Uruguay Round are not allowed to resort to them while those using such subsidies are expected to decrease it by a small margin. Because of the back-loading provision of the Agreement on Textiles and Clothing (ATC), most of the textile exports from developing countries will remain under restriction until 2005.

Several of these instances of inherent asymmetries were brought out in the eval-

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MUCHKUND DUBEY

The stress should be on revising the existing rules, on their equitable application and on reaching agreements on the new rules of the game.

...tations of the agreements carried out soon after the Uruguay Round. Others came to the surface during the implementation of the agreements. Some of the agreements are not being implemented in their true spirit. For example, developed importing countries have sought to comply with the targets of liberalisation set out in the ATC by taking credit for the items already outside restriction. Fresh obstacles are being raised to the implementation of the highly limited and conditional commitments taken by developed countries during the negotiations on the movement of natural persons.

Due to the TRIPS Agreement, several developing countries are finding it extremely difficult to provide drugs to HIV/AIDS-affected population at affordable prices. Besides, this Agreement has no provision for identifying the source of knowledge or bio-resources while applying for the grant of patents based thereon. Consequently, several patents based on the bio-resources and traditional knowledge in developing countries have been granted, thus resulting in the piracy of these resources. Patenting of neem and basmati are some of the striking examples.

These and similar other actions by developed countries have made the unequal Uruguay Round agreements even more inequitable. These have tilted the balance further away from developing countries and severely compromised their position under the WTO.

Provisions in the WTO Agreements on special and differential treatment for developing countries are of a non-binding nature and couched in best endeavour terms. In the implementation process, developed countries have totally ignored these provisions. To cite one example, Articles 7 and 8 (Objectives & Principles) of the TRIPS Agreement provide for taking into account the development needs of developing countries, transferring technologies to them, preventing monopolistic trends and safeguarding public interest and public health. As of now, there is no understanding on how these provisions can be implemented.

A group of like-minded developing countries identified various instances of inequalities and imbalances in the Uruguay Round agreements and submitted some 93 formal proposals for rectifying them. These proposals, known as the implementation issues, were pursued during the preparatory process of and at the Third WTO Ministerial Conference held in Seattle in November-December, 1999. However, since the Conference ended in a fiasco, no decision could be taken.

After Seattle, developing countries have pursued the implementation issues in five special sessions of the WTO General Council. But the results so far have been only of a procedural nature. Even the European Union, which has a relatively more liberal position on the subject, thinks implementation issues calling for a renegotiation of the existing agreements could be considered only as a part of a new round of negotiations to be launched at the next WTO Ministerial Meeting in Doha. Developing countries are not prepared to enter into any fresh commitments in future trade negotiations until the implementation issues are resolved. They are opposed to establishing a link between these issues and a new round of trade negotiations. For, if such a link is established, they will be required to offer quid pro quo for something which needs to be rectified on its own merits and for which they have already paid a price.

Inspite of the meagre results achieved so far, the pursuit by developing countries of the implementation issues for more than a year and a half now has been worthwhile. These issues have been put at the very centre of post-Seattle deliberations in WTO. Developed countries have recognised the concern of the developing countries regarding these issues as a serious matter. The debate has created an awareness among developing countries that they have to be better prepared, more conscious of their rights and more united in

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MUCHKND DUBEY

future trade negotiations. In fact, in the very process of pursuing these issues, they have become more united than before.

The implementation issues are not a spanner thrown by a group of developing countries to escape a new round of trade negotiations. Their attempt to resolve them is designed to safeguard their most vital trading interests and to restore a modicum of balance in WTO agreements after an unfortunately belated realisation that developing countries were short-changed in the Uruguay Round negotiations. What is at stake is the very credibility of the international trading system in the eyes of the developing countries. Resolution of the implementation issues is the only way to restore credibility.

It is essential for the developing countries to adopt a selective approach in pursuing these issues. They should put lesser emphasis on measures of a discretionary nature, those seeking unilateral concessions and gestures of a non-trading nature, and once-for-all extensions of deadlines providing interim reliefs. Instead, the stress should be on revising the existing rules, on their equitable application and on reaching agreements on the new rules of the game. Much higher priority should be attached to seeking greater access to the markets of the developed countries in the areas of interests to developing countries.

They should not accept solutions of a procedural nature except those designed to open up for review and negotiation, agreements which are inherently unfair and inequitable. These countries should keep on vigorously pursuing the implementation issues between now and the Doha Meeting. At Doha, serious negotiations should be carried out to resolve as many of these issues as possible. The outcome to be sought at the end of the meeting should be: (a) Insistence on the resolution of issues arising out of non-implementation per se; (b) An understanding that implementation issues of a structural nature will be addressed seriously during the course of the on-going reviews of the relevant agreements; (c) The continuance of the arrangement of pursuing these issues in special sessions of the WTO General Council.

The New Indian Express

2001, November 16

P.NO.11

India returns from WTO meet with gains in public health, industrial tariff

Doha, Nov 15: In the big war between the US and European Union over farm subsidy, environment and investment, India managed to open a third front for the developing world which can hope to get cheap medicine through the TRIPS agreement signed with the launch of a new round of negotiations at the WTO ministerial conference here yesterday.

Major losses for India are in the field of environment, investment and government procurement while the gains can be measured in terms of public health and industrial tariff.

The Indian team led by 'intimidating' rather than 'intimidated' Commerce and Industry Minister Murasoli Maran fell in line in the last moments of the extended six-day conference after the US-EU deal was struck on agriculture, environment and industrial tariff and fragile developing countries were 'won' over through bilateral promises.

WTO was pressurised into bringing environment on to the negotiating table by EU, particularly by France which even threatened to walk out of the multilateral body in case its 'green' political compulsions are accommodated.

The US was not keen on environment but was made to give in after the French-mounted pressure through all means, including powerful non-government organisations like Green Peace and Jose Bove-promoted Union of Farmers of the World.

However, the fears of the developing nations, well articulated by India, are that the environment would be used for blocking the trade.

"Our fear is that environment could become a Trojan horse of protectionism," Maran said.

As for the WTO, it has received a shot in the arm since the Doha meet was crucial for the future of the multilateral trading system after a fiasco at Seattle.

India can take credit along with Brazil in softening the US stand in the trade-related aspects of intellectual property rights (TRIPS).

The TRIPS agreement adopted along with the Doha declaration gives right to the national governments to break the patent rights of multinational companies for the sake of promoting public health.

In terms of specifics, it would be India, Brazil and South Africa which would gain a lot for its drugs and pharmaceutical industry.

With expertise in reverse engineering, Indian drug firms can come out with an equally effective medicine in the shortest possible time.

However, the Indian team

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has not been able to get basmati, turmeric and neem the same treatment as wines and spirits in the TRIPS and geographical indications.

While the declaration is specific to the requirements of wines and spirits, it relegates other geographical products coming from developing countries to the 'implementation' issues.

This is how it reads for wines and spirits: We agree to negotiate the establishment of a multilateral system of notification and registration of geographical indications for wines and spirits by the fifth session of the ministerial conference."

And this is it reads for the products other than wines and

WTO was pressurised into bringing environment on to the negotiating table by EU, particularly by France which even threatened to walk out of the multilateral body in case its 'green' political compulsions are accommodated. US was not keen on environment but was made to give in after the French mounted pressure through all means, including powerful non-government organisations like Green Peace and Jose Bove-promoted Union of Farmers of the World

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spirits: "We note that the issues related to the extension of the protection of geographical indications provided for in Article 23 to products other than wines and spirits will be addressed in the council for TRIPS."

The domestic industry has a reason to be disappointed with the outcome in regard to investment, also known as one of the prominent Singapore issues.

The declaration binds members to go straight to negotiations for the foreign direct investment and transparency in government procurement after the fifth ministerial conference rather than continuing a study process as pursued by India. So is the case for the competition policy.

"Recognising the case for a multilateral framework to secure transparent, stable and predictable conditions for long-term cross-border investment, particularly foreign direct investment, that will contribute to the expansion of trade, we agree that negotiations will take place after the fifth session of the ministerial conference," the document adopted at Doha says.

India will also stand to gain from the US-EU deal on the WTO rules relevant to the agreement on subsidies and countervailing measures. The US stands committed to 'improving disciplines' under the SCM agreement with the adoption of the ministerial declaration. In the bargain of the EU-US trade-off, India will reap some benefits, analysts said.

The Doha ministerial also sends a strong signal to the Indian industry which has enjoyed all along the benefits of protectionist regimes.

They could have at the most five years before the WTO rules would force them to compete with the multinational firms.

They have five more years to protection – two years for start of negotiations and another couple of years for completion and implementation.

Textile tops the agenda of the implementation issues. India and Pakistan have been wanting the EU and the US to increase their market access for the Indian exporters.

The Indian team's argument for 'growth on growth' meaning increasing quota every year was turned down by US Trade Representative Robert Zoellick saying the Bush Administration would need the congressional approval which is hard to come.

All in all, the Indian team returns from here with what WTO Director-General Mike Moore said: "Balance of unhappiness". • UNI

Business Line

2001, October 16

P.No.8

New issues in WTO agenda to be opposed

Our Bureau

NEW DELHI, Oct. 15

INDIA has articulated its position on the issue of agriculture, environment, implementation, investment, competition policy, trade facilitation and transparency in Government procurement.

In its interventions, at the Singapore meeting of select Trade Ministers ahead of the Doha Ministerial conference of the WTO, the Union Minister for Commerce and Industry, Mr Murasoli Maran made wide-ranging observations on the 'Draft decisions on implementation related issues and concerns' and the 'Draft ministerial declaration' texts brought out by the Chairman, General Council of the WTO, for the Doha Ministerial conference.

In its interventions, India emphasised that discussions in the informal meeting at Singapore, where only a select number of countries were present, could not be taken as representative of the view of the entire WTO membership. The two- day Singapore meeting ended on Sunday.

Regarding the Draft Ministerial Declaration (DMD), Mr Maran expressed India's concerns on some of the language as also the structure of the draft. He mentioned that though the DMD talks of placing the interests and needs of developing and least developed countries at the heart of the WTO's Work programme, the draft declaration does not address the development dimension fully.

Mr Maran expressed his reservations in respect of the Singapore issues namely investment, transparency in government procurement and trade facilitation and also referred to opposition expressed by a number of other developing countries in this regard. He also questioned how multilateral rules in the subject would be of benefit to the developing countries when they take away even their existing developmental domestic policy options.

As regards implementation related issues, the Minister indicated that the decisions in their present form fell far short of expectations. He urged for examining the proposed decisions with a view to improving the language so that the decisions are of value to the developing countries. The Minister indicated that India is willing to engage construc-

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tively, if a viable fast-track mechanism is evolved for the time bound resolution of the balance of the implementation issues. There was an acknowledgement in the informal meeting about the issues raised by Mr Maran that need to be further discussed.

On agriculture, Mr Maran said that negotiations in WTO should lead to the removal of distortions in major subsidising countries while at the same time providing adequate flexibility to the developing countries so as to take care of their concerns relating to food and livelihood security and rural development. Regarding the paragraph on agriculture in the Doha ministerial declaration, he indicated that certain additional elements like concerns for livelihood security and market security and market access for agricultural products of developed countries need to be added to the special and differential elements of the present draft.

While emphasising India's commitment to the conservation and protection of the environment, the Minister underlined the concerns of the developing countries regarding environmental measures being used for protectionist purposes.

The Hindu

2001, October 17

P. NO. 14

A new WTO round now almost certain

By C. Rammanohar Reddy

CHENNAI, OCT. 16. The message from last weekend's 'informal ministerial' meeting of the World Trade Organisation in Singapore is that the launch of a new round of negotiations is now almost a certainty. Working together, the U.S. and the E.U. have been able to organise a compromise on a very substantial part of the agenda for a new round that could well be launched next month. All that now seems possible for India and the other economies, mainly the Africa group and the Least Developed Countries (LDC), which are still against new talks, is to contain the agenda to the extent possible. A developing country trade diplomat speaking from Geneva said, "All the indications are of an unstoppable momentum for a new round."

The developing country's demand of first settling the "implementation issues" — the shortcomings in the existing WTO agreements — before launching a new and comprehensive round has weakened on account of two reasons. First, India is the only large developing country that holds on to this position; others like Egypt, Indonesia and the latest, Pakistan, have gone over to the other side. Second, the developing countries' freedom to manoeuvre in the WTO preparations have so far mainly come from the divisions within the developed world. The significance of the Singapore meeting is that it saw a cementing of most of these cracks.

NEWS ANALYSIS

Agriculture: A compromise agenda on trade talks in this sector has been more or less reached between the liberalisers, the Cairns group of farm exporters (Australia, Thailand, Brazil and others) and the U.S. on the one side and the "subsidisers," the E.U. and Japan, on the other. The key was the Cairns group, anxious about market access for its products dropping its insistence on "elimination" of export subsidies.

Anti-dumping duties: While all the WTO members other than the U.S. want renegotiations of the existing rules for greater transparency, the compromise - to satisfy U.S. sensitivities - is to start a study programme which will lead up to commencement of talks in the next WTO ministerial in 2003.

Environment: The E.U.'s demand to put food safety, the "precautionary principle"

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C. RAMMANOHAR REDDY

and related issues on the agenda had the rest opposed to the proposal. But an issue which the E.U. had called "a deal breaker" will see another compromise: another time-bound study programme that will be followed by negotiations for a new agreement.

Investment and competition: The E.U.'s controversial demands for WTO talks to frame global agreements on foreign investment and competition policies could well be met by negotiating language calling for talks on a peculiar variant of a "plurilateral" agreement - that is, those WTO members which would want to join can do so.

Other issues: The agenda will include talks to reduce customs duties as well as draw up new agreements on trade facilitation and transparency in government procurement. On all these issues, India has been one of the few large countries still opposed to negotiations.

In sum, the contours of a compromise were discussed in Singapore on all areas except one:

Implementation issues: The best that the developing countries can now hope for is that the developed countries agree to some minor modifications in the existing agreements on removal of textile quotas and sanitary and phytosanitary (SPS) measures. The more substantial issues will, if at all, be placed on the negotiating agenda for the next round; which will be as good as giving them up altogether.

Ministers from only 21 countries attended the Singapore meeting while the launch of a new agenda requires a consensus among 145 countries, most of whom are the poor countries.

The argument of Mr. Murasoli Maran, Union Commerce Minister, is therefore that unless the developing countries' concerns are met a consensus among all the WTO members will not be possible. That is true; but it would be a remarkable achievement if India, the Africa group and the LDCs can by themselves block an agreement drawn up by the "Quad" bloc - the U.S., E.U., Canada and Japan. Another experienced trade official based in Geneva said: "The signs now are ominous because the history of the GATT/WTO is that once the Quad reaches a deal it is in effect a WTO deal." What the developing countries have in numbers they lack in economic and political muscle to resist the Quad. The challenge now confronting India, which is in a corner, is how to make the best of a bad bargain.

Business Line

2001, November 5

P.NO.2

On the wrong side of globalisation

Jayanta Mallick

WHEN the US catches cold, the Indian stock market is expected to sneeze. This near-axiomatic proposition was proved beyond doubt last week.

The Bombay Stock Exchange sensitive index, the Sensex, slipped by 12.8 points last Monday against the backdrop of a not- too-distant rumbling in the US economy. Both Dow and Nasdaq reacted negatively to the first official admission by the Bush Administration that unemployment had touched 4.9 per cent. France reported last week that its unemployment rate was at an alarming 9 per cent.

In all the trading sessions over the week, the Sensex and the US indices followed the same trail. The 30 share Sensex closed the week at 3,250.6, against the previous week-end close of 3,022.16. From Tokyo to New York, the trend was a drifting one.

Economists and market analysts alike are looking for a Keynesian prescription of a spending binge to reverse the depressive trend. The rate cuts are just not working in the manufacturing and service sectors.

A RINGSIDE VIEW

"The domestic secondary market is clearly showing signs of the end of a long bear phase, but the onset of a bull phase is getting postponed because of the persisting economic weakness and mis-

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SAVANTA MALLCK

mangement as also extraneous political reasons," says a fundamentals analyst.

Last week's promised stimulus package by the US President, Mr George Bush, may set the ball rolling globally, the observers point out. According to the monthly charts as also time-cycle analyses, a few months hence, the flip-flop phase may be over, the observers feel.

Among the Sensex heavyweights, except for the Hindustan Lever scrip, all others including ITC, were affected last week by the fluctuating sentiment.

Mr Mathew Easow, a noted market analyst, reads a general weakness persisting in the market this week.

According to brokers and analysts, the Sensex may not gather enough steam for a smart rally. On the contrary, the Sensex and Nifty are likely to close this week below their respective psychological barriers of 3,000 and 1,000 points. "The Nasdaq is also likely to remain bound by the strong resistance at around 1,900," Mr Easow feels.

According to him, the downward reaction is expected in the pharmaceuticals and technology sectors. "Some of the old economy stocks such as Tata Steel and State Bank of India are not looking bright on the charts. But cement shares, including ACC, and some auto sector counters such as Hero Honda are likely to perform better," he says. Mr Easow is also optimistic about the stocks of the divestment candidate public sector companies.

The analysts indicate that the Sensex may close the week at around 2,750 points. They are more or less firm that the support zone between 2,640 and 2,665 is unlikely to be breached this week.

Business Line

2001, November 2

G. RAMACHANDRAN P.NO.14

EU's single-market directives

Potion for global competitiveness

"Europe must become a globally competitive economy built on knowledge and innovation and on a strategy of sustainable economic development. The single market and single currency give Europe the critical mass required to make the best of world markets and the technological revolution."

— Shaping the New Europe, Strategic objectives 2000-2005

MEMBERS of the European Union (EU) are passionate about their national identities, independence and citizens' rights. They are as passionate about their citizens' prosperity and the competitiveness of their economies. They have voluntarily, and through democratic processes, transferred important sovereign powers to the EU towards achieving these objectives.

The transfer of important sovereign powers and, more importantly, the vigorous compliance with single-market directives have transformed them into partners in a formidable economic and social union of 15 members.

The single market has given Europe the critical mass required to make the best of its human and physical resources, its internal demand and the world markets. The structure, dynamics and effect of the single market on the EU's economy could be of interest to India.

Forty-four years ago, in March 1957, and after the Essential Commodities Act was enacted in India in 1955, six countries signed the Treaty of Rome to establish the European Economic Community (EEC). The EEC has transformed itself from a common market of six into the EU with 15 members, and another dozen applicants — such as Poland and Turkey — waiting in line.

Competitive and prosperous

The promise of prosperity, the rule of law and global competitiveness has drawn these applicants. The EU, with a population of about 400 million, has prospered immensely since its founding. It is the world's largest trading bloc, but has 15 votes at the World Trade Organisation (WTO); India and the US have one each. The EU's combined gross domestic product (GDP) is more than the US'.

The EU members are among the most competitive in the world, though there are significant disparities in income. Each of the 15 countries is now a champion or an aspiring champion in the world's race for competitiveness. Finland and the Netherlands are among the five most competitive countries.

Greece, Italy and Portugal are the least competitive among the EU countries, but they are ranked 13th, 12nd and 11th in the world — ahead of China, India and Russia. Nineteen countries that are not in Europe (Singapore and US are examples) or not in the EU (Norway and Switzerland are examples) are among the top 34 in the list of countries ranked by competitiveness in 2001. It is most likely that that the least competitive among the current EU countries would rise to 26th rank in 2006. The EU and its single-market directives are intended to cast a powerful spell on its members and their economic policies.

The EU is likely to be enlarged into a union of at least 25 countries in the near future. After the expansion, it is likely that the least competitive among them would be ranked 38th or higher in the world. Fewer than 14 countries that are not in Europe or not in the EU would be among the top 38 competitive countries in 2010. The EU and its single-market directives would impel the newly included members to pursue competitiveness.

Compliance effect

The single-market directives can be regarded as the magic potion that would give them the energy and the zeal to become as competitive as the older members of the EU and countries such as the US, Singapore and Israel. Mr Frits Bolkestein, the EU's Commissioner for the internal market, taxation and customs union, may be regarded as the druid concocting the magic potion aimed at supercharging the competitiveness of the EU.

He was at one time a Euro-sceptic but has since changed his views. He encourages some dominant members such as Britain and France to change their views. Britain thinks there is too much emphasis on regulation, harmonisation and subsidies. France has a historic and cultural compulsion to think otherwise. It hates the ultra liberalism, privatisation and *laissez-faire* economics.

These views, held by Britain and France, enable a better understanding of the single-market directives. The directives are aimed at focussing and concentrating EU members' energies and policies on governance related to society and economy. They goad the private sector and governments to excellence and responsibility.

Econometric analysis conducted for major European companies, consultancy firms and banks shows that EU countries that comply with single-market directives gain considerably. Their global competitiveness rises directly with the degree of compliance. The econometric analysis of compliance with single-market directives and global competitiveness shows that compliance boosts

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G. RAMACHANDRAN

competitiveness. The results show, with a confidence level of [illegible]3 per cent, that a country that has implemented single-market directives vigorously is likely to have a higher index of global competitiveness than one that has yet to be as vigorous.

The rise in global competitiveness along with per capita GDP is proof that the single-market directives do a fine job of goading the private sector and governments to excel and be responsible.

There was an erroneous assumption that the directives worked well in small countries. The single-market directives are compatible with the needs of big economies.

The results show that the big economies gain significantly from compliance. The level of confidence rises handsomely

dominate economic activity all over Europe now, especially in member-countries that have been conscious of the power of compliance.

Italy, Greece, Portugal and Spain are discovering new hubs for clusters with the potential to complement the old clusters. The addition of new clusters is expected to push per capita GDP in the four countries by almost 15 per cent before 2005.

The concomitant benefit has led to the dispersion of private sector excellence and government responsibility over a wider geography. It has made prosperity an achievable objective for more households in their familiar locales.

Growing prosperity in familiar locales is perhaps the key to achieving what the strategists and bureaucrats in Brussels

to over 98 per cent upon the exclusion of Luxembourg from the econometric analysis. Luxembourg's economy and population are small enough to permit such exclusion.

Cluster effect

EU countries that score high on compliance have also been able to grow more new clusters of economic activity per million people than other EU countries that have lagged in implementing single-market directives.

An analysis of the dispersion of purchasing power and the concentration of economic activity in specific geographic clusters shows that compliance somehow enables EU countries to derive more from hitherto inactive locales by converting them into hubs and spokes for new clusters.

The Ruhr Valley in Germany and the Midlands in Britain were once thought to be the foremost among clusters of economic activity.

The two clusters were big in the mid-1960s. New and smaller clusters

call "an ever closer union between peoples based on shared values and common objectives".

Convergence effect

The cluster effect would not have been discernible if EU member-states and their private sector had been unable to co-ordinate the movement and application of resources critical to economic development and prosperity. The co-ordinated movement and application of resources has engendered a new convergence over a vast geography. The convergence of critical resources has been preceded by a convergence of ideas, policies and plans. This would have been impossible without the single-market directives.

The convergence of public policy and plans in a transparent manner has bolstered the faith of the private sector in the ability of local governments and governments of EU member-states to act responsibly at all times and nurture human and physical resources without any prejudice.

India inspired?

The EU has accomplished much since 1992 despite being a union of independent countries. It has earned its prosperity, influence and clout with an assiduity that could be emulated by India. The EU's member-states do not constitute a single nation such as India, but have opportunistically and wisely used the single-market directives to promote convergence of critical resources into new clusters spread all over Europe. The single-market directives have promoted prosperity and global competitiveness.

India is ranked 41 in global competitiveness. It is unlikely that it would improve its position in a hurry. But it can become more prosperous. New clusters, a result of better compliance with national laws, would spread prosperity. Though India is constitutionally a single republic, it has floundered in promoting the convergence of critical ideas, policies, plans and resources into new clusters.

The first hurdle is the multiplicity of State and Central laws and political objectives that make compliance a very difficult task. The second hurdle is the inability of States to go beyond the rhetoric of growth. They have failed to bolster the faith of the private sector in the ability of local governments and State governments to act responsibly at all times. Therefore, new clusters have not emerged in most States since the early 1980s. Gujarat could be a notable exception.

The compliance effect, the cluster effect and the convergence effect have eluded India though it has a history of being governed at the centre by one monolithic party for over 44 years with a raft of national laws related to society and the economy. This underscores the important role of State governments, which should begin to concoct their magic potion sooner than later.

(The author is a financial analyst.)

Business Line

2001, October 19

P.NO.14

Privatising rural prosperity

AFTER NEARLY FIVE decades of state mandated development planning, vast sections of the population, especially those in the rural areas, continue to lead a life of abject poverty. That, if nothing else, would have made out the case for a paradigm shift in the approach to development administration. Clearly, the business of rural development is too important a matter to be left to the administrative apparatus of governments at the Centre and the States. In the event, the Prime Minister, Mr Atal Bihari Vajpayee's call for a private-public partnership in promoting rural prosperity has not come a day too soon.

Unfortunately there is no evidence in the Prime Minister's speech that his Government has a clear idea of the structural constraints facing genuine private participation in promoting rural prosperity leave alone an assurance that it is determined to overcome them. He has spoken of business opportunities in food processing, marketing of products of village industries and so on as areas where private investment and managerial expertise can be profitably employed. But such opportunities have always existed and yet there has been no worthwhile private participation that could have made a dent on rural poverty. The problem has never really been one of "supply failure" in the face of an unmet demand for rural produce, where infusion of private sector managerial efficiency could cause increase in output. Rather, the problem has essentially been one of stimulating incremental demand in the rural areas that would then have automatically been satisfied through mass manufacture in the urban areas or met through handcrafted rural manufacture. And stimulating rural demand boils down to leaving sufficient incomes in the hands of the destitute rural population.

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Therein lies the difficulty. For the rural population to engage itself in income-generating activities, a well-developed social and physical infrastructure is a pre-requisite. But this is where governmental efforts have failed miserably to deliver. Investments in education, rural health, irrigation, road network, etc., have all suffered from a problem of too little often spread too wide as to make them meaningless. What gets finally allocated is further rendered inadequate by pilferage all along the way. The situation calls for undertaking fundamental structural reforms dealing with decisions on public outlays, manner of execution, devolution of finance. But, above all, it would require a commitment on the part of rulers to empower the rural population with information on their entitlements. Today, the state takes decisions on what projects that monies will be spent on. Having decided, it also arrogates to itself the right to supervise its implementation. To compound matters, it keeps that information (on what it has spent) to itself.

The question, therefore, is whether the governments at the Centre and the States are prepared to relinquish their hold over the levers that control the flow of resources to the public. If yes, the private sector can with its managerial skills, and in partnership with panchayati raj institutions play a meaningful role in delivering public goods and services. If not, the Prime Minister's call would amount to nothing more than an appeal to their spirit of philanthropy. In these recessionary times this would go largely unheeded.

Business Line
2001, September 6
P. NO. 14

Reactivating economy: A mundane approach

N. A. Mujumdar

HAS the global economic slowdown impacted the economy? National income or GDP declined to 5.2 per cent in 2000-01, well below the annual average growth of above 6 per cent during the previous three years. The prospects for this year are more disappointing. Industrial growth declined sharply to 2.1 per cent during the April-June first quarter, as against the growth of 6.1 per cent the corresponding previous quarter. Even optimistic forecasts of industrial growth for 2001- 02 place the growth at 5 per cent as against the target of 8 per cent. The performance of exports reveals a more dramatic fall from 28 per cent in April-June 2000 to a mere 1.76 per cent in April-June 2001.

Foreign direct investment (FDI) inflows were around $4 billion in 2000, nowhere near the target of attracting $10 billion a year. No wonder international credit rating agencies such as Standard and Poor's have downgraded India's ranking. This has, perhaps, disturbed the policy-makers for whom propitiating rating agencies and praying at Davos congregation have become an important part of the new development culture. In contrast, planners of yesteryears were harping on the claim that the only two major constraints to economic growth were: inadequate availability of wage goods or foodgrains, and foreign exchange resources. Fortunately, both these constraints have now been removed.

Foodgrains stocks with the public sector soared to 45 million tonnes by March 2001. Similarly, the foreign exchange reserves soared to nearly $44 billion by end July 2001. How does one explain then the economy's inability to post faster growth rates? Has the species of economists of the planning era become extinct? Not quite so, if the *Sampoorna Grameen Rozgara Yogana* — a Rs 10,000-crore project for providing additional and guaranteed employment in rural areas, announced by the Prime Minister on August 15, 2001, is any evidence.

The irony of the present-day Indian intellectuals is they bemoan that the consumption of IT products, including cellular phones, is much lower than in China; they would rather not discuss the relative consumption levels of food-

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N·A· MAJUMDAR

grains! Notwithstanding global slowdown, it is possible to reactivate the economy by exploiting fully its strengths — availability of foodgrains and foreign exchange. It is time the policy-makers overcame their globalisation syndrome and address the domestic slowdown by more mundane and less glamourous techniques. Such a mundane approach, of course, may not be able to accelerate GDP growth in the immediate run; but it would certainly result in the upgradation of the economy's growth capabilities and go a considerable way towards improving the quality of life of the poor — which is really the end objective of all development endeavours.

Utilisation of foodgrains for development is not a new concept in India. There have been many such popular 'food-for- work' programmes. But such programmes in the past have been rather sporadic, not well thought out, and on an *ad hoc* basis, more in the nature of 'relief work' during periods of drought. But in the present context of massive accumulation of foodgrains, it has become necessary to devise a more comprehensive, country-wide programme designed to upgrade the economy's production potential.

One such programme that could be launched in all the drought prone areas is the micro watershed development project. We have accumulated sufficient experience in this field. Such work does not need any sophisticated technology or equipment.

In fact, some of these projects can be implemented through *shramdan* by the local population. It is here that the surplus foodgrains can be utilised productively.

The Food Corporation of India can extend, through the concerned state government, 'grain loans' to the NGOs or village panchayats which can become the nodal agency for implementing such micro watershed programmes. The grain so obtained can be provided as wages in kind to those employed on these projects. The loans can be repaid in the medium term when the village as a whole generates more employment and income over a period of say, three or four years. The gains of such drought-proofing can be enormous, resulting in generation of additional employment and incomes and eventually in terms of reduction in poverty. The year 2001 may be even designated as a "watershed development year" and since the work involved is more or less replicating the experience gained elsewhere, its success can be assured.

The Prime Minister's announcement on August 15 also mentions that the States would be given Rs 5,000 crore worth of foodgrains annually under the scheme to fund the building up of rural infrastructure. Perhaps, the micro-watershed development programme could be dovetailed into this scheme itself.

The other sector in which the surplus foodgrains can be successfully utilised is the road sector, to which the Tenth Plan has, fortunately, accorded priority. Completion of the on-going work on the Golden Quadrilateral and the related north-south corridor projects have received top priority.

Further more, the Prime Minister's *Gram Sadak Yogana* proposes to link up villages with all weather roads, thus, facilitating rural connectivity.

Both the micro watershed development programmes and the road-building programmes are ideally amenable to

> It is time the policy-makers overcame their globalisation syndrome and address the domestic slowdown by more mundane and less glamorous techniques. Such a mundane approach may not be able to accelerate GDP growth in the immediate run; but it would certainly result in the upgradation of the economy's growth capabilities and go a considerable way towards improving the quality of life of the poor — which is really the end objective of all development endeavours.

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use of surplus foodgrains because the bulk of wages of those employed on these schemes could be paid in kind.

The backward and forward linkages of these programmes — particularly in the case of road building — would also help re-activate the economy. Of course, the modalities of how the FCI could grant 'grain loans' to the States which, in turn, would make the grains available to the panchayats or concerned NGOs would need to be worked out.

Re-activating the economy has yet another dimension — streamlining institutions and correcting existing distortions. This can be best illustrated with reference to the Centre's fiscal deficit. The IMF prescription is often repeated: "The critical priority in the period ahead remained to place the fiscal position on a sustainable path."

Last year's fiscal deficit target of 5.2 per cent was exceeded and the actual deficit turned out to 5.8 per cent. The obvious remedy suggested is cutting down of expenditure, both revenue and capital. It is necessary to go beyond these aggregate numbers and identify factors that result in the blowing up of deficits.

Take the operations of the Food Corporation of India. The IMF-World Bank prescription that food subsidy should be cut down is often cited, but the policy-makers forget that the magnitude of food subsidy is blown up partly because of FCI's inefficiency. Poor storage, inefficiency of operations and wastage — all these have raised FCI's carrying costs which, in turn, raise the size of food subsidy.

India is home to the largest number of under-fed and under-nourished persons in the world. Against this background, mere accumulation of foodgrains stocks is a monumental folly.

The best way of utilising part of these stocks is to generate rural employment and incomes through schemes such as micro watershed programmes and road construction. This mundane method may also re-activate the economy which has shown distinct signs of slowing down.

(The author is former Principal Adviser to the RBI.)

Business Line
2001, November 3
P.NO.2

'Revised WTO draft unfair'

Our Bureau
NEW DELHI, Nov. 2

THE Federation of Indian Chambers of Commerce & Industry (FICCI) has expressed concern and disappointment over the revised draft declaration for the Doha meet of WTO. It has held this as a testimony to developed countries' aggressive attempts to unilaterally impose a new trade round on the developing world.

According to FICCI, the revised draft has been formulated in such a manner that it fails to address and reflect the concerns, needs and priorities of the Indian trade and industry. The chamber said the latest draft declaration proposed a broad-based negotiating agenda that included several new issues such as investment, competition policy, transparency in the Government procurement and trade facilitation which would imply a heavy burden of new obligations for developing countries.

FICCI regrets that the revised draft ministerial declaration (DMD) gives no option but to agree for eventual launching of negotiations on new areas for which consensus has never been arrived at on commencing negotiations. While the first draft offered two alternatives in the case of investment and competition policy, the revised DMD has done away with such options and suggested that a decision will be taken on modalities of negotiations at the fifth Session of the WTO ministerial conference.

This position is totally unacceptable as we are not in a position to enter into negotiations in these subjects, observes FICCI. The Chamber has further pointed out that work programme for these two areas until the fifth ministerial meet should be drawn up on the basis of the Singapore mandate, and not on the basis of proposals received from various members.

In respect of the implementation-related issues, FICCI has reiterated its position in favour of effectively addressing and resolving the outstanding implementation concerns of the developing countries before expanding the negotiation agenda. FICCI is of the view that this unfinished business should be accomplished first so that the asymmetries and imbalances arising out of the Uruguay round agreements could be reasonable narrowed and ultimately eliminated.

However, such a priority item has not been accorded the primacy it deserves and has been dealt in a casual way, the chamber said.

Subsequent to the release of the previous draft, European Union (EU) had put forward an alternative proposal aimed at strengthening provisions related to trade and environment for consideration and Doha ministerial. EU supported by few other European nations is pushing hard for negotiations on a range of environmental issues such as precautionary principle and eco-labelling.

FICCI said that the draft has been adjusted to take into account the concerns of the EU-group, and a possible negotiating window is kept open. Even one of the preambular paragraphs recognises the rights of members to enforce levels of environmental protection as they deem appropriate.

The chamber has opposed to such opened ended provisions and pointed out that any such measure would have to be in conformity and compliance with relevant WTO agreements.

Referring to paragraph 40 of the revised DMD, FICCI has called for caution against the approach of 'single undertaking' which means that members have to either accept all parts of the agreement or opt out entirely. This concept was first applied during the Uruguay round of negotiations when developed countries pushed for and succeeded to include services and intellectual property rights into the GATT/WTO fold. This time their insistence for the same approach is mainly directed towards inclusion of the new issues such as investment, competition policy, transparency in government procurement and trade facilitation

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The Hindu
2001, November 19
P.NO.12

THE HINDU

MONDAY, NOVEMBER 19, 2001

THE ROAD FROM DOHA

THE WORLD TRADE Organisation's meeting at Doha has been quickly followed by claims and counter claims about what the agreement on a negotiating agenda means for India. The truth, as always, lies between the Government's claims of "a positive outcome" and the Opposition's allegations of a "surrender". The one unambiguous verdict that can be delivered is that, considering the array of forces ranged against India, it was the best possible deal for the country. It was not the perfect result, but it could have been much worse if it were not for the position taken by the country's negotiators. It is to the credit of the Union Commerce Minister, Mr. Murasoli Maran, that India defended its trade interests to the very end and agreed to join the consensus only after it felt the agenda had been sufficiently modified to reflect the country's concerns. This is in spite of concerted efforts by many abroad to paint India as the villain of Doha that came close to "wrecking" the meeting. It is therefore wrong for critics like the former Prime Minister, Mr. V. P. Singh, who as Commerce Minister in 1986, signed on to a GATT negotiating agenda that gave the world the TRIPS agreement, to now hurl the accusation of capitulation at the Government.

But all that is in the past for, the agreement at Doha was only about what has been colourfully described as "the end of the beginning" — a decision on an agenda for further trade talks at the WTO that has taken more than three years to finalise. The more difficult and vastly more important job of actually negotiating new agreements on a number of subjects will now begin. India's interests will therefore be better served by a domestic debate that focuses on what position the country should take at these WTO negotiations rather than one that is full of recriminations about what happened and did not happen at Doha. Of the many trade liberalisation issues on the agenda, the most important from India's point of view will be four: industrial tariffs, agriculture, services and the environment. The challenge in the first three areas is to find the right balance between protecting the interests of domestic producers and at the same time persuading export markets to provide more opportunities for Indian exporters. The fourth issue, environment, a non-trade issue, comes up for negotiation at the WTO for the first time. While the agenda here is narrowly defined, there is the danger that it could be the thin end of the wedge of protectionism. One should not forget that what was merely supposed to be, according to the 1986 agenda of GATT, a discussion on "counterfeit goods" finally led to the monster of TRIPS covering intellectual property in pharmaceuticals, integrated circuits, plant varieties and geographical appellations. There are other issues on the agenda, like the outstanding implementation concerns, anti-dumping duties, a review of the TRIPS agreement and of the controversial dispute settlement process, that will make enormous demands on India's negotiating skills at Geneva during a period that will surely last longer than it has taken to decide on the agenda.

Two processes in the past have caused problems for India. One is a lack of consistency between domestic policy and the negotiating stance at the WTO. The other is a political debate that has frequently muddled rather than settled the waters about the issues involved in the negotiations. Finally, Doha showed that developing country unity at the WTO can be a very fragile one for, India found that when it came to the crunch, few countries from Asia, Africa or Latin America wanted to remain in an alliance that had been built up over the years. It may be necessary therefore to develop a new strategy that is based more on an identification of India's economic interests and is inclusive of both rich and poor countries. China has followed such an approach and its formal entry into the WTO will perforce persuade India to think on the same lines.

Business Line
2001, October 4
P.NO. 14

The road to Doha is paved with imponderables

K. P. Prabhakaran Nair

URUGUAY 1986, Seattle 1999 and now Doha 2001. The World Trade Organisation seems to be inching forward on a tortuous path that might finally end in despair for the developing world, with the exception of China.

There have been some sweeping changes in the officialdom on the agriculture front, with a new minister in the chair, full fledged this time unlike his predecessor who had two portfolios to handle and one of his first moves was to disband the Task Force on Agriculture, headed by a farm leader. But if things shape up the way they seem to in Doha, India's hope of rejuvenating its sagging share in world trade in agriculture would, unequivocally, come to naught.

July saw much trouble in Geneva and one wonders where we will be in Doha. Certainly, the Agriculture Minister has to be complimented for his brave stand when he said: Efforts have to be made for bringing about changes in many provisions of the WTO relating to agriculture to make them more equitable as the present structure is heavily tilted in favour of the developed world". But when he points an accusing finger only at the US *vis-a-vis* farm subsidy by saying that: A major issue was the subsidy permissible under WTO. The subsidy provided to the farm sector in the US in 1998, for instance, was greater than even the total value of Indian agricultural produce," he was telling only half the real story on subsidy, because, the EU is equally guilty of subsidising agriculture to the disadvantage of the developing world.

During 1986, the Organisation for Economic Development and Cooperation (OECD) _ essentially European in mindset _ provided a total support of $258.7 billion to agriculture, comprising producers' support and support for general services, such as, research, marketing and infrastructural inputs. As a percentage of the total value of agricultural production in the EU countries, this works out to 52 per cent.

By 1987, even as support to agriculture shot up to $265 billion, as a percentage of the total value of agricultural production in these countries, the percentage support declined to 42. This was, indeed, a fortuitous drop triggered by a sharp increase in international prices of agricultural produce that showed up in a large increase in the total value of agricultural production.

By 1999, the support increased to a colossal $300.2 billion, which works out to 55 per cent. The crucial issue is: As per the original provisions, if one goes by the level of the Aggregate Measure of Support (AMS)

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K.P. PRABHAKARAN NAIR

expressed as a percentage of the total value of all agricultural goods, and weighting this support to the base year 1986 when the Uruguay round of talks was held, the developed countries were required to reduce the AMS 4 per cent per annum totalling 20 per cent over five years, while the developing countries were required to reduce the AMS 13.3 per cent over 9 years. However, if the AMS was less than 5 per cent, generally known as the *de minimis* level, no reduction was required.

The AMS reduction requirement applicable to the developing countries by 13.3 per cent over nine years was, because, their *de minimis* level was 10 per cent. Ironically, for India, the existing AMS was negative, and, in fact, -31 per cent, with a break-up of -38 per cent of product-specific subsidy and +7 per cent of non product-specific subsidy. Hence, the country was free from any reduction of AMS, and, in fact, could have increased AMS to 10 per cent of the total value of agricultural production.

It is worth remembering that both the US and Canada attempted to drag India to the WTO dispute settlement cell early this year when the country made a foray into wheat export, and it was alleged that India was exporting subsidised wheat". This much for economic arm-twisting, inasmuch as the subsidy structure is concerned.

Almost a similar kind of deviousness applies to the tariff structure. As per the Agreement on Agriculture (AoA), developed countries were required to reduce it 36 per cent over five years, while for developing countries it was 24 per cent over nine. But the developed countries used the high prevailing domestic prices in 1986 as a lever to keep the bound rates high.

The 36 per cent reduction was proposed as a simple average" and the minimum reduction in each case was to be 15 per cent. The developed countries cleverly managed to maintain low reductions in items that were threatened by large-scale imports from the developing countries – such as sugar from India and Pakistan: banana from Latin America and Africa – thus, shutting out any import from these countries, because the tariff was as high as 300 per cent for sugar and 400 per cent for banana.

Simultaneously, the reductions in items, from which there is least import threat, such as edible oil, fruits, and so on, were high. Thus, on balance, the level of stipulated reductions were cleverly manipulated with the result that it became a no-way traffic for developing countries on either side.

This situation contrasts widely with that prevailing in India, where tariff lines are much lower – 50 per cent for wheat, 80 per cent for rice, 60 per cent for sugar and 75 per cent for edible oils. So, there is a contrasting situation between the developed and developing countries – the former are in a comfortable position to shut out large-scale imports of cheaper-priced agricultural products from the developing countries, and also, simultaneously ensuring the maximum support to agriculture through the AMS structure.

> From Uruguay, the world has moved so far that it almost is either a do-or-die situation for most developing countries, including the Least Developed Countries that have been forced to agree to a new round of talks. And with China entering the WTO, India has become more vulnerable. The road to Doha is paved with imponderables, and the choices are limited. Either we hold on, even if it means agreeing to a new round resentfully, or let another Seattle to happen.

In fact, in the game of manipulating the AMS through the subsidy structure, the EU is not to be singled out. In truth, it was the US that showed the way and EU only followed suit. As early as the 1980s, the US had put in place monetary support measures that had a direct bearing on agricultural prices. For instance, the US government resorted to what was billed as Deficiency Payments" to induce farmers to stay in production even when farming costs escalated.

These payments were linked to specific crops such as soybean, corn, and so on, and also to specific farming areas such as the eastern corn belt. These payments certainly affected the production levels. Surprisingly the 1986 Uruguay round took no note of it. And now, nearly two decades later, India is paying a heavy price for these lapses. This is the origin of the so-called green boxes" that both the US and the EU want excluded from any computation of AMS.

The consequence of all this is, while global total merchandise trade and the corresponding Gross Domes-

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K.P. PRABHAKARAN NAIR

tic Product (GDP) increased in the 1990s, the contribution of agricultural trade to this enhanced GDP started plummeting and countries such as India found itself affected. Equally frustrating is the issue of Trade Related Intellectual Property Rights (TRIPS) along with the Convention on Biodiversity (CBD). While the Food and Agriculture Organisation (FAO) is clear on farmers' rights, there are a lot of "cross currents", "under currents" and "hand-in-glove" manoeuvres that might lead the whole thing to naught.

From Uruguay, the world has moved so far that it almost is either a do-or-die situation for most developing countries, including the Least Developed Countries (LDCs) that have been forced to agree to a new round of talks on the "assurance of allowing most of their products duty-free access to developed markets as a confidence-building measure". It is another matter that these helpless countries are without the benefit of understanding the real implications of Doha, if the US and the EU are allowed to have their way.

The US Trade Representative (USTR) was recently in India to "impart dynamism in bilateral trade relations". Duty-free benefits under the Generalised System of Preferences (GSP) announced by the US for 42 items from India, including jewellery, leather and carpets, offer little comfort, when the big deal on textiles _ the Multi Fibre Agreement that would have given a tremendous boost to the economy on account of its clear edge in the textile sector _ is still hanging fire even after more than three decades of negotiations.

The USTR has given a clear warning to India that if it does not agree to a new round of negotiations, it stands to lose much in addition to being isolated in the comity of nations. The sugar-coated statement, "the sooner India supports new negotiations, the more influential it will be" is a clear bait or, perhaps, a carrot-and-stick policy directed to this country to toe the US-EU line. With China entering the WTO, India has become more vulnerable. It is clear both the US and the EU will press on with a new round, and the likelihood of linkages, for instance, the issue of environment or labour with negotiations is a distinct possibility.

All told, India's road to Doha is paved with imponderables. And the choices seem limited. Either we hold on, even if it means agreeing to a new round resentfully, or let another Seattle to happen.

(The author is senior fellow, Alexander von Humboldt Foundation, Germany.)

The New Indian Express
2001, November 3
P. NO. 10

Salvaging the WTO's future!

SUNIL JAIN

SOME days ago, Commerce Minister Murasoli Maran released a book co-edited by Amit Dasgupta and Bibek Debroy called 'Salvaging the WTO's future: Doha and Beyond.' Releasing the book, which is largely critical of the WTO, Maran made his trademark comments about the impending Doha ministerial — India won't budge from its stand of opposing a new round of trade talks, he said, till the 'unfinished agenda' of the Uruguay Round was completed.

He then congratulated the co-editors for their timely work as developing countries were suspicious of the WTO, they feel the WTO serves the agenda of primarily the rich countries. As such, the WTO process could fall apart. Imagine that. India's in deep trouble herself, and could once again get isolated, but we're concerned about saving the WTO! But how true is it that the developed world didn't deliver on their promises of the Uruguay Round?

■ The Rich Benefitted More: True. But what has also to be recognised is that the rich haven't started gaining more after the Uruguay Round, they've always done better. And it's easy to see why. The world's richest man, Bill Gates will profit more on his investments than a poor man because he plays golf with investment gurus like Warren Buffet. That's why, during the period [illegible] to 1990, while world trade grew 1[illegible] per cent (from $[illegible] trillion to $[illegible].7 trillion), exports from the US grew 2[illegible] per cent (from $[illegible] bn to $[illegible] bn).

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■ **The Rich Didn't Implement Promises:** Yes, and No. There are instances of the developed world not implementing the promises they agreed to in the Uruguay Round, but they're quite limited. But yes, it is true that they didn't implement the spirit of the Round. What they did was simple. They signed contracts that had built-in escape clauses during the Round itself.

Take the huge farm subsidies in the US and the EU. Since these had to be cut as part of the Round, these countries coined a new type of subsidy. They said they'd cut subsidies given to produce wheat as that distorted trade. But, would give subsidies to take care of pest control; for structural adjustment, some income support and so on — these were called 'Green Box' payments, and didn't have to be cut. This allowed the EU, in 1999, to give their farmers an extra $3 bn of subsidies in the case of wheat alone. Also, the developed world was to open up its market for textiles by the year 2005. Yet, the way the agreement was drafted, it allows the developed world to keep large chunks of the market closed till 2005. The fact, however, is that countries like India signed onto these agreements with their eyes open.

■ **WTO's a rich man's club:** Minister Maran pointed out that according to one estimate, last year itself, the agreement on TRIPs resulted in a transfer of $ 8.3 bn to just four developed countries. Maran also objected to the proposal at Seattle that just 40 countries begin negotiations in a 'Green Room', and once they reached a broad agreement, this could be sold to the other 102 member countries. Does Maran seriously believe that 142 totally disparate countries can ever even begin to have a dialogue? Besides, even in our own Parliament, doesn't a 'tricky' legislation get referred to a Standing Committee, and what is that but a Green Room?

■ **Does WTO work?:** You'd recall that prior to the Uruguay Round, the US used to take unilateral and punitive action against countries hurting US interests — through the Special and Super 301s. By contrast, between January 1995 and September 2000, 206 disputes were brought to the WTO, and 60 of them were from developing countries. Now surely a multilateral fora is better than being at the mercy of each country's unilateral mercy?

■ **Who's with India?:** Prior to the Singapore meeting five years ago, develop-

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ing countries like Malaysia and Indonesia were united in opposing the developed world's desire to begin conducting some studies on labour standards, possible multilateral rules for investments, and so on. Indeed, a resolution was passed by the trade ministers of the G-15 countries, and the Malaysian trade minister wrote letters to individual ministers later confirming this. Around this time, Mahathir Mohammad was trying to woo US investors for his high-tech city. No one knows quite what happened, but at Singapore, the Malaysian trade minister got up during one of the closed door meets, and actually pulled out a draft text of a possible agreement on Investment Rules! Bangladesh deserted India when the 'least developed countries' were promised a special package ... So how Maran hopes to get the developing world to stand united, and get the rich countries to give more concessions (that's what cutting their farm subsidies and opening up their markets amounts to) without a quid pro quo, is difficult to understand.

Postscript: So what's a well-known free-trader and pro-WTO-er like Debroy doing here? Understandably constrained at the book release function, his concluding chapter in the book says it all. "How does one conclude such a book, with 20 papers by 10 authors, especially when the 19 authors [illegible] ... ?" "One can imagine," [illegible] "what would have happened had there been 112 authors."

The Hindu
2001, November 9
P.NO.13

Stage set for tussle at WTO meeting

By C. Rammanohar Reddy

DOHA, NOV. 8. The fourth ministerial meeting of the World Trade Organisation that begins here tomorrow is expected to decide on the launch of a new round of talks to further liberalise global trade, the second such attempt in as many years though in a rapidly changing situation it is far from certain that the Doha conference will not repeat the failure of the Seattle meeting in 1999.

After a great deal of uncertainty about whether or not the meeting will take place in Doha, the stage is set for Trade Ministers from the 142 member organisation to decide over the next five days what their officials have been unable to agree on after more than a year of preparatory talks.

The conference, being held under tight security but without any sign of highhandedness from police officials in the Qatari capital, will not result in any new WTO treaty, it will only have to decide on the negotiating agenda. But on the table are a raft of proposals, which if agreed to will constitute an agenda that in size, ambition and controversy will be larger than what resulted in the sweeping 1994 agreement of GATT that introduced new rules in areas like Intellectual Property Rights (IPRs).

Proposals have been made to begin talks on new WTO agreements on foreign investment, national competition policies, transparency in Government procurement and trade facilitation. Negotiations to further reduce import duties on industrial products have also been

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C. RAMMANOHAR REDDY

mooted, so also a review of existing rules on anti-dumping duties, food safety and IPRs. This is in addition to giving a push to ongoing talks to liberalise trade in agriculture and services.

The divisions at the WTO on the launch of a new round have once again run on developed-developing country lines. The strongest proponents of a new round are the E.U., U.S., Japan and Canada, though some middle-income developing countries such as Brazil, South Africa and South Korea are also supportive of the idea.

However, no two countries fully agree on a negotiating agenda. The E.U. is alone in its demand for new talks on food safety and related subjects under the rubric of "environment issues," while the U.S. is isolated in its refusal to review the existing agreement on anti-dumping duties.

The developing countries, as part of the strategy to resist enlargement of the WTO agenda, have focussed their attention on correcting the imbalances in the existing WTO agreements like in the high tariffs on export products of interest, the financial difficulties in enacting and enforcing new trade legislation and the likely negative impact of the TRIPS treaty.

While India has been in the forefront in organising the campaign on the "implementation issues," an unusual aspect of the developing country position at the WTO this time is that the most vocal critics include the least developed countries and the poor countries of sub-Saharan Africa.

Ministers have before them for discussion and approval a controversial draft ministerial declaration prepared jointly by the Director-General, Mr. Mike Moore, and Mr. Stuart Harbinson, the Chairman of the WTO General Council, that lists the subjects for a possible new agenda and that they say was the result of months of discussions with all members of the WTO.

However, developing countries have been quick to criticise this draft as reflecting the developed countries' interests and inadequately representing the concerns of the developing countries. This has slowed down what a few weeks ago seemed an unstoppable momentum to the launch of a new round.

Also on the agenda is a draft declaration on TRIPS and the prices of medicines, which today was described by Mr. Moore as a "deal breaker" of the Doha meeting.

While the statement will be only a political statement and not a review of TRIPS, it has attracted considerable attention because it could indicate the extent of flexibility the developing countries may or may not have in lowering the prices and increasing the availability of patented medicines through the use of instruments like compulsory licensing.

The U.S and Switzerland are ranged against the developing countries led by Brazil and India who are insisting on a strong affirmation of the flexibility that countries have in regulating patents on drugs.

The Doha conference will also be important because it will mark the formal entry of China and Taiwan to the WTO.

The Hindu
2001, November 2
P. NO. 12

Editorial

THE STAKES AT DOHA

A PROCESS THAT began more than three years ago at the World Trade Organisation and has since travelled over more than one pothole is close to completion. It is now all but certain that next month's WTO ministerial conference in Doha will witness the launch of a new round of trade liberalisation negotiations; though all the details of the negotiating agenda will not be known until the last-minute wrangling and compromises that are the hallmark of WTO talks are completed at the meeting. Even at this late stage it is worth asking three important questions. What kind of agenda will suit the largest number of countries, giving special consideration to the developing world? What agenda will best secure the future of the WTO as an institution? And finally what options does India have at this stage?

The momentum now is towards an overarching agenda that may even dwarf the controversial Uruguay Round of 1986-93. This momentum, however, is not powered by the needs of the majority of the WTO members, but by the trade muscle of the U.S. and the E.U. with the support of Japan and Canada. If the latest proposals are approved at Doha, Governments could be signing on to negotiating as many as 14 different agreements in areas from industrial tariffs to foreign investment. Yet, the need, by any argument, is for a narrow agenda confined to trade issues which focusses on completing the unfinished business of the Uruguay Round like in agriculture and correcting its shortcomings like in intellectual property rights. Negotiations on a concise agenda can be completed quickly, they will not strain the technical, legal and financial resources of the developing countries and will contain the fissures in the WTO. In the past couple of years, the institution has been riven by deep divisions on everything from trade rules to as mundane an assignment as the selection of a new director-general. A round with an ambitious agenda that is formulated by powerful mercantile interests will, on the other hand, take even longer to negotiate than the Uruguay Round. Such an agenda, by overloading the WTO, may even threaten to tear apart the multilateral trading system. And by adding new and non-trade issues such as foreign investment and national competition policies it could deprive the WTO of the little legitimacy it now enjoys among Governments, economic agents and civil society. India, perhaps more than most other countries, has a major stake in a favourable outcome from the Doha meeting since the organisation arouses strong negative feelings in the domestic polity and economy. Although the bogey of "India's isolation" has been regularly raised about the Government's insistence that the WTO deal first with implementation issues, it is important to remember that in the consensus-driven organisation that the WTO is supposed to be, any country — and India is not a minor member — can block an unfavourable agenda. The Union Cabinet has approved a negotiating brief that reiterates India's position and at the same time gives negotiators some flexibility. It is now a question of the Union Commerce Minister, Mr. Murasoli Maran, being able to negotiate the best that is possible in what he recently described as an organisation that was "a necessary evil".

The proposals for the next round are being sold alternatively as either needed to provide a psychological boost to a sluggish world economy or as being tailored to suit development needs. A WTO round with such a huge agenda that it could take close to a decade to finalise agreements is irrelevant in late 2001 to businesses around the world that are suffering from a loss of confidence. And an agenda that pushes developing country priorities well below that of the U.S. and the E.U. is as far removed as possible from a "Development Round". Doha may well be the last chance for the WTO to demonstrate that it is not an institution that will serve only particular interests but one that can come up with an honest compromise that all its members can accept with a minimum degree of comfort.

The NewIndian Express
2001, October 17
P. NO. 8

Suzuki and the WTO

SUNIL JAIN

ON the face of it, it seems silly to want to go back to the government's fight with Suzuki Motors (both own equal shares of auto-leader Maruti Udyog Limited) four years ago in order to understand the government's positioning in the just-concluded WTO ministerial meeting at Doha. But even before this column establishes a common pattern — once you wrap your argument in the tricolour, any gambit will be cheered — it's interesting that the dramatis personae are the same, at least as far as the government is concerned. Murasoli Maran was the minister in charge of industry (and therefore in charge of the government's Maruti shareholding), and his secretary was none other than Prabir Sengupta — exactly the same as the Doha one.

In 1997, when Maran was industry minister, the government accused Suzuki of [illegible] ripping it off — it said Suzuki was over-charging on the components and deliberately not indigenising fast enough, that it was not making the gear-box in India so that it could overprice it, and so on. Things reached such a pass that the government used its strength on Maruti's board to wrest control of both the chairman and the managing director's posts at Maruti — both partners were to have one post each by rotation, according to the contract. Sengupta became chairman and another government nominee became managing director.

Anyway, at that time, the government could do no wrong, wrapped as it was in the tricolour. So when it blocked Suzuki's

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attempts to finalise design specs for a new engine for the Maruti 800 for well over a year, no one objected — so what if, at that time, Maruti had no engine to meet the emission norms for 2000? Or that even its Zen offered just 80 bhp on a 1000cc engine as against Daewoo's to-be-launched Matiz that offered 52 bhp on a 800cc engine. Stopping Suzuki, it seemed, was in the 'national interest'.

So, apart from some academic curiosity, it didn't seem to matter that Suzuki publicly (through newspaper ads) rebutted each allegation, and that the government had no answer to this. Its indigenisation, Suzuki said, was 93 percent at Maruti, higher than any other auto firm's in the world. It did get a 5 per cent excise duty advantage over bigger cars, but then so did fuel-efficient LCVs, and import duty concessions were also extended to the Contessa and the 118 NE, when they argued they were also fuel-efficient. As for the gear-box, it was a very expensive project and didn't make sense to set up unless really large volumes were being built.

Cut to November 2001. There are really no outstanding issues between the government and Suzuki. Except, the government will probably get around fifteen hundred crore rupees less for its Maruti stake thanks, in large part, to a policy that consistently bled Maruti over the years. This is the same mindset Maran and his secretary displayed at Doha. We'll not give in, never mind if every other country ditches. It was Maruti's battle cry. We will not agree to a new trade round until developed countries open up their markets further, lower farm subsidies, and so on. Not surprisingly, this tri-colour wrapped argument was cheered in the press and even by politicians in the opposition. The question to be asked is what did we achieve through all this tough behaviour — by refusing to negotiate at all for five days at Doha and threatening to walk out on the sixth?

Commerce ministry spokespersons (which includes FICCI these days) argue that it was our tough stand at Doha that ensured no 'Singapore issues' are part of the negotiations in the new round. These are issues like common international rules for treating foreign investment, or transparency in government procurement. Now it's an open question as to whether India would have lost if these had come in — hear Bibek Debroy of the Rajiv Gandhi Foundation on this — but these issues haven't been put off the agenda either. The new Doha Declaration clearly

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SUNIL JAIN

stated they'll be negotiated after the next ministerial — and that's another two or three years away. Getting the WTO to agree to discuss the phasing out of farm subsidies in countries like the EU and the US is an achievement. But negotiations are not the same thing as phasing out. Besides, an agreement to discuss reductions in farm subsidies was evident from the pre-Doha draft declarations themselves—so clearly this wasn't a Doha victory. Maran has been forced to agree to get environment issues on to the negotiating table and that's clearly a big defeat.

No concessions whatsoever have been gained in either textiles or in greater access to the markets of developed countries — Maran insisted that he wanted these 'implementation' issues sorted out first, before he agreed to a new round. What he's got now is the promise to sort those out as part of the new round (albeit on a priority basis), or exactly what countries like the US were offering well before Doha. Of course, getting developed countries to agree to a significant dilution on patents for epidemics and other national emergencies was a big victory for Maran, though some argue the US and the EU agreed as a tactic to get African countries on board.

The point is that had the prospect of a new round got scuttled at Doha because of the Indian intransigence, would any one have blamed Maran? Chances are, they wouldn't. He was wrapped in the tricolour, you see. The flag has to be good for something.

Business Line
2001, November 19
P.NO. 8

A triumph of sorts?
Doha Ministerial:

G. Srinivasan

PREDICTABLY, the fourth Ministerial Conference of the World Trade Organisation (WTO) that wound up on November 14, after an extended full working day to accommodate last-minute demands and sort out glitches is a triumph of a sort for all the participants. For India, which was seen to be ploughing a lonely furrow in the run-up to the Ministerial with the Commerce and Industry Minister, Mr Murasoli Maran, and his officers in charge of WTO affairs staking their prestige and that of India, the end result is something to crow about. It is also for the first time that the WTO Ministerial had to come out with three types of declarations at Doha — one, a wonted declaration covering all the general issues, another on the TRIPs (trade-related intellectual property rights) Agreement and public health, and yet another on implementation-related issues and concerns. The last two are dear to New Delhi and to a larger constituencies of Asian, African, Caribbean and the Latin American countries that still writhe under the Uruguay Round Agreements. It is in this context that India stands vindicated in its insistence on addressing the concerns on implementation issues before expanding the WTO agenda for any prospective launch of a new round. To this also goes the credit to and plaudits for, Mr Maran and his team of officials who were not thwarted by the prospect of being isolated if the results turned out otherwise.

Before the nitty-gritty and nuances of the final declarations of the Doha Ministerial start sinking in, it would not be off the mark to pore over the gist of what the WTO Secretariat put out on the final day by stating that "Ministers from WTO-member governments approved a work programme — which they called "broad and balanced" — that includes negotiations on a range of subjects and other tasks for the coming years". Buried in this cryptic statement is the patent assertion that the agenda for a new round of trade talks will go along simultaneously before the actual negotiations begin sometime after the WTO's fifth Ministerial in 2003 with the negotiations under the work programme set to be wrapped up not later than January 1, 2005.

The only exception is the negotiation on improving and clarifying the Dispute Settlement Understanding (DSU), which is to conclude by the end of May

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G. SREENIVASAN

The EU Commissioner (Trade), Mr Pascal Lamy... the EU appears to be a clear winner at the Doha Ministerial. Udyog Bhavan could surely learn from Mr Lamy the art of safeguarding self-interest and succeeding as a trade envoy. — AFP

2003. There were three declarations: The main declaration and one on intellectual property (TRIPs) and public health, and one on implementation — that is, developing countries' difficulties in implementing the plethora of WTO Agreements.

The main ministerial declaration elaborates on the objectives and timetables for the current negotiations in agriculture and services, negotiations or possible negotiations in issues such as industrial tariffs, trade and investment, trade and competition policy, some aspects of trade and the environment, implementation and so forth.

In sum, for New Delhi, the expansion of work programmes to cover new issues and also with a firm timeframe to wind up negotiations in these by January 1, 2005 is a grim reminder that it has to be more pragmatic by no longer taking any ambiguous stance, but let its domestic stakeholders prepare the ground for changes in these fields.

That the Doha Ministerial did not directly spawn any new round of trade talks is an adroit move by the trade majors since most of them primarily succeeded in expanding the work programme of the WTO agenda and overloading it with their wish-list so that other members would be compelled to fall in line, when the time for wrapping up the negotiations on these new issues will be a short two years from the fifth Ministerial, in 2003, to the deadline of January 1, 2005. This is palpably clear in the statement made by the European Commissioner (Trade), Mr Pascal Lamy, at the closing press conference in Doha on November 14, when he graphically remarked that "since before Seattle, the WTO train was all but derailed. The tracks were damaged and the locomotive had broken down. Many doubted that it could be repaired. Well, we have proved them wrong. The WTO is back on track and the train has left the station. We will be travelling at speeds that take account of the diversity of the 142 passengers who have climbed aboard and we are committed the single undertaking to pulling into the station together".

Thus, by implication, Mr Lamy has said that "though we have agreed not to rush our fences and for instance will fully respect the right of those members who wish to opt in or opt out of the results of negotiations in areas such as these" (new issues), all these work programmes would be treated as single undertaking so that those who opt out would be excluded. Mr Maran's repeated assertion that without the "explicit" concern of even a single member, no agreement could be possible, smacks of naiveté when the trade major's most articulate spokesperson has clearly spelt out that the work programmes would be carried on as single undertaking. Considering that the work programme was only used as a ruse to lure the members for eventual negotiations and then swayed to sign on the dotted lines, either by blandishments or by inducements, even without being allowed to grasp the nettlesome points at the eleventh hour, all show conclusively that there is no virtue in being self-righteous when one has to fend for oneself.

Mr Maran has comforted himself, and others, with the smug statement wrested from the Chairman of the WTO's Doha meet the Qatari Finance, Economy and Trade Minister, Sheikh Youssef Hussein Kamal, that before negotiations on trade and investment and trade and competition policy, transparency in government procurement and trade facilitation could proceed, a decision would need to be taken by "explicit consensus".

In fact, this would give each member the right to take a position on modalities that would prevent negotiations from proceeding after the Fifth Session

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G. SRINIVASAN

of the Ministerial conference until the member is required to join in an explicit consensus.

Even at the just-concluded Doha Ministerial, it is reported how on an extended day, ministers from 20-odd countries of the 140 WTO members huddled together to hammer out a consensus declaration that was redolent of "greenroom" process of decision-making involving only a few countries, characteristic of the erstwhile GATT and even the WTO till the Seattle Conference in 1999. So, despite remonstrations by relegated countries, decision-making still centres around a handful of countries that might redound to the pride of nations such as India which was part of this small group. That does not detract from the charge that in the WTO, decisions continue to be made by a few for all members.

Given the fact that how consensus is crafted in the WTO by a few trade majors that get foisted on the rest of the members, willy-nilly, it is time Indian authorities do not gloss over the imminent realities that might get unravelled in four years if it fails to prepare itself. All the new issues of concern for India have, thus, come to command official legitimacy with most trade majors staking their personal clout in clinching agreements on these issues without any further loss of time. Inasmuch as India is stoutly opposed to these new issues, many a trade major is keen on linking the very future of the WTO to the satisfactory settlement and eventual agreement of these polemical issues.

In the final analysis, the European Union (EU) seems to be a major winner at Doha as it has always been insisting that to secure a veritable market liberalisation, a comprehensive-rather than sectoral-approach is needed. It held that the WTO members must be open to negotiations on all sectors and given the contents of Doha Declaration, Mr Lamy rightly claimed that "I came here with a clear mandate from the EU 15 and it is satisfying as a negotiator that we have satisfactorily negotiated a package consistent with that mandate".

With Mr Lamy scheduled to be in India to take part in Second EU-India Summit on November 23, it is but proper that the mandarins in Udyog Bhavan learn a few tips from him to succeed as a trade envoy even while safeguarding one's enlightened self-interest.

Business Line
2001, November 13
P.No.15

What is at stake in Doha?

C.P. CHANDRASEKHAR and JAYANTI GHOSH

THE ongoing WTO Ministerial Meeting at Doha in Qatar was the focus of controversy well before it started. The WTO has been subject to growing criticism not only from governments of developing countries but also from civil society in developed and developing countries. It has been found that the way in which the Uruguay Round Agreement has worked in practice has contributed not to the promised increases in trade and economic prosperity, but greater income disparities, livelihood insecurity and reduced access to essentials such as life-saving drugs for people across the world.

Protests against these outcomes, both on the streets and within the meeting rooms, led to the failure of the Seattle talks. For a while it even seemed as if the Doha meeting would not go through, because of security fears of the US and other developed country delegations after September 11. In fact, this has reflected itself in reduced participation at the senior level: for example, the number of people in the official US delegation has shrunk from about 300 to 40, and neither the US Secretary of Commerce nor the Secretary of Agriculture is present, nor is there a representative of the US Congress.

That the Doha meeting is still being held reflects several forces: the sheer embarrassment at the multilateral level, at having to postpone such a meeting which is formally mandated by the GATT accord and which has been planned for two years; the need to make up for the failure of the Seattle meet; the desire of some developed countries to initiate a new Round of trade negotiations which would include non-trade issues such as investment and competition policy and reductions in industrial tariffs.

Simultaneously there have also been other, more insidious, attempts to treat the September 11 attacks as a means of pushing even more external liberalisation down the throats of developing countries. The pretext is that such terrorism is an attack on free trade which will supposedly deliver prosperity for all. And the US Trade Representative made it very clear that he saw the need for even greater and more comprehensive trade talks because of, not despite, the terrorist attacks and the subsequent war.

However, most developing countries and certainly most ordinary citizens in all countries who have some knowledge of the actual experience with trade patterns and the effects of external liberalisation on domestic output, employment and livelihood security, are understandably sceptical about such an argument. In fact, as shown below, the experience since 1995 has been very disappointing.

Projected gains from the Uruguay Round

At the time of signing the GATT agreement in Marrakesh in 1994, there were widely publicised reports of the supposed gains to all countries from the various measures covered in the Agreement. These gains were supposed to come from tariff reductions, opening of agricultural trade and reduction of subsidies by developed countries, liberalisation of trade in textiles and clothing and better market access for all exports. In economic terms, these were then supposed to involve the following kinds of gains:

'Static gains' due to a reallocation of resources to areas of comparative advantage (that is, those that are relatively better at producing particular goods).

'Efficiency gains' that would result from reduced slack in economies that have been highly protected.

'Dynamic gains' due to improved technical efficiency or lower input use per unit of output and technological change.

While the first was supposed to result from a shift in international production patterns, the second and third were supposed to emerge from stronger competition within and between national economies. The projections of such gains in terms of increased value of world trade ranged from $180 billion to $230 billion over 10 years, around two-thirds of which was supposed to accrue to developed countries and one-third to developing countries.

It was largely the promise of such gains that lured most developing countries into signing the entire Final Act, even though many specific agreements such as those relating to intellectual property and investment measures were seen as detrimental to their interests, and aspects of the other agreements were also problematic for them. Even the Indian government presented the case in favour of signing the Marrakesh agreement in terms of the benefits that would come from increased exports of agricultural and textile products as well as more inflows of investment because of greater international trade in general.

Actual trade patterns over the 1990s

In what follows, we consider the broad patterns of world merchandise trade over the 1990s. As will become evident, most of the expectations have not been realised, and the projections of increased trade flows were far too optimistic. In fact, world trade growth has been slower in the second half of the 1990s, after the signing of the Uruguay Round agreement, than in the first half of the 1990s. And many developing countries feel that they have even greater problems of market access and protectionist barriers to their exports than they had before.

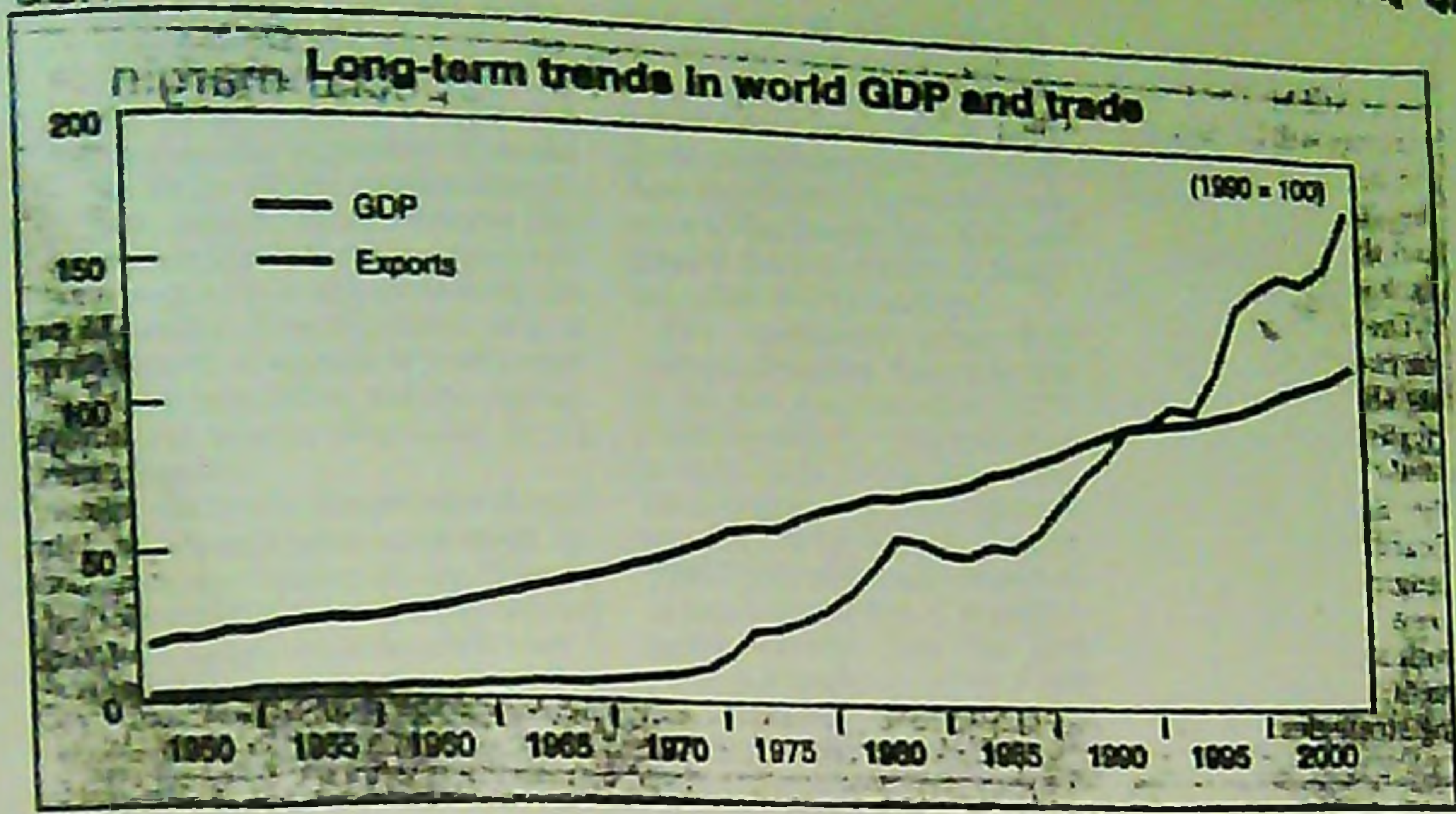
This is why implementation issues have become so important among developing countries in the WTO.

There is no doubt that international trade has become far more significant in the world economy, and over the past two decades world trade has grown faster than world output growth, as Chart 1 shows. However, as evident from Chart 2, over the 1990s the value of world trade has fluctuated substantially over the major product groups, and only in mineral products (which include petroleum) has it gone up rapidly, mainly because of rising oil prices in world markets over the second half of this period. In fact, in agriculture, the value of world trade has stagnated and then fallen over the 1990s, while manufacturing exports grew more slowly in the second half of the decade.

This becomes even more clear from Chart 3, which shows annual compound rates of growth of exports in dollar values for the major product groups over the two halves of the decade. Note

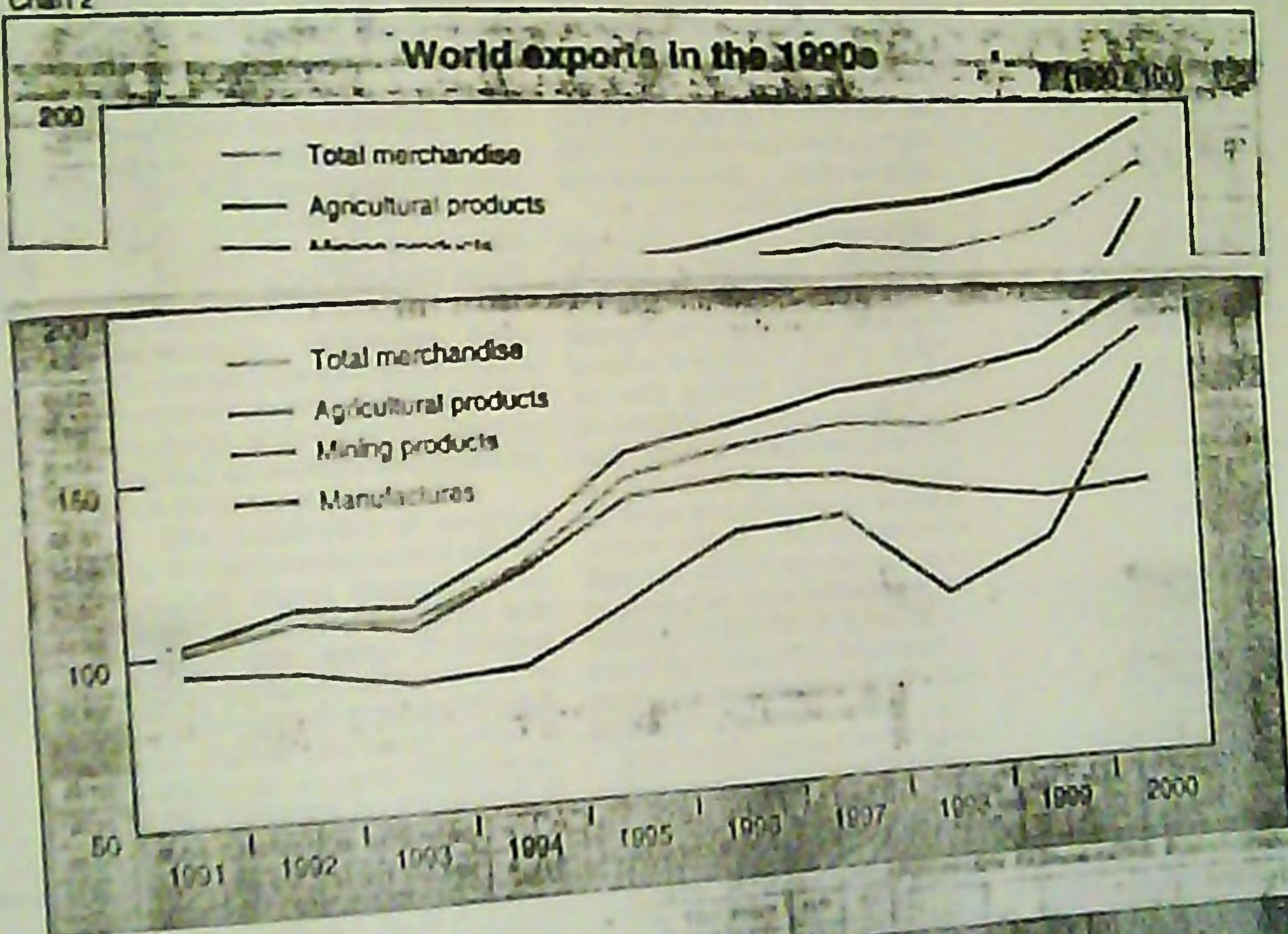
(contd...2)

Chart 1



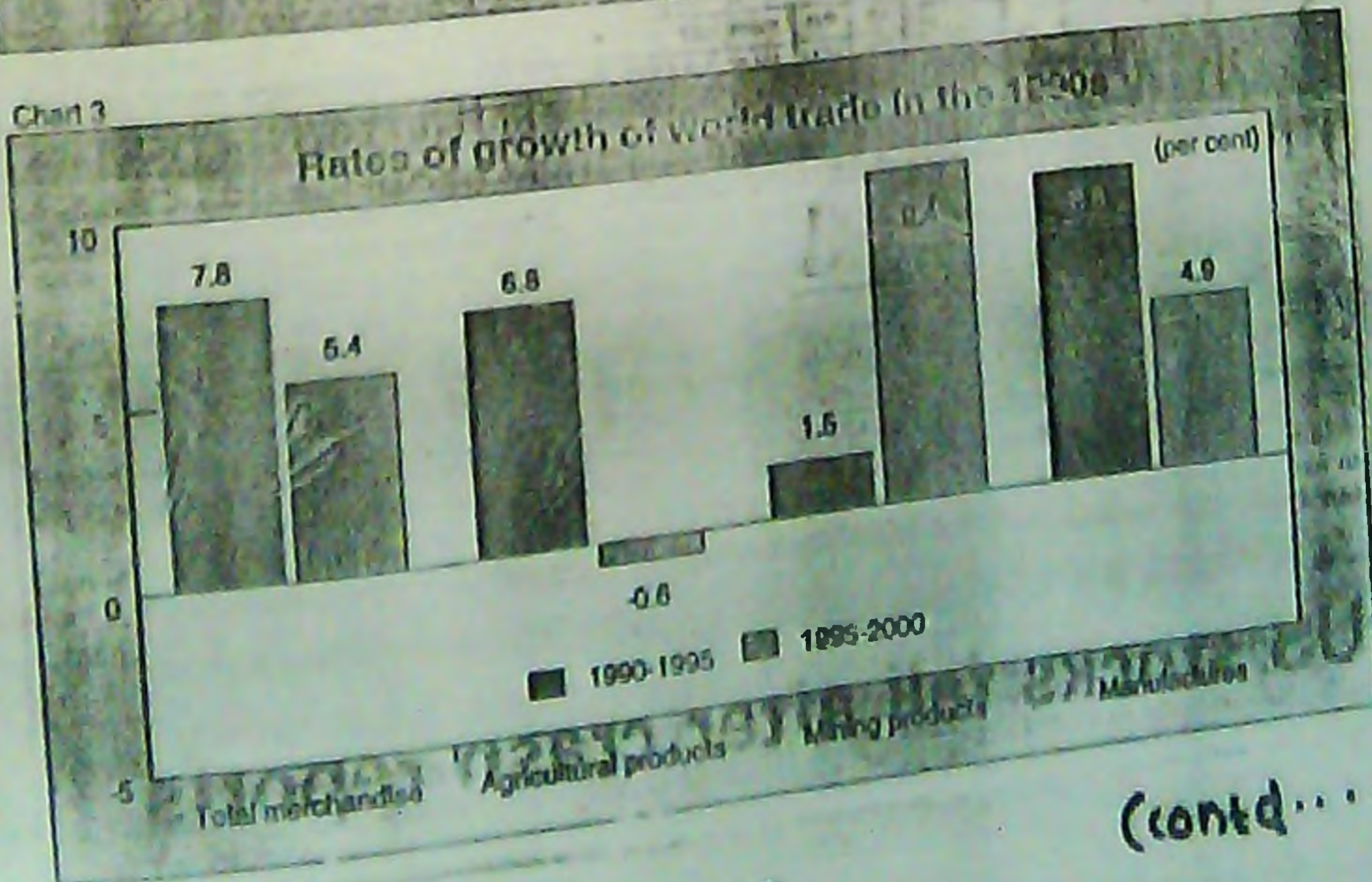
Long-term trends in world GDP and trade

Chart 2



World exports in the 1990s

Chart 3



Rates of growth of world trade in the 1990s

(contd....3)

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that this division also marks the period before and after the formation of the WTO, which was supposed to lead to a rapid and exponential expansion in world trade. In all, the major commodity groups', except mining (for which the increase in export value growth is almost entirely the result of rising oil prices), rates of growth of exports in world markets have fallen, and for agricultural exports they have turned negative.

Obviously, the promise of rapid trade expansion consequent upon the signing of the Uruguay Round GATT agreement has thus far turned out to be a false one. A basic reason for this has indeed been because the expectations of increased market access for developing countries have not been met. In the areas where developing countries expected the most gains — tropical agricultural products and textiles and readymade garments — market access conditions for developing countries have worsened.

And this has happened completely within the legal provisions of the GATT agreement. This tends to confirm the point made by critics at the time, that these agreements themselves were flawed and unequal, drawn up in forms which were inimical to the interests of developing countries as well as workers and consumers in developed countries.

The combination of stagnant or reduced market access and increased export dependence of many developing countries has meant that many developing countries have had to respond to this by trying even harder to push out exports, at lower prices if necessary. In fact, this downward pressure on many export prices has been evident even in developed countries, and in both primary and manufactured goods.

Chart 4 describes the movement of unit values of exports over the 1990s. It shows how, other than for oil, unit export values have declined continuously from the rather low peak of 1995. For agricultural exports, which have been the hardest hit, unit values of exports have fallen by nearly 20 per cent just in the five-year period between 1995 and 2000. Even for manufactured goods, unit values have fallen by 17 per cent over the same five-year period. These translate into very sharp annual average declines of nearly 5 per cent and 4 per cent respectively, as Chart 5 indicates.

These world trade price declines are especially evident in the case of primary commodities other than oil. Chart 6 shows how prices of raw and processed food have fallen over the 1990s, and Chart 7 makes it clear that minerals and metals, other than petroleum, have also faced stagnant or falling prices. Incidentally, as can be seen from Chart 8, even crude petroleum prices have only risen significantly in the last two years of the decade, and that has created the impression of buoyant prices in this category.

The interesting point that emerges from the Chart 9 is that in the two decades since 1980, the share of developing countries in world trade has not increased, which is quite contrary to general position. Even in the decade 1980-1990, which was the period of rapid expansion of manufacturing exports from the East Asian economies and other newly industrialising nations, the overall share of developing countries in total world exports fell quite sharply, largely because of the decline in primary exports in value terms. The subsequent recovery in share over the 1990s in turn can be traced once again to primary exports, essentially the rise in oil prices rather than manufactured goods exports as such.

The point in all this is of course that that the expectations about greater access to developed country markets, or about trade deregulation leading to much expanded volumes of trading activity and greater prosperity for developing country exporters as well, have proved to be false thus far. It is misleading to argue that all these benefits would become evident only by 2005: the point is that the GATT agreement was supposed to have unleashed dynamic processes which would already have made themselves felt through more buoyant trade, but in fact the opposite has occurred.

It is in this context that developing countries' demands for review and implementation of the existing treaties must be seen. The point is that developing countries have not received trade benefits which would have made it worth their while to give up so much in terms of the adverse consequences of the TRIPS agreement, their own import liberalisation which has affected domestic output and employment, and loss of sovereignty in other decision making. And, therefore, the calls for review of the agreements, their implications and implementation, followed by possible renegotiation of these agreements, are perfectly legitimate demands.

Pre-Doha negotiations and Draft Ministerial Declaration

What has made the Doha meeting even more controversial has been the practice adopted by the current WTO Secretary-General, Mr Mike Moore, and the Chairman of the General Council, Mr Stuart Harbinson, of Hong Kong. The pre-Doha negotiations

(contd....4)

were intense and many developing countries put in tremendous energy and effort using scarce resources to put in their arguments and present papers, which outline their positions in some detail. However, the first version of the Draft Ministerial Declaration paid only the slightest attention to these papers and

outline their positions in some detail. However, the first version of the Draft Ministerial Declaration paid only the slightest attention to these papers and demands.

The second draft, which is being presented at Doha, is even worse because it is being presented as a 'clean' text, without

Chart 4

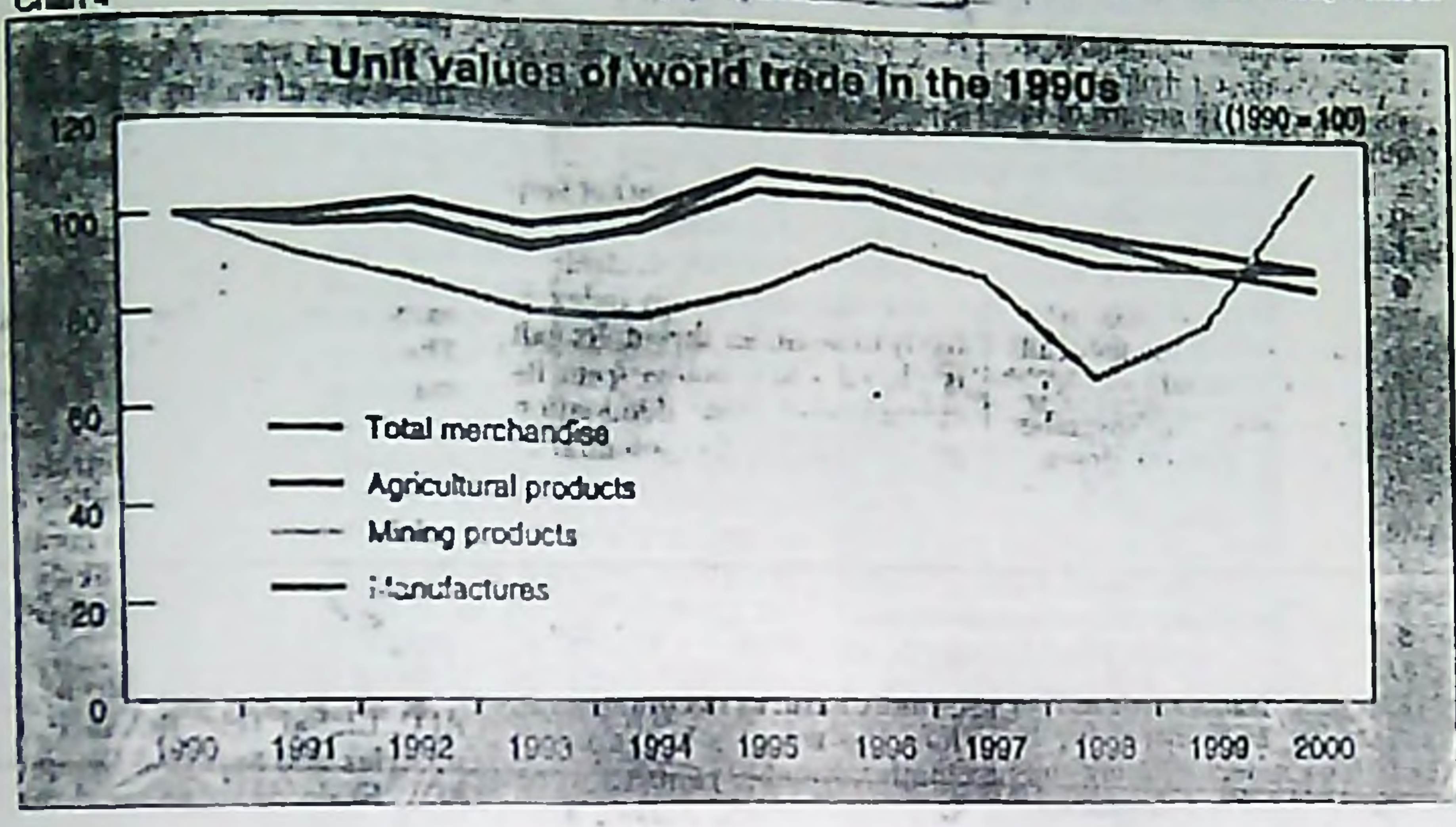


Chart 5

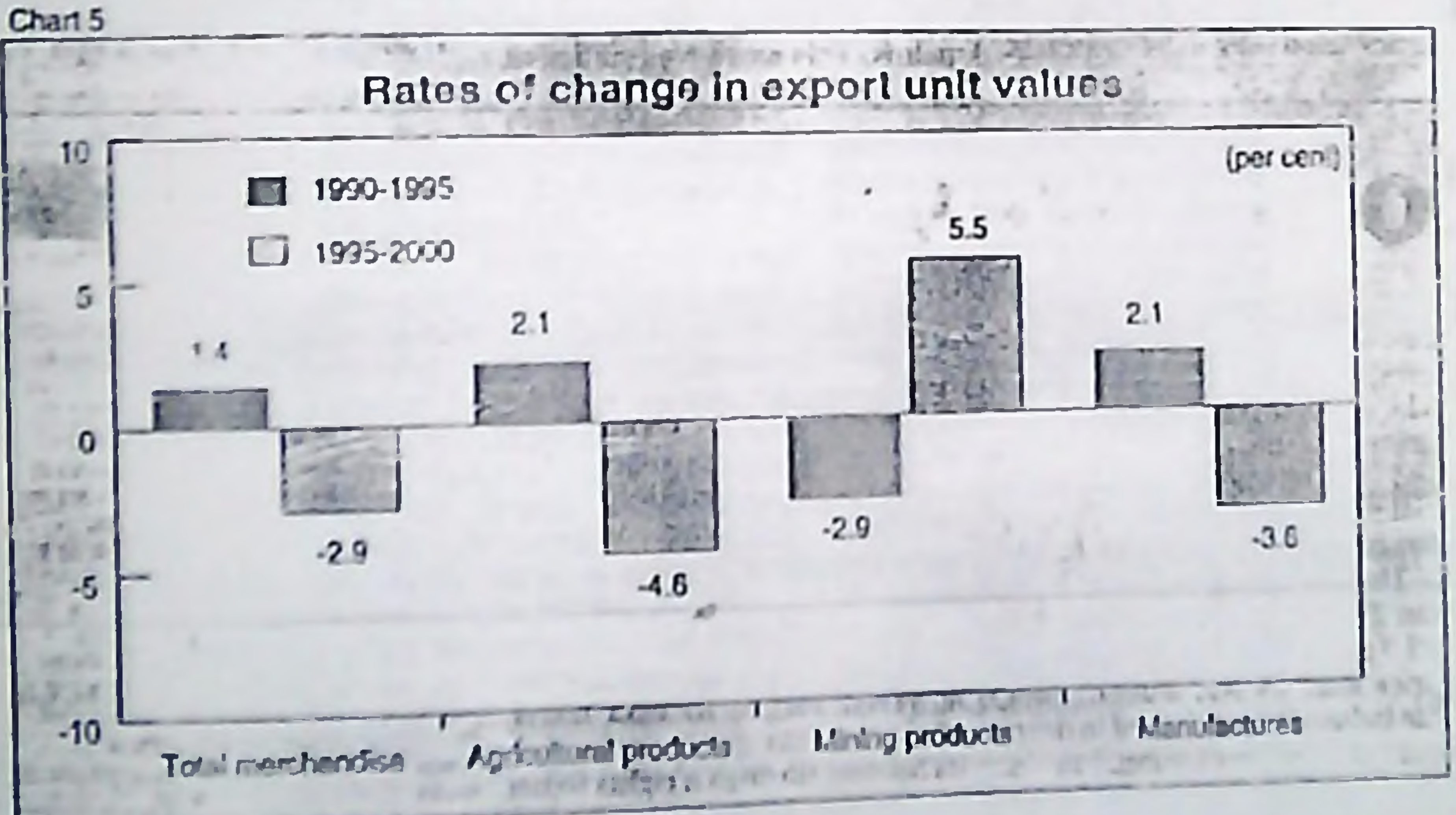
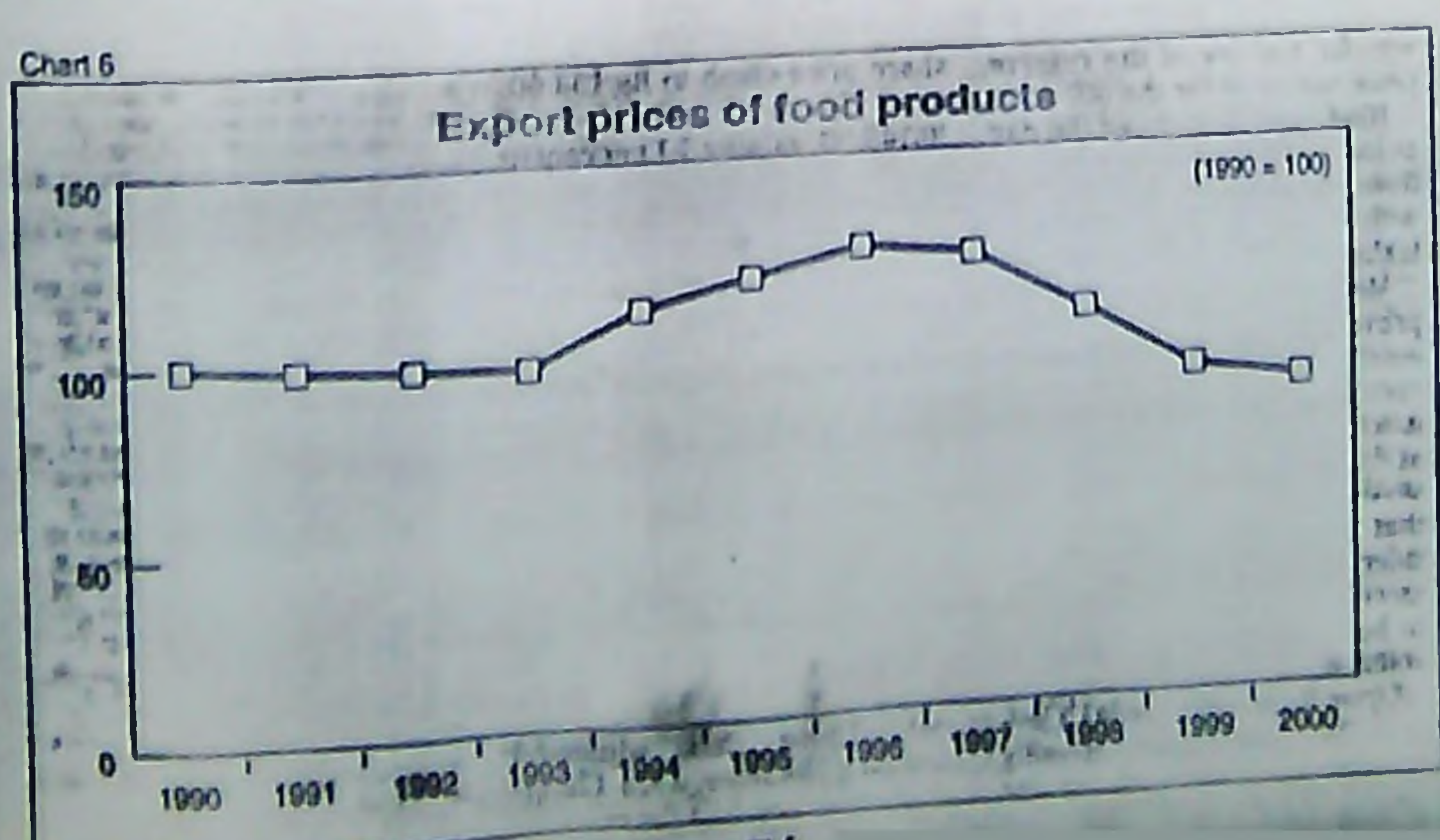


Chart 6



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brackets and indications of areas of disagreement, supposedly to simplify matters and make the draft easier to discuss. In reality, of course, it has become a statement of the position of a few powerful Northern WTO members, especially the US and the EU.

This has been a source of extreme disaffection for more than 30 developing country negotiating teams, including those of India, Indonesia, Malaysia, Egypt, the least developed countries group and other Sub-Saharan countries. One umbrella grouping of civil society organisations, which have been closely monitoring the negotiations, found it necessary to issue a statement which condemned the process by which the Draft Ministerial Declaration has been transmitted to the Doha Ministerial Conference. The statement makes the following points:

"The draft has not been given the consensus agreement of WTO Members, and there are serious differences between countries in many of its sections and paragraphs. In particular, many developing countries have repeatedly disagreed that negotiations should be launched on 'new issues' (investment, competition, government procurement transparency and trade facilitation).

"Yet the draft specifically commits ministers to agree to such negotiations, and does not provide for options. This totally ignores the views of the people and governments of a majority of developing countries.

"Many developing countries also proposed to have a study process on the effects of past industrial tariff reductions on closure of local industries and job losses instead of negotiations. Yet paragraph 16 commits the Ministers to launch negotiations, which can damage developing countries' local industries and cause serious job losses.

"By not reflecting the differences in view (either through square brackets or showing the various options), the draft gives a very deceptive impression that there is already agreement, or that the views given command unanimous or overwhelming support. The deception in such a 'clean text' has the serious effect of favouring the developed countries that have campaigned for the new issues, whilst placing the developing countries opposing these issues at a great disadvantage.

"This incident is another outstanding example of the untransparent, discriminatory, biased and manipulative process of decision-making at the WTO, that favours a few major developed countries at the expense of the many developing countries. It is ironic and hypocritical that such untransparent and discriminatory practices are so prevalent in an organisation that claims transparency and non-discrimination as its core principles.

"We consider the draft Declaration as illegitimate and a threat to the development and economic and social viability of developing countries. It has also failed to address the grave concerns of civil society on the effects of the WTO agreements (and future proposed rules) on [illegible] human rights, access of consumers to essential goods and services and the right of local communities and workers to secure livelihoods.

"In particular, the TRIPS agreement has been debated and condemned by the public worldwide for its role in depriving consumers of access to essentials. An organ of the UN Human Rights Commission has noted that implementation of TRIPS conflicts with the realisation of economic social and cultural rights. Yet the Draft Ministerial Declaration does not deal with the wide range of issues brought up by citizen groups (including biopiracy) whilst the attempts by developing countries to clarify that nothing in TRIPS should prevent public health measures is being undermined by a few developed countries." (quoted from the Joint NGO Statement on the Draft Doha Ministerial Declaration)

India's position

For once, the Indian government's stand thus far at the WTO and at the Doha meeting in the first few days has been a correct one, that all further trade negotiations must be postponed until a proper and democratic review of the past agreement and its implementation has taken place. Such a review would immediately expose that most developing countries have gained little or nothing, especially in the areas of agriculture and textiles, while they have opened up their own markets and adversely affected their own incomes and employment.

However, while this position is most certainly to be welcomed and supported, it is also true that the same Government has itself engaged in the most sweeping and unjustified external liberalisation in the past few years, even well beyond any requirements and commitments made to the WTO. Therefore, it is not clear whether this is a case of public posturing at an international forum in order to gain some domestic credibility, even while giving up on the important issues in terms of actual economic policies.

It is also not clear the extent to which the Indian government is prepared to stand up to pressure from the powerful Northern countries. A number of other developing countries have already succumbed to pressure, or gone in for bilateral deals which have muted their opposition to a new Round which would incorporate issues such as investment and competition policy. The outcome of the Doha Ministerial Meeting is still not clear; but what is definitely true is that strong domestic public opinion and the pressure of social movements may contribute to a more democratic outcome even in the closed-door negotiations at Doha.

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Chart 7

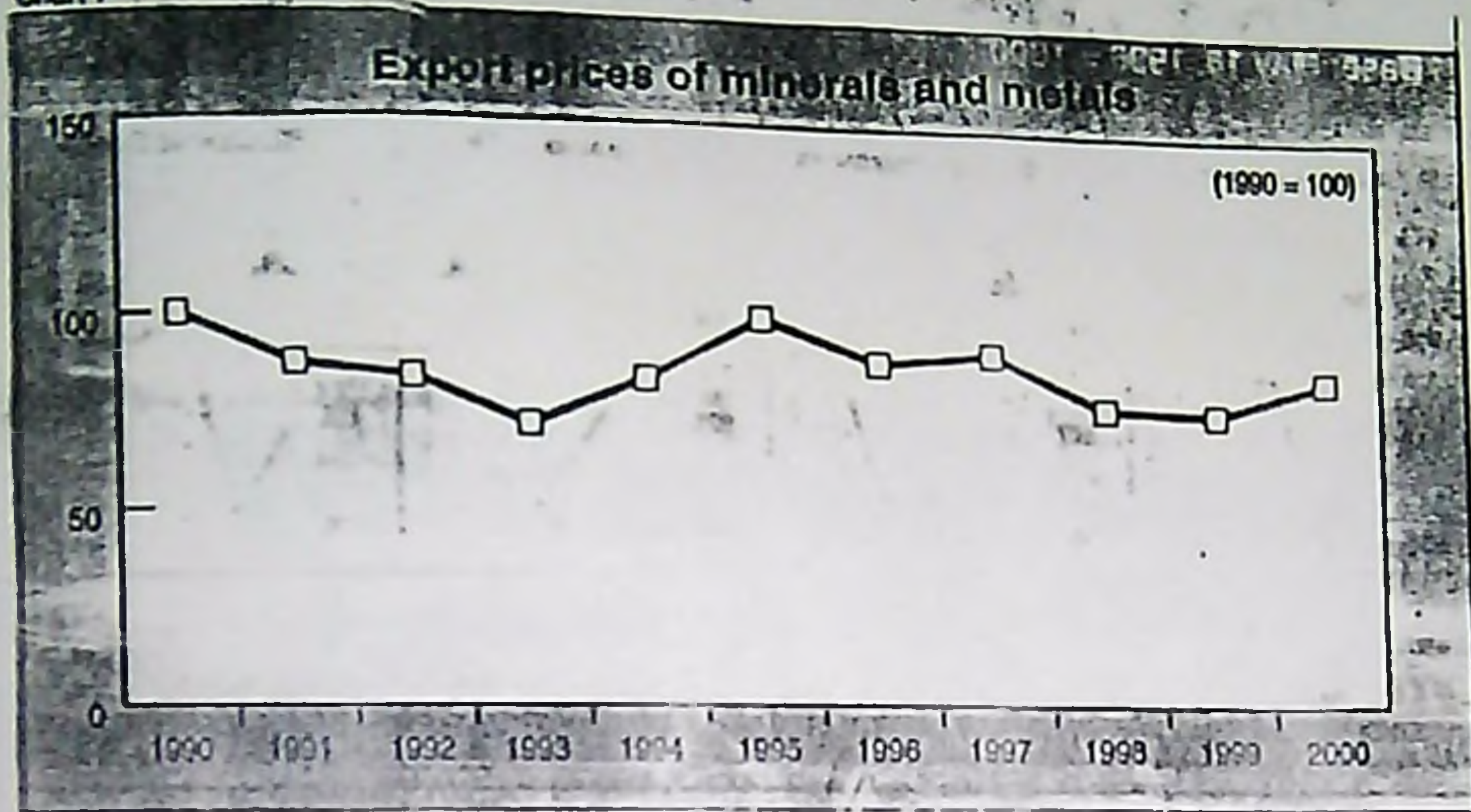


Chart 8

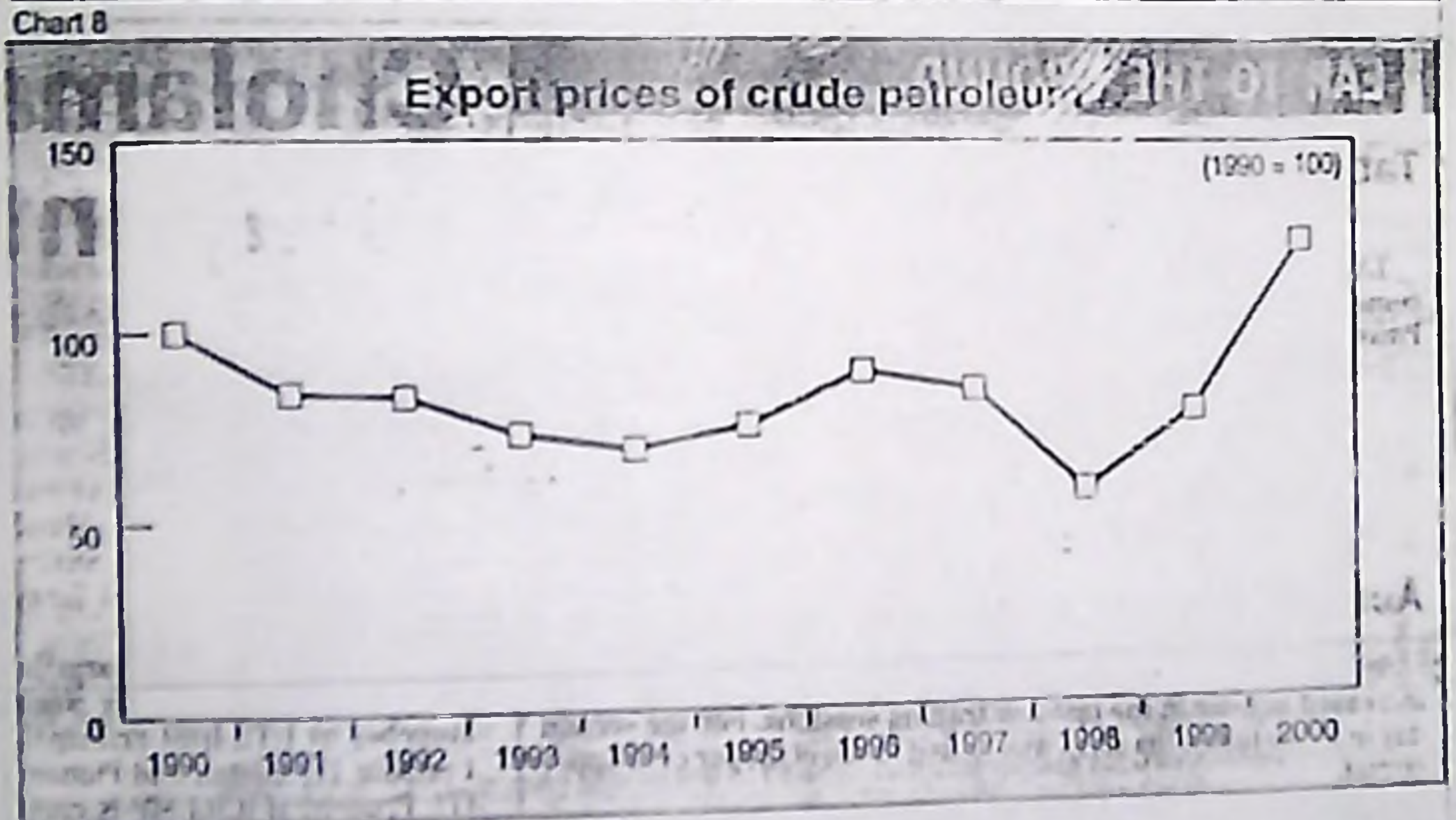
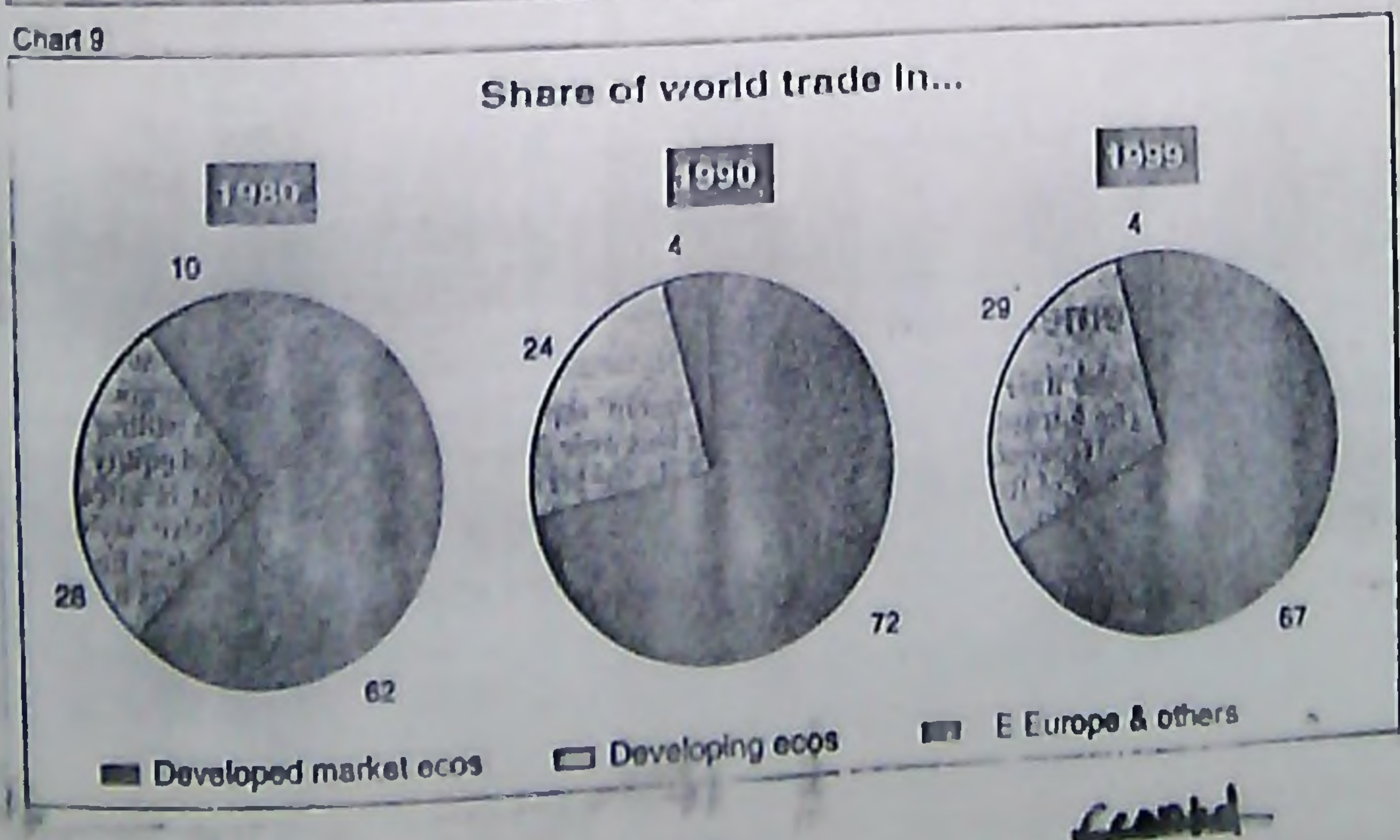


Chart 9



Business Line
2001, September
P.NO.14

Will it be win-win with China in the WTO?

THIS is undoubtedly a big year in China's continued quest for acceptance in the modern world. First, the award to host the Olympics and in November, China's probable entry into the World Trade Organisation (WTO), to be sealed at the Qatar summit.

Chinese leaders are certainly raring to go. In June, at the Asia-Pacific Economic Cooperation (Apec) economic ministers' summit, China called for the Qatar WTO meeting to launch the start of a new round of trade liberalisation talks. And in a speech to commemorate the 80th anniversary of the Chinese Communist Party in July, President Jiang Zemin called for a fuller inclusion of private sector managers and entrepreneurs within the party. Deng Xiaoping said let people get rich; Mr Jiang wants to underpin that policy.

This bullishness is backed by the figures. While much of Asia's export-led economy is in the doldrums, China should increase its exports by 15 per cent in 2001, according to the US Department of Commerce, and maintain its $30 billion surplus with the US, its biggest market.

Growth projections for this year have been shaved from 8 per cent to 7.1 per cent due to the global downturn in high-tech sales, but this still easily outstrips figures for the region at large. Projected foreign direct investment (FDI) for 2001 remains steady at around $40 billion.

Some analysts say that the first year of WTO membership should see this rise by at least $5-6 billion, and it's the prospect of kick-starting the regional economy that leads many to talk of a win-win situation emerging.

The rosy scenario runs as follows: China with full global economic citizenship will generate a surge in investment, both in China and the region as a whole. This in turn leads to the development of a thriving domestic market within China, giving smaller regional exporters a third major destination, along with the US and the European Union, and acting as a buttress against global recession.

As China emerges as an economic powerhouse, it also becomes a source of investment for other Asian economies, again lessening reliance on the US and the EU. This would also tend to make global economic recession less likely.

More intriguing, perhaps, is the question of how China will use its WTO membership at policy level. In theory, the WTO is a rules-based organisation devoted to ending trade barriers.

But in practice the powerful West has been able to prise open Asian markets while restricting access to their own or protecting them with subsidies. The recent threat of US trade sanctions on Chinese iron and steel products is an example.

As a major player in the WTO, with the resources to take a full role in its decision-making processes, China is well placed to level the playing field. In doing so, it would benefit not only itself but other emerging Asian economies. This would also add a distinctly Asian aroma to a globalisation that has so far been Western dominated. This win-win scenario is attractive — but not inevitable. It begs several 'what if' questions. The first concerns levels of investment. With markets declining worldwide, investment tends to become a zero-sum game, with

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the prize going to the cheapest destination offering the best returns. The risk here is that China in the WTO will suck investment from other parts of Asia.

Events in Taiwan may provide a trailer. According to figures from the Taiwanese government, cross-straits investment in the first five months of 2001 totalled $1.1 billion, a 33 per cent year-on-year increase. Most of this was high-tech manufacturing, taking advantage of the fact that a worker in China costs a tenth as much as one in Taiwan.

This leads to the question of how an ever stronger China would behave on the world stage. Officially, China simply wants to live in terms of peace, friendship and mutual respect with its neighbours. There is no reason to doubt the sincerity of this. Yet China is also ardently patriotic and highly sensitive to perceived insults. The question remains as to how this will work out in policy terms as China becomes more powerful, more security-conscious and more aware of the need to secure resources and trade routes.

Perhaps the touchstone will be China-Japan relations. As the Japanese Prime Minister, Mr Junichiro Koizumi, moves to amend the country's peacetime Constitution, how will a strong China respond to what could be a resurgent Japanese nationalism?

But the biggest single doubt — indeed, risk — is the effects of WTO entry on the domestic Chinese economy and the knock-on effects on China's political stability. It will certainly bring drastic change. This has been acknowledged by the Premier, Mr Zhu Rongji, in his constant exhortations to the state sector to restructure, and his recent comments warn that WTO entry will see unemployment rise in the short term as Chinese companies fold in the face of increased imports and competition from firms which have foreign investment.

In theory, any surplus labour force should be absorbed in the new enterprises created by increased investment, and the creation of a large Chinese middle class should also create jobs.

The state and collective sectors, likely to feel the brunt of the impact, together account for just under 70 per cent of China's industrial output. Not all of these will be forced to close or lay off workers but enough will, and this will exacerbate already high rates of unemployment and damage further the country's fragile social fabric.

For the time being, it does look like the predictions of increased foreign investment in China will be fulfilled, if only because the economic slowdown across the West is leading companies to relocate in search of cheaper labour.

But it is an open question whether the inflow of investment will head off potential social and political instability. In China's industrial heartlands, there are large pools of nostalgia for the golden days of Maoist full employment and basic but comprehensive welfare.

Win-win or lose-lose? The answer will certainly be accelerated once China enters the WTO — not least because of its effect on China's own permanent internal revolution.

(By arrangement with Business Times, Singapore.)

Business Line
2001, November 16
P. NO. 14

With hope from Doha

THE FOURTH WTO Ministerial at Doha was a success of a sort considering the fiasco at Seattle in 1999. But beyond the adoption of a Declaration, the meeting's practical contribution to promoting trade liberalisation has been limited, notwithstanding the rhetoric, among others, by the US Trade Representative, Mr Robert Zoellich, who said: "By agreeing to launch new global trade negotiations, we are ... providing a sign of hope — of economic opportunity and ... of political purpose by almost 150 nations".

For New Delhi, however, Doha was a sort of a milestone because, for the first time, it has sent across to the developed world the strong message that India can no longer be ridden roughshod over. Full marks to the Commerce Minister, Mr Murasoli Maran, whose tough talk and bargaining skills enabled India protect its interests to the extent possible. That India (and France) should be singled out as countries that could make or break the Ministerial is testimony to Mr Maran's negotiating strategy. A number of accords were accepted by the WTO's 142 members, perhaps the most important being the agreement to begin a new three-year round of trade negotiations from January. New Delhi was firmly opposed to such a round as it saw no point in beginning a fresh exercise without a more complete implementation of the Uruguay Round recommendations. India has agreed to a new round but only after extracting the concession that a statement would "explicitly acknowledge" its reservations about opening talks on competition codes, investment rules and other areas it fears would leave poor countries disadvantaged. Of more practical importance to India is the conference chairman's "clarification" that negotiations on the "Singapore issues" — investment, competition, labour standards and environment — would be held only after an "explicit consensus" was reached at the fifth Ministerial. Going by the Doha experience, such a consensus may not be easy to attain, in 2003.

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The poor world scored decisively on drug patents, the agreement allowing a waiver on public health grounds from strict WTO rules that guarantee drug patents for 20 years. Analysts suspect that Washington agreed to this because of the drugs it requires urgently to fight anthrax incidence. A second victory was the agreement to "speed up" implementation of past agreements. Third, the US agreeing to review anti-dumping rules; this can, however, fizzle out if affected countries do not take the initiative. It is the same with textiles, the rich countries making the commitment that the issue of faster reductions to import limitations (as demanded by textile exporters) will be taken up by a WTO committee. As for agriculture, it is sure to be an extraordinarily difficult road ahead because of the centrality of farm subsidies to the EU's common agricultural policy. Mainly under pressure from France, Brussels has agreed to a compromise on "phasing out" farm export subsidies (which, according to the agreement, should not prejudge "the outcome of the negotiations") in return for which some countries have reportedly agreed to accept its stand that environmental issues should be included in the new negotiations.

Business Line
2001, September 26
P.NO.14

WTC and WTO: Tilting at windmills

Sharad Joshi

SEPTEMBER 11, 2001, when the twin towers of the World Trade Centre came crumbling down, will be marked in history on par with the two days in August 1945 when the twin cities of Hiroshima and Nagasaki were destroyed by atomic bombs. Both dates represent a new paradigm as they put new weapons in the hands of man. August 1945 marked the end of the era of supremacy of conventional arms, tanks, destroyers

DOWN TO EARTH

and fighter- bomber planes. On September 11, 2001, a new weapon _ a hijacked passenger plane that could crash into any target _ appeared on the scene. But for this one similarity, the two events could not be more dissimilar. Nuclear fission represented a highly sophisticated frontier technology and involved financial expenditure that was barely within the scope of the great powers. Nuclear devices presume a delivery system that could be wielded only by an organised Navy, Air Force or Army. For long years, the atom bomb was controlled by the superpowers and then it percolated to fairly mediocre states and even to countries that carried the begging bowl in one hand, while playing with nuclear implosions and explosions with the other. It is only much later that the possibility of a private atom bomb, which could be detonated by secret agents operating on the ground, appeared as a real threat. The technology of the hijacked plane is well known. It requires some months of training to be able to take over the controls. The wielder does not own the plane and incurs only minor expenses for evading security and getting on board the plane. Hijacking has been, over the years, perfected as a technique. Now onwards, it can be used not merely as a counter point for blackmailing, but also for delivering lethal blows.

Mighty armies of superpowers find themselves helpless against the guerrilla attacks by terrorists resigned to and determined for self-extermination. If the crashing of planes becomes as common as their hijacking since 1970, the world and its security and civilisation, as we have known it, will change beyond recognition. Does man have the wisdom and the statesmanship to handle this scale of privatised destruction capacity? The first indicators are far from promising. The post-World War II world leaders were sagacious enough not to push the world over the brink. They knew that each of them had the capacity to destroy the whole globe several times over. However, they limited themselves to conventional wars, as in Korea and Vietnam, and managed to pull back at the last minute, as in Cuban crisis. Even the despots of the erstwhile USSR were not tempted to destroy the West by pressing the nuclear button, though they knew their world was coming apart after Chernobyl. The modern-day leaders do not show any evidence of that kind of forbearance and statesmanship. They are more prone to playing to the gallery and feel compelled to display knee jerk

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SHARAD JOSHI

reactions that, they hope, would go down in history as brave decisions and heroic acts. The US President, Mr George W. Bush, has shown little evidence of the calibre required to face the post-September world. The investigations are far from complete or conclusive. Osama bin Laden was announced as the prime suspect with the alacrity of a police inspector before the arrival of a Perry Mason on the scene. President Bush has talked of bringing the perpetrators to justice but has practically ordered the destruction of a whole country to be able to get bin Laden dead or alive. bin Laden, not known for his modesty, has denied any involvement in the attacks and even protested that he does not have the kind of international network required for the September 11 operation. Surprisingly, the Japanese Red Army, which immediately claimed responsibility, has been ignored, the fact of the proximity of the event to the twin bombings of Hiroshima and Nagasaki, notwithstanding. Everybody concerned appears to have concluded that Islamic fundamentalists must be responsible for the dastardly act. Since then, new evidence has cropped up that casts doubts on the earlier conclusions. It is now admitted that more than one terrorist network may be involved.

There is at least one more terrorist outfit with the organisational capacity, the necessary motive and the insane ferocity of purpose required for such an operation. It would appear that the choice of the World Trade Centre as the first target constitutes almost a visiting card left by this terrorist network. [illegible] to the network of over a thousand organisations that demonstrated at Seattle (end of 1999), Melbourne, Prague, London, Geneva, Quebec, Gothenburg and, recently, Genoa in Italy. An outfit called *attac*, which played a decisive role in setting up the World Social Forum in Porto Alegro in opposition to the World Economic Forum in Davos, had a major hand in the formidable exercise of this network. This outfit of anti-globalisation and anti-liberalisation fundamentalists needed to act in a significant way to frustrate the plans for the WTO ministerial conference at Doha, due in less than two months.

The blow at the World Trade Centre was clearly aimed at the World Trade Organisation. If bin Laden has been using intemperate and threatening language, look at the manifesto declared by Pietro Donatello, probably the most articulate of the group: "Our movement is gaining universal strength. Just as bourgeois capital leaps frontiers, so do we. This is something new and it has become a political force of capital that, by definition, is international. Their crimes will not stop us. How could this handful of corrupt politicians concentrate on anything? Our job is to make sure that they are on the run from morning to night. Their pontifications mean nothing. The depredations of international capital and their political crimes will not stop us."

The author is founder, Shetkari Sanghatana. Feedback can be sent to [illegible]@mah.nic.in

The Hindu
2001, October 20
P. NO. 10

The WTO and developing countries

By Mike Moore

OF THE many obstacles facing the World Trade Organisation, the biggest is a myth — that developing countries are losing ground in the world trading system, and risk further impoverishment and marginalisation if a new trade round is launched. Like many myths, this one grows in conviction the further it departs from reality. We are told that the developing countries' share of world trade is declining; that their exports face the highest tariffs and the most protected markets in the world; and that they lack the ability to influence or change a system inherently biased in favour of the rich and powerful.

We owe it to the developing countries — as well as to the WTO — to re-examine this myth in the light of some facts. One is that developing nations are not losing out in world trade, despite what the WTO's critics say. The opposite is the case. Over the past decade, developing countries have consistently outperformed industrialised countries in terms of export growth — an average increase of almost 10 per cent a year, compared to 5 per cent for the industrialised countries. And trade among developing countries is growing more quickly than the trade with the industrialised North.

Last year, developing-country exports rose by 15 per cent — three times their GDP growth — the best in five decades. Even with the current economic slowdown, developing countries are expected to show much stronger trade growth this year than the industrialised economies.

These numbers demonstrate the average performance among developing countries; some are doing better, some worse. Even so, claims about poor-country "marginalisation" distort the facts. For example, the 49 Least-Developed Countries saw the dollar value of their exports rise by 28 per cent in 2000 — some $34 billion — the second year in a row where they exceeded the world average. Bangladesh, Cambodia, Madagascar and Nepal saw their exports soar in the 1990s — matching or even exceeding China's impressive performance.

The second claim — that rich-country markets are more closed and protected, while developing countries are being

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MIKE MOORE

forced to open up — is also a distortion. It is true that many developing-country exports continue to face significant barriers in rich country markets. Often the products in which developing countries are highly competitive are the ones that confront the highest protection.

However, what is not true is the assertion that industrialised countries are more closed or more protected than developing countries. The average bound tariff for the U.S. is just 3 per cent, for Europe it's 3.6, and for the industrialised countries as a whole it's under 4 per cent. In comparison, the average bound tariff for developing countries is over 12 per cent. While developing countries slashed their tariffs by 20 per cent during the Uruguay Round, developed nations cut theirs by almost 40 per cent.

This helps explain why, each year, developing countries claim a larger and larger share of the industrialised world's imports — from 15 per cent in 1990 to almost 25 per cent in 2000. Over half of Japan's manufactured imports now come from developing countries. For the U.S., the share is 45 per cent and rising. These trends do not reflect that altruism of the industrialised countries so much as their self-interest — a realisation that imports from the developing world are key to low inflation, rising productivity and increased living standards.

The third claim is that developing countries lack a voice in the WTO. How then to explain that so many "development" issues are now at the top of the WTO's agenda? From being a fringe issue a generation ago, the debate over how to get better integrated development priorities into the trading system has moved to the centre of the preparatory process for the Fourth WTO Ministerial Conference — and its resolution will largely decide whether new negotiations are launched in Doha. Developing countries such as India, Brazil and South Africa are in the forefront of nations defining the parameters of the WTO's future programme — their Ministers, Ambassadors and officials are among the most influential trade-policy practitioners today.

Indeed, the idea that a new round of negotiations must be a "development round" is now almost universally espoused — from Ms. Clare Short, U.K. Minister of Development, to Mr. Kofi Annan, U.N. Secretary-General, Mr. Jim Wolfensohn, World Bank president, and Mr. Horst Kohler, IMF managing director. This is evidence of a new, more assertive role for developing countries.

The developing world would be much worse off without the multilateral trading system.

Why? Because the WTO has emerged as one of the most important international institutions for development. Developing countries already account for a third of the world trade, from a fifth in the 1970s. At current trends, their share will grow to well over half of the world trade in the next 25 years. They need stronger multilateral rules, not weaker ones; more trade liberalisation, not less. Already a third of the cases before the WTO's dispute settlement body are brought by developing countries. They have gained significantly from trade liberalisation under the Uruguay Round and, according to a study, would realise some $200 billion if the remaining trade barriers were to be halved in a new round. That is three times what the developing world receives in overseas aid. Eight times what poor countries have so far been granted in debt relief.

This is to the credit of the developing countries themselves. The steps they have taken to open up their economies and encourage competition have created new incentives to find lower-cost inputs and to seek new markets abroad.

The biggest change is in attitudes. More and more, developing countries have come to see protectionism as a self-inflicted wound. It not only punishes consumers, grossly inflating the price they pay for necessities such as food or clothing, but it also handicaps exporters and entrepreneurs, who cannot hope to com-

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pete in world markets without access to world-priced inputs, efficient services and modern technology. Trade liberalisation is the key to developing countries, not just because it opens markets, but because it makes their own economies stronger.

It is a fact that the developing world would be much worse off without the multilateral trading system. It is also a fact that the trading system can be greatly improved. Many critics — even some supporters — have spoken out about the inequities in the system, and they are right. Inequities exist. This is precisely why we need a new round of negotiations. There is no other way to change the rules of the WTO. No other way for developing countries to translate their interests and demands into real changes to the trading system. No better opportunity for developing countries to use trade reform and capacity building as tools of growth and poverty reduction.

Defining and refining rules for trade — keeping the system relevant to a fast-changing world economy — will always be work-in-progress. Governments will never stop and say they have finished, that they are satisfied. The challenge is to secure balanced progress that reflects common interests. Governments must feel committed, not coerced. They must see justice in the WTO agenda and national advantage in pursuing it.

But they must also be reminded of the achievements. More has been done to address poverty in these last 50 years than in the previous 500. Since 1960, child death rates have been halved in developing countries; malnutrition rates have declined by a third; access to safe water has improved dramatically. While the current U.N. Millennium Declaration targets show that there is still a long way to go, and we need to keep in mind that trade is just one contributor to the progress that has been secured, we should not lose sight of the important role the multilateral trading system has played.

The question is how we share this gift of opportunity and do a better job as an institution designed to serve our member-governments.

(The writer is Director-General of the World Trade Organisation.)

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Business Line
2001, October 1
P.No 9

WTO and Indian agriculture: Trading in food insecurity

Devinder Sharma

FOR any tourist, Kerala is an attractive destination. The tropical climate and the backwater systems add charm to its pristine beauty. Add to it the stupendous growth in literacy and the overall human development, Kerala has rightly earned the sobriquet: "God's own country".

But over the past few years, ever since economic liberalisation became the development *mantra*, Kerala has been at the receiving end. Flooded with cheap and highly subsidised agricultural imports, its agrarian economy has been thrown out of gear. Whether it is the import of palm oil, rubber or coffee, almost every aspect of the State's socio-economy has been negatively impacted.

Coconut prices have crashed, from Rs 10 to Rs 2. Rubber has plummeted from Rs 60 to Rs 16 per kg and coffee from Rs 58 in 1999 to Rs 30 per kg in 2000. Even spices have bit, spared, with pepper prices falling from Rs 2,600 to Rs 1,300 per quintal in the consecutive period. While Kerala's farmers are naturally a worried lot, the changing global intellectual property rights (IPRs) regime is certain to further throttle domestic agricultural research which, in turn, will impact farm production. And the repercussions will eventually be felt by the industry, which will find the export market restricted and monopolised by the patent-holders.

Kerala is not alone. The destructive fallout from the emerging global trade paradigm is being felt all over the country, if not in the same magnitude. But before analysing the bitter political harvests and the growing disenchantment with the World Trade Organisation (WTO), it is important to understand why and how the market rules play against the Indian farmers and for that matter, farmers in the developing countries. Let us take the case of India.

It is now official. Six years after the WTO came into existence, on January 1, 1995, the anticipated gains for India from the trade liberalisation process in agriculture are practically zero. The Ministries of Agriculture and Commerce have officially admitted that the hopes from an international regime that talked of establishing a fair and market-oriented agricultural trading system have been belied.

The WTO's Agreement on Agriculture (AoA) incorporated three broad areas of commitments from member-states -- in market access, domestic support and export subsidies. The underlying objective being to correct and prevent restrictions and distortions in world agricultural markets. On the other hand, the trading regime has ensured that developing countries take time-bound initiatives to open up their domestic markets for cheap and highly subsidised imports of agricultural commodities in the name of encouraging competition. Six years later, it is now established that these measures have only protected the farmers and the farming systems of the developed countries.

Market access

Increased market access was the hallmark of the free trade agenda. It was aimed at force-opening new markets for agriculture exporters. The AoA required all countries to allow a certain minimum market access for every agricultural product at 5 per cent for developed countries and 4 per cent for developing countries. Southern nations, with low cost of production, were always told that with the developed countries would have to open up their markets for cheaper food imports as a result of which the developing countries would gain enormously.

India was forced to either phase out or eliminate the quantitative restrictions (QRs) on agricultural commodities and products latest by April 1, 2001. India has, therefore, opened its market and, in turn, made the farming community vulnerable

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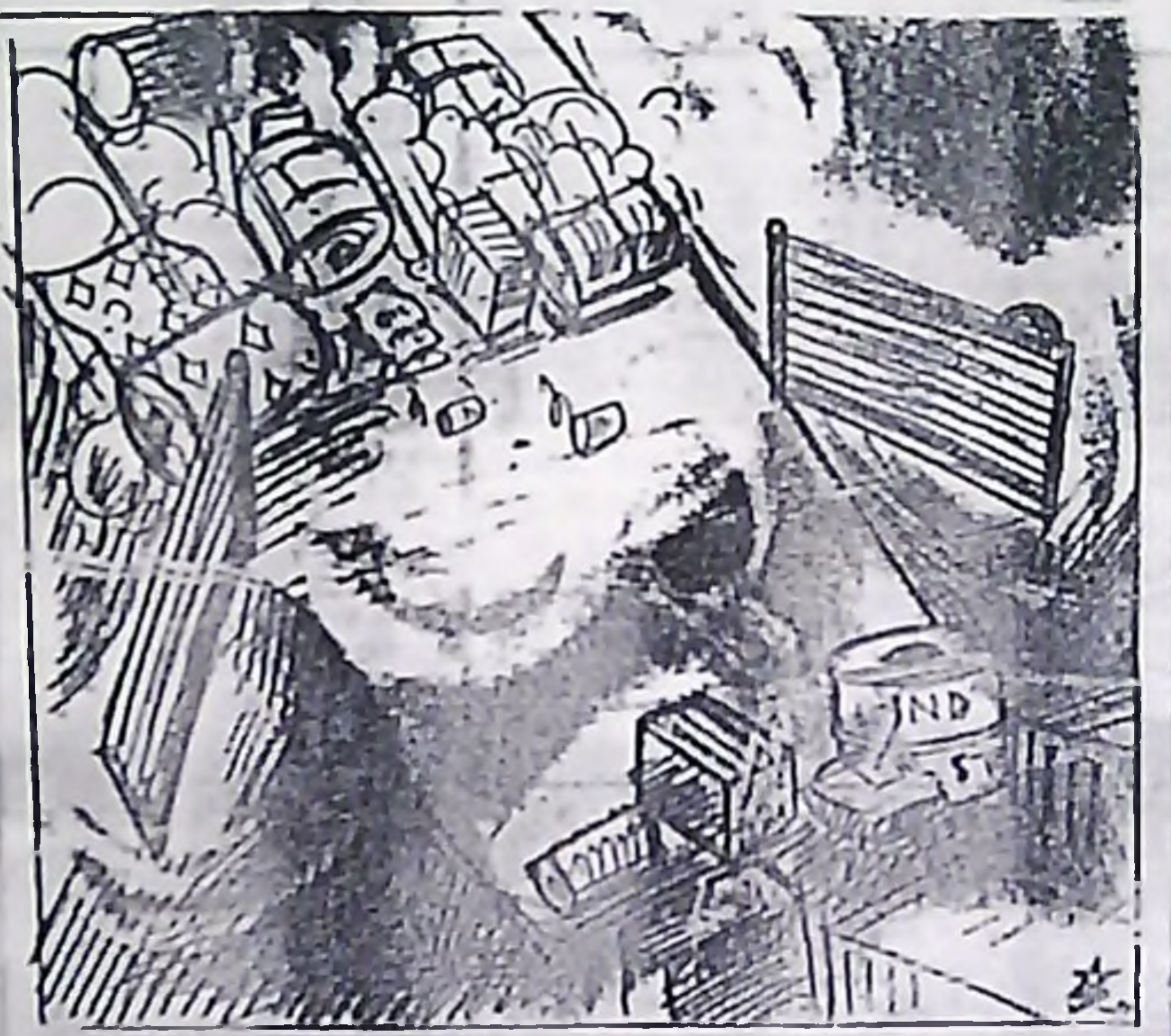

to the imports of highly subsidised products. Already, cheaper imports of skimmed milk powder, edible oils, sugar, tea, arecanut, apples, coconut, etc, have flooded the market (see box).

Domestic support

Clever manipulation of their subsidy- reduction commitments has in reality increased the support to farmers in the developed countries. In the US, subsidy to a mere 9,00,000 farmers has increased by 700 times since 1996. Two years before the former US President, Mr Bill Clinton, left the office, the US had provided an additional \$26 billion to its farmers. In absolute terms, farm support in the OECD countries increased 8 per cent to reach a staggering \$363 billion in 1998.

In the European Union (EU), direct payments to farmers after the reforms initiated in March 1999 to the Common Agricultural Policy, now account for 126 per cent of the net income of cereal producers and 129 per cent for

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the bovine meat producers. And this falls under the Blue Box. Explicit and implicit support to farmers is, therefore, protected under the various colours of the protection boxes: Green Box, Amber Box and Blue Box.

Even if these boxes remain eligible for developing countries, the fact is that not many of them have the budgets to support agriculture. In India, we are being told that our Aggregate Measure of Support (AMS), a measure of the subsidies that are provided to agriculture, being negative (against the upper limit of ten per cent) we can still raise our subsidies to farmers.

In reality, India is committed to do away with agricultural subsidies under the Structural Adjustment Programme of the World Bank and the IMF. In any case, India provides only $1 billion worth of indirect subsidies to 550 million farmers!

It was anticipated that due to reduction in domestic support in the developed countries, cereal production would shift from the developed to the developing countries.

Empirical evidence, however, is that such a trend is not at all visible. In fact, all indications (and efforts of the World Bank/IMF) point towards making the developed countries the hub of cereal production. The Bretton Woods Institutions have been asking developing countries to diversify to cash crops as a precondition for advancing loans.

Moreover, with such massive subsidies intact, and with the QRs lifted, developing countries are sure to be inundated with food imports, a process that has already initiated further marginalisation of farming and farm communities.

Export subsidies

The WTO enables only 25 countries to provide export subsidies for their agricultural products and commodities. Other countries, which do not have agricultural export subsidies, like India, cannot make any new provisions for it. Export subsidies that need to be pruned, as per a formula, are not provided in India.

On the other hand, the US continues to find legitimacy for even export credits, which are actually used to promote and push American agricultural exports.

The Ministry of Agriculture acknowledges that despite the rules being defined, the expected gains have eluded the developing countries.

It was expected that with the removal of trade distorting measures, agricultural exports from the developing countries will increase.

This did not happen. In fact, India has on the other hand seen a massive increase in the imports of agricultural commodities and products from Rs 5,000 crore in 1995 to over Rs 15,000 crore in 1999-2000, a three-fold increase.

In edible oils alone, the import bill has soared to Rs 9,000 crore. The so-called fair trading system has also not helped efficient producers in realising a higher price for their products. On the contrary, prices of most agricultural commodities are declining in world market.

Public stockholding of grain

Unlike the European countries where the public distribution system (PDS) was discontinued after the Second World War, its importance has grown for an over-populated and poverty-stricken country such as India.

It was with the basic objective of curbing consumption and ensuring an equitable distribution of available food supplies, especially in the deficit areas and among the poorer strata of society, that the PDS was introduced more than fifty years ago.

Internationally, food is being traded by powerful multinational companies. By passing on the reins of the nations food security to these companies and the trading blocks through a policing system under the WTO, India is witnessing a gradual collapse of food self-sufficiency and the scrapping of the public distribution system, the very foundations of food security.

Food security box

Among the numerous measures being suggested in the ongoing review of the AoA, much of the emphasis is on creating yet another box for food security as a mechanism for safeguarding developing countrys vulnerability to cheaper imports.

The European Union has also been supporting some of the developing country's proposal to protect the food security needs. But what is essentially being overlooked is the way food security is now being defined.

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As the US earlier declared, and which Britain blindly supports, food security no longer is linked to food self-sufficiency. Food security now implies that the needs of any developing country can be better met from trade.

What is being forgotten is that a developing economy, such as India's needs a food security system that looks much beyond management of scarce supplies and critical situations.

Food security systems are evolved as an integral part of a development strategy bringing about a striking technological change in food crops, providing effective price and market support to farmers and deploying a wide range of measures to generate employment and income for the rural poor to improve their level of well-being, including better physical and economic access to foodgrains.

Food security, therefore, can only be ensured if the developing countries have provisions and powers to re-enforce QRs. No amount of tinkering with suitable clauses on market access, domestic support and export subsidies is going to serve the food security needs of the developing countries.

As long as the subsidies — both explicit and implicit — are not brought down to zero in the developed world, the developing countries should have the provision to continue with the QRs. After all, border protection is the only way for the developing countries to avoid being inundated by cheap and highly subsidised food and agricultural commodity imports.

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2001, October 17
P.NO.15

WTO negotiations on rules of origin

K. K. Jain

THE WTO negotiations on defining the general principles and formulating the rules of origin of products have finally been completed. The agreement on this was one of the many of the Uruguay Round signed in 1994. Indian trade and industry is naturally anxious to know what exactly the rules of origin are about, and the possible impact they could have on the export fortunes. Now that the general principles have been defined, there is need for India to be circumspect and more cautious in further negotiations to formulate the rules so that our trade interests are fully protected.

The rules of origin are essentially to identify the country of origin of an imported product. The rules, in turn, will bring into play a variety of trade measures in favour of, or against, the entry of the product into the importing country. In other words, the country of origin of the product will determine whether it is subject to preferential treatment as the most favoured nation, partner in a free trade area or Customs union, or ends up attracting anti-dumping, countervailing duties, etc.

At present, two panels — the Committee on Rules of Origin (CRO) in Geneva and the Technical Committee on rules of origin (TCRO) in Brussels — are at work in evolving a set of harmonised rules of origin. The negotiations are now at an advanced stage and, therefore, the time has come for very focussed discussion on the concerns of trade and industry in India relating to this agreement so that our interests are fully protected and integrated into the final framework.

As all decisions of these Committees have to be on the basis of consensus only, one can intervene and ensure that nothing that affects the legitimate interests gets passed in this final advance stage.

The subject is quite vast and complicated too. The agreement on rules of origin has taken care to ensure that the final set of rules do not impinge on any nation's legitimate interests and rights. The general principles enunciated in the agreement to guide the formulation of the rules are comprehensive and ensure that the approach would be in harmony with the interests of all members of the WTO.

The principles are:

1) The rules should not themselves create restrictive, distorting or disruptive effects on international trade;

2) They should not be used as instruments to pursue trade objectives, directly or indirectly;

3) They should not impose unduly strict requirements or fulfil-

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ment of conditions not related to manufacturing or processing.

4) They should be clear, consistent, transparent, uniform and reasonable, not only in formulation but also in application.

The formulation of acceptable rules of origin is a difficult exercise as the factors involved are complex, and the consequences of the application of the finalised rules could actually retard trade between nations instead of promoting it.

Some illustrations of the complications have been given to help us think of the multiple adverse instruments that will come into play as a result of their application.

To take the textile sector, the broad stages that a textile product goes through have been spelt out thus:

a) Processing (including bleaching, texturing, mercerisation, dyeing, printing, coating/impregnating and embroidery);

b) Conversion to made-up articles such as bed linen, kitchen and table linen, curtains and draperies, cushion covers etc;

c) Final assembly of garments;

In determining the Country of Origin of a product, Article 9(1) of the agreement on rules of origin states that the country of origin of the goods should be:

■ Either the country where the goods have been wholly obtained; or

■ When more than one country is involved in the production of the goods, the country, where the last substantial transformation has been carried out.

It is the phrase "substantial transformation" that appears to defy definition. It could be measured in terms of value-addition or manufacturing/processing operations, or others. The proposals being discussed by developed countries in evolving rules of origin is that of "substantial transformation". According to them, processing and production will not meet this criteria of "substantial transformation" in the matter of textiles, and so it is the origin of yarn and fabrics that should determine the origin of the final textile product.

India and many other developing countries are, however, clear that processing and production of a textile product fully meets the criterion of "substantial transformation" and, therefore, the country where processing and production has been done should be taken as the country of Origin.

The notion of the country of origin as the one where the yarn and fabric is produced, as proposed by developed countries, is restrictive and can jeopardise the interests of India, and several developing countries that carry out a substantial level of processing and production.

This is a simplistic way of explaining the kind of complexities that come into play in the exercise of determining the origin of a product, but the stand of developed countries in this instance indicate the kind of hurdles that will be faced, if the issues are not confronted straightaway.

Many other factors are involved. The criterion that is finally decided upon to determine origin can manifest in multiple consequences for the processor, producer and the exporter in a developing country such as India by way of anti dumping measures, countervailing duties, safeguard actions, violation of Intellectual Properties Rights (for the print or design which may have a geographical appellation) and so on. Similar complications have been pointed out in the case of tea, which many countries do not produce, yet process and export as their own. In the same way, there are leather, diamonds, wines, whisky, fruits, vegetables and so many other products which may originate in one country, as per one set of criteria, and can be picked up by another and transformed and sold as its original product to a third country. What will be the origin of that final product? The answers will be as varied as the criterion that one can think of.

In the matter of farm products, for instance, India has firmly stated that the country of production of the item is the Country of Origin. Rice or tea is a case in point. Tea can be grown in one country and dried, mixed, flavoured, packaged and [illegible] another. Similarly, rice can be grown in one country, but cleaned, polished and packaged and exported by another. Thus, in the matter of agricultural products, India, along with several other developing countries, have made it clear that the country where they are grown is the place of their origin.

This is a complex issue that needs a threadbare discussion. One also needs to go into each product of concern to exporters so that India can protect its trade interests and also counter adverse actions by a trade partner.

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