

The G20 Trade Agenda and India's Domestic Reforms

Chenai Mukumba* and Kyle Cote**

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This Discussion Paper was researched and written with inputs from Archana Jatkar and Bipul Chatterjee of CUTS Centre for International Trade, Economics & Environment (CUTS CITEE), D-217, Bhaskar Marg, Bani Park, Jaipur 302016, India, Ph: 91.141.2282821, Fax: 91.141.2282485, Email: cuts@cuts.org, Web: www.cuts-international.org

* Assistant Policy Analyst, CUTS CITEE

** Assistant Policy Analyst, CUTS CITEE

Abstract

International trade can be a powerful engine to foster efficiency and productivity in the global economy. Despite global economic improvements, the G20 acknowledged lingering challenges facing their membership. At a recent meeting of their Finance Ministers and Central Bank Governors, the G20 Members recognised the risks to global growth and, thus, set a goal to raise their collective GDP by more than two per cent in the next five years.

Enhancing trade was deemed by the G20 countries as a core action required in order to address the issues challenging their future growth. As a member of the G20 and a key actor in the international trading system, India can play a pivotal role in tackling the challenges facing the G20, particularly those in regarding to the proliferation of preferential trade agreements; conclusion of the Doha Development Round; and trade protectionism.

In the run up to the G20 Trade Ministers meeting, to be held in Sydney, Australia on 17-18 July 2014, this Discussion Paper serves as a source of recommendations for the G20 trade ministers, and India specifically, in addressing some of the pertinent trade-related challenges facing the G20.

Introduction

At the Meeting of Finance Ministers and Central Bank Governors held in Sydney early this year, the G20 Membership acknowledged that the global economy, while experiencing improvements, still faces serious risks and challenges. Therefore, they committed to develop ambitious but realistic policies to lift their collective gross domestic product (GDP) by more than two per cent over the next five years. Amongst the various actions that were noted to achieve this, the G20 Finance Ministers and Central Bank Governors stated that enhancing trade across the G20 countries was one of the core actions that they would need to undertake in order to achieve this growth.¹

Indeed, if the G20 hopes to achieve this goal over the next five years it is imperative that trade becomes a central component of their overall strategy for economic growth. Through G20 declarations and independent civil society inputs, such as the Think20 network, a number of policy options for relevant G20 Ministers have been submitted placing international trade at the centre of the G20 agenda, particularly for addressing issues pertaining to preferential trade agreements, the Doha Development Round, and trade protectionism.

As the largest free market democracy in the world and a key player in the Indo-Pacific region, India can play a pivotal role in tackling the challenges recognised by the G20 at both the multilateral and regional level.² Indeed, even at the most recent Ministerial Conference of the Members of the World Trade Organisation (WTO), which was held in Bali, Indonesia, in December 2013, India played a crucial role in ensuring that the WTO Members arrived at a balanced deal.

Given that most economic policy reforms that seek to facilitate GDP growth need to start at the domestic level, this Discussion Paper not only analyses India's role within the international trading system but also look at possible domestic economic policy reforms that India can undertake which will undoubtedly have positive spill-over effects at a regional as well as global level.

It begins with an explicit set of recommendations including some from various sources such as the Think20 group stating what leaders should commit to at the G20 Leaders Summit to be held in Australia in November 2014, particularly to promote greater trade liberalisation within the current architecture of the international trading system. It then delves into how those recommendations could specifically be translated into the Indian context.

¹ G20 (2014), 'Communiqué Meeting of G20 Finance Ministers and Central Bank Governors': https://www.g20.org/sites/default/files/g20_resources/library/Communique%20Meeting%20of%20G20%20Finance%20Ministers%20and%20Central%20Bank%20Governors%20Washington%20DC%2010-11%20April%202014_0.pdf

² World Bank (2014), 'Purchasing Power Parities and Real Expenditures of World Economies', International Comparison Programme: <http://siteresources.worldbank.org/ICPINT/Resources/270056-1183395201801/Summary-of-Results-and-Findings-of-the-2011-International-Comparison-Program.pdf>

Recommendations for the G20 Leaders Summit

Drawing from previous declarations and various trade policy documents, the following are a list of recommendations that G20 Members should consider adopting in November 2014 at the G20 Leaders Summit:

- Establish a mechanism to monitor and review preferential trade agreements (PTAs) and encourage information sharing amongst G20 Members on PTA negotiations to ensure that they correspond with developing multilateral rules at the WTO and do not result in high cost of rules-related compliance
- Commit to undertaking measures to facilitate the implementation of the decisions adopted at the Bali Ministerial including:
 1. undertaking domestic reforms as well as providing the necessary technical and financial assistance for the implementation of the Trade Facilitation Agreement
 2. supporting efforts to identify a dynamic approach for calculating the contribution of public stocks to their Aggregate Measure of Support bound level
 3. making efforts to provide increased market access to LDCs through providing increased Duty-Free Quota-Free Market Access, support to the Operationalisation of the Services Waiver and simplifying their Rules of Origin requirements
- Redouble efforts to monitor, evaluate, and ultimately curb protectionist measures, including continuing the G20 inter-agency work program on evaluating protectionist measures and establishing a peer review process for monitoring the standstill commitment

India and the G20 Trade Agenda

India's experience with international trade in the last two decades as well as its strategic location in the Indo-Pacific region, places it in a key position to help the G20 achieve its global growth and development goals.

Dating back to the inception of the GATT (General Agreement on Tariffs and Trade, 1947), India has always been an active participant in the international trading system. Only in the past twenty years however has India used trade as a key driving force of national growth and development.

The success of major economic reforms undertaken by India in the 1990s saw its share of world trade increased from less than one per cent to more than three per cent. As a result, India's merchandise trade to GDP ratio now accounts for more than 40 per cent of its GDP.³ In light of the upcoming G20 Trade Ministers meeting, which will be held in Sydney in July 2014, below are a few recommendations that outline how India and the G20 Members can implement some of the above-mentioned recommendations and play a role in advancing the G20 trade agenda.

Preferential Trade Agreements

Despite the growing trend of regional and 'mega' preferential trade agreements (PTAs) such as the Trans-Pacific Partnership (TPP) agreement and the Trans-Atlantic Trade and Investment Partnership (TTIP) agreement, the success of the WTO Bali Ministerial Conference in December 2013 demonstrated the strength and resilience of the multilateral trade negotiation system. Indeed, while PTAs are on the rise, the G20 must nonetheless continue to promote the multilateral trading system under the aegis of the World Trade Organisation.

As a staunch proponent of the multilateral trading system, India was a late entrant into PTA discussions. The success of India's first major PTA with Sri Lanka in 2000 marked the beginning of India's engagement with these arrangements. Today, India is party to 17 PTAs. In addition to concluded deals, India is also currently negotiating several other agreements including one mega-regional: the Regional Comprehensive Economic Partnership (RCEP) agreement which was launched in November 2012.

When concluded, the RCEP agreement consisting of the 10-member ASEAN group of countries plus Japan, South Korea, China, India, Australia and New Zealand will have constructed one of the largest pan-regional groupings within the international trading system comprising 49 per cent of the world's population, 30 per cent of GDP and 29 per cent of world trade.⁴

Given that a rules-based trading system is in the interest of all G20 Members, a recommendation to establish a mechanism to monitor and review regional trade agreements in the WTO was made by the Think20 group. Such mechanisms would include the sharing of information pertaining to trade negotiations, which could ensure that the PTAs correspond with developing multilateral rules.

As one of the key proponents of the RCEP agreement and a member to 17 PTAs and, at the same time, given its commitment to trade multilateralism, India is in a strategic position to facilitate congruence between PTAs and the multilateral trading system by pushing for greater transparency in PTA negotiations through such a monitoring and evaluation mechanism.

³ World Bank (2014), 'Merchandise Trade (% of GDP)':
<http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS>

⁴ Sourabh Gupta (2014), 'Making RCEP about region-wide liberalisation', East Asia Forum, :
<http://www.eastasiaforum.org/2014/02/23/making-rcep-about-region-wide-liberalisation/>

However and in order to effectively contribute to the G20's goal to lift their collective GDP by two per cent, India will need to undertake certain domestic reforms to ensure that it fully benefits from the opportunities that PTAs provide. One of the major criticisms about India's external engagement has been lack of congruence between its preferential trade negotiations with its national foreign trade policy as well as other macroeconomic policies.

To date, India's trade policy is largely isolated from its negotiations of bilateral, regional and multilateral trade agreements. The planning and administration of policy instruments under the National Foreign Trade Policy of India (NFTP) has often been undertaken without sufficient consideration of the sectoral needs that get preferential market access through such negotiations therefore to fully derive benefits from its engagements with PTAs, India will need to implement policies to address this lack of coherence.

While the RCEP agreement has a focus on increased tariff-reduction, the TTIP and the TPP agreements are likely to have a broader thematic agenda and include various WTO plus issues and thereby including topics such as investment, competition rules, government procurement, environmental and labour standards. For excluded countries like India, such agreements are likely to result in high cost of new rules-related compliance if they do not participate in the rule-making process.

Given the negative repercussions that such costs could have particularly on developing countries, India is in a position to draw attention to these issues and push the G20 Membership to address the proliferation of these agreements that could potentially limit developing countries to explore new markets as well as opportunities to mainstream trade into their national development.

As it stands, the jury is still out on whether mega-regionals such as TPP, TTIP, RCEP are either going to compete or complement other operational models of the international trading system, but as one of the largest economies in the Indo-Pacific region, India is strategically poised to help shape the future narrative of the international trading system. Additionally, as the mega-regional trade agreement with the largest number of G20 Members, the RCEP provides a platform for the G20 membership to push for a more cooperative agenda in the global trading space.⁵

Doha Development Round

As a result of proliferating PTAs, the international trading system has become characterised by a complex system of both regional and multilateral trade agreements. However, as the global trading community enters the post-Bali strategic phase, the G20 has to make concerted efforts to navigate this network of agreements and aid in the conclusion of the Doha Development Round.

⁵ The RCEP agreement has six G20 Members: Australia, China, Indonesia, Japan, South Korea and India.

One of the primary obstacles to the conclusion of the Doha Development Round has been the inability of large developing countries to reach a consensus with the large developed countries. During the Bali Ministerial Conference of the WTO Members, it was this very divergence that threatened to jeopardise negotiations. After an arduous week of negotiations, the WTO Members adopted decisions on a trade facilitation agreement, some agriculture issues such as the need for finding a permanent solution to public stockholding for food security purposes, and some other issues of development dimensions of trade, particularly those of interest to least developed countries (LDCs).

To date, progress has been made on the Trade Facilitation Agreement (TFA), as many countries and international bodies are increasingly beginning to offer support for its implementation. Prior to the adoption of the Bali decisions, India had already autonomously begun pursuing most of the recommendations in the agreement as part of its own domestic reform agenda.

There does, however, remain further domestic reforms that India can undertake, which include: establishment of centralised enquiry point for export/import procedures; disseminating trade-related information through electronic media; putting in place mechanisms to reduce the time limits for release of goods; and simplification of transit procedures, although as India's neighbouring countries face an acute problem of weak infrastructure at the border areas, this would require significant resources.⁶

The TFA, however, comprises one of the three issues that were adopted in Bali and a number of developing countries, including India, have begun to raise concerns that it is this Bali decision that is garnering the most attention in the post-Bali agenda. In order to avoid another potential deadlock, India and the other G20 Members must ensure that adequate attention is also paid to issues that are of particular importance to developing countries and LDCs. In order for successful implementation of the Bali Agenda and for progress on negotiations of other issues in the Doha Development Round, the WTO Members need to adopt a balanced approach to negotiations.

The Bali decision on public stockholding for food security purposes proved to be the most controversial of all the decisions as India fought to ensure that this 'decision' would serve as an interim solution until a permanent decision is obtained. Agriculture remains a major issue of contention at the WTO platform as many developing country concerns, particularly those pertaining to export competition, have yet to be fully addressed. Most importantly and despite that there is a limited interim period to find a permanent solution on public stockholding for food security purposes, it has not been a primary feature of the post-Bali narrative.

⁶ Nisha Taneja (2004), 'Trade Facilitation in the WTO: Implications For India', Indian Council for Research on International Economic Relations: <http://www.icrier.org/pdf/wp128.pdf>

The issue of public stockholding for food security purposes needs to be addressed by actively working towards identifying a new and dynamic approach to calculating the contribution of public stocks to the bound level of Aggregate Measure of Support (AMS) of concerned developing countries. In light of the importance of this issue to the food security of many developing countries and having been one of the major proponents of this decision at the WTO, India must take a lead in ensuring that progress is made in this area. As a voice for developing countries, India can ensure that the recalculation of the AMS is inclusive of food and nutritional security needs of the developing world and, while a permanent solution is being negotiated, India, in its own domestic market can put in place mechanisms to prevent the leakage of food stocks into the global market.⁷

Unlike the other two pillars of the Bali decisions, the entire package on development dimensions of trade and LDC issues are comprised of non-binding decisions. Developing countries, however, were promised that “where legally binding outcomes could not be achieved they [would] be prioritised.”⁸ India and the other G20 Members can play a key role in ensuring that the best endeavour outcomes for LDC issues arrived at in Bali are converted to binding commitments on a priority basis.

In regard to Duty Free and Quota Free Market Access for LDCs, at present, India already provides that on 85 per cent its tariff lines at HS 6 digit level. The Government of India has expressed that it intends to expand this coverage for imports from LDCs to 96.2 per cent of its tariff lines. Active steps towards implementing commitments such as this as well as the other two decisions on Operationalisation of the Services Waiver and Rules of Origin by both India and the other G20 Members would aid in forwarding the negotiations on other issues of the Doha Development Round.⁹

Trade Protectionism

Unfortunately, in spite of the call for G20 Members to not only halt but also roll back trade-related protectionist measures, many G20 countries have continued to introduce such measures. On 18 June 2014, the WTO issued its quarterly report on G20 trade measures and noted that between October 2012 and November 2013, 407 new protectionist measures had been imposed, an increase from the 308 measures the previous year, affecting world merchandise imports valued at US\$ 240 billion.¹⁰

⁷ Archana Jatkar and Chenai Mukumba (2013), ‘Unpacking the Bali Package A Snapshot of the Bali Ministerial Decisions of the WTO Members’, CUTS International: http://www.cuts-citee.org/pdf/Unpacking_the_Bali_Package-A_Snapshot_of_the_Bali_Ministerial_Decisions_of_the_WTO_Members.pdf

⁸ WTO (2013), ‘The Bali Declaration’:

http://wto.org/english/thewto_e/minist_e/mc9_e/bali_texts_combined_e.pdf

⁹ Ministry of Commerce and Industry (2013), ‘Address by Shri Anand Sharma at the Plenary Session of the 9th Ministerial Conference of the WTO at Bali’, Press Information Bureau: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=101013>

¹⁰ WTO (2014), ‘Overview of developments in the international trading environment annual report by the director-general’: <file:///C:/Users/USER-03/Downloads/OV16.pdf>

In St. Petersburg Summit in September 2013, the G20 Membership recognised the “risks of economic slowdown and trade weakening posed by protectionism.”¹¹ In response to the ongoing protectionism, the Think20 group proposed efforts to monitor, evaluate, and ultimately curb protectionist measures, including continuing the G20 inter-agency work programme on evaluating protectionist measures and establishing a peer review process for monitoring the standstill commitment, thus providing an incentive for the G20 Members to abide by their commitment.

The challenge of promoting a collective and strong commitment against protectionism, considering the limited time that Heads of State have to discuss these issues, can be met by the G20 Trade Ministers, specifically by stimulating discussion regarding the methodology and agreeing on guidelines for periodic monitoring of their trade policy that would assist the process of reducing protectionist measures.

According to the Global Trade Alert, over the past year India has been the second most protectionist country in the international trading system.¹² India’s current approach contains remnants of its history of inward-looking protective policies. Even as India has increasingly liberalised its trading regime, it has tended to take a defensive approach to trade negotiations - reluctant to grant greater access to foreign producers in several segments of its economy as well as maintaining high import tariffs and barriers on foreign investment.

This is primarily as a result of strong pressures exerted by influential business lobbies, which still find it difficult to reconcile with trade liberalisation. India would benefit from taking a more constructive approach to negotiations of not only tariff-related issues but also new generation trade issues such as investment, quality standards, intellectual property, rules of origin, competition policy.¹³

Beginning domestically, India could start, as recommended by the Think20 group, by engaging in efforts to monitor, evaluate, and ultimately remove protectionist measures as in the long run, these measures could result in effects that could be harmful to its economy. In light of the changing nature of trade, the growing importance of global value chains (GVCs) in international trade has meant that both global and domestic policies increasingly need to reflect the business realities on the ground that increasingly call for less trade barriers.

¹¹ G20 (2013), ‘G20 Leaders’ Declaration, September 2013 in St. Petersburg, Russia’: file:///C:/Users/USER-03/Downloads/Saint_Petersburg_Declaration_ENG.pdf

¹² Global Trade Alert, ‘Countries implementing the most protectionist measures’: <http://www.globaltradealert.org/node/2257>

¹³ Amitendu Palit (2014), ‘Challenges of integrating India’s economy with Asia-Pacific’, The Malaysian Insider: <http://www.themalaysianinsider.com/sideviews/article/challenges-of-integrating-indias-economy-with-asia-pacific-amitendu-palit#sthash.xO2bz0pY.dpuf>

As was noted at the OECD Stocktaking Seminar on Global Value Chains, the trend towards the internationalisation of production processes has meant that while GVCs are indeed creating opportunities for growth and development, they also raise the penalties for impeding the smooth flow of goods and services.¹⁴ The removal of trade barriers would serve to not only facilitate global trade but also increase India's own trade competitiveness. Such actions, however, would require more than just domestic trade and other macroeconomic policy reforms but a modification of India's approach to trade negotiations as a whole.

Conclusions & Recommendations

The global economy remains fragile five years after the financial crisis of 2008-09. Urgent efforts in recovery and establishing sustainable growth are imperative for all nations. In this context, the G20 Members have recognised the vital role that international trade can and should play for fostering economic growth.

The G20 must work together to ensure that the negotiations on preferential trade agreements are transparent and support the multilateral trading system and, in light of the G20's commitment to a strong multilateral trading system, India as well as its counterparts must make efforts to progress its development, specifically through the successful progress on the Bali Agenda and conclusion of the Doha Development Round.

India should continue its efforts to implement the trade facilitation reforms agreed in Bali through domestic policy and procedural reforms geared toward reducing the cost of doing trade. Aiding in the implementation of the decisions that were taken at the Bali Ministerial Conference of the WTO Members pertaining to agriculture and LDC issues will also ensure that there is a balanced approach to progress the Doha Round.

The success of the WTO Bali Ministerial Conference was a positive step-forward for the Doha Development Round and the G20 Membership should play an active role in the implementation of its decisions. Additionally, by focusing on domestic economic reforms, India can also be a leader and a model in tackling protectionist measures by implementing mechanisms to monitor and evaluate its own trade-related protectionism and remove those harmful measures in a time-bound manner.

In order to address these pressing issues and achieve its goal of increased GDP, commitments made by the G20 Membership, coupled with relevant policy options, provide a strong basis for enhancing the international trading system that will benefit their economic interests as well as those of the rest of the world. India, particularly as a key Member of the G20 and given its emerging leadership role in the Indo-Pacific region, has a unique opportunity to undertake domestic economic policy reforms that will have significant regional and global spill over effects for the benefit of the international trading system, particularly in addressing the development dimensions of new and emerging (behind-the-border) issues of contemporary trade liberalisation agenda.

¹⁴ Organisation for Economic Cooperation and Development (2014), 'OECD Stocktaking Seminar on Global Value Chains': <http://www.oecd.org/tad/events/2014-G20-OECD-GVC-Stocktaking-Seminar-Summary.pdf>