

Special Address by Mr. Pascal Lamy, Director General, World Trade Organization

“WTO and Multilateral Trading System: The Way Forward to Bali Ministerial”

New Delhi, January 29, 2013

1. Opening Remarks

- 1.1 CUTS International and Federation of Indian Chambers of Commerce & Industry organised a Special Address by Mr. Pascal Lamy, Director General, World Trade Organisation, in the presence of Mr. Rajiv Kher, Additional Secretary, Department of Commerce, Government of India; Mr. Pradeep S. Mehta, Secretary General, CUTS International; Ms. Naina Lal Kidwai, President, FICCI; and Dr. A. Didar Singh, Secretary General, FICCI.
- 1.2 More than 200 participants from among the Delhi-based trade and development community attended the event, representing government ministries, regulatory bodies, business interests, consumer and community interests, and research and academic interests. A number of participants were from among the diplomatic community and development cooperation partners.
- 1.3 Following an introduction by Dr. Singh, Ms. Kidwai welcomed Mr. Lamy and other dignitaries and introduced the themes of this event. The first was how to deal with the expectations from “Early Harvest” in the Doha Round of multilateral trade negotiations and posed concerns on some pragmatic connotations of realising those expectations following the prolonged impasse of this round of trade talk.
- 1.4 The second was about the proliferation of free trade agreements which have been identified by some experts as constituting an “existential threat” to the WTO. The Trans Pacific Partnership and the proposed EU-US Transatlantic FTA were identified as those which would pose a palpable threat to multilateralism owing to the breadth of their coverage and encompassing critical trading partners within their realm.
- 1.5 Finally, Ms. Kidwai posited that the future of the multilateral trading system in this current economic scenario where most countries attempt to “look inward” poses deep concerns and warrants a thorough discussion.
- 1.6 She posed the following questions to the panel:
 - How do non-discrimination principles of the rules-based multilateral trading system operate in the current era of burgeoning regional and bilateral trading agreements?
 - What are the institutional reforms which need to be undertaken to make the WTO more relevant?
 - What should we expect from the Bali Ministerial Conference of the WTO Members which will be held in December 2013?
 - What would be the apt way to deal with specific issues under the Doha Early Harvest package?

2. Changing Nature of Trade

- 2.1 Mr. Lamy began his address by outlining the new nature of cross-border trade being based on a value-added supply chain. He said that about couple of decades ago the import content of exports used to be 20 per cent; now it is 40 per cent and forecasted to be 60 per cent within the next two decades.
- 2.2 Owing to the extent to which value is added across borders and because goods currently traverse across as much as five-six boundaries, Mr. Lamy noted that the “thickness of boundaries” assumed huge importance in recent times.
- 2.3 Mr. Mehta noted that intra-industry trade constitutes more than 60 per cent of world trade. Given this huge volume, the importance of global value chains, intellectual property rights, rules of origin and policy coherence at national, regional and international levels should not be under-estimated.
- 2.4 Mr. Lamy said that countries which import the most, export the most. This insight was furthered by a new statistical approach which had been evolved with respect to tracking a country’s contribution toward value addition while doing trade. The top exporters whose trade accounted for around 30 per cent of their national income included China and Germany; trade in Japan and India accounted for about 15 per cent contribution to their national income. In case of the United States it is about 10 per cent.
- 2.5 This “new statistics” would require countries to revise their lists of important trading partners and focus more on trade policies of countries with which they are engaged in import and export activities in a relatively large scale.

3. Is the Role of the WTO and Multilateral Trading System Declining?

- 3.1 While bemoaning the impasse plaguing the current round of multilateral trade negotiations, Ms. Kidwai quoted former GATT/WTO Director General Peter Sutherland’s observation that though the previous rounds of multilateral trade negotiations took many years to complete, none of them were plagued by the neglect, disinterest and indifference as they are apparent today.
- 3.2 Mr. Mehta observed that the US President Barack Obama in his inaugural address while assuming the presidency for the second time did not mention a single word of concerns about the multilateral trading system.
- 3.3 Similarly, Mr. Kher referred to the Trans-Pacific Partnership and the larger “Spaghetti bowl” of preferential trade agreements which are perceived as a “breakdown of the multilateral process” and noted that the proliferation of these agreements would not be “conducive to a harmonised system of global trade growth”.
- 3.4 Mr. Lamy noted that the quantum of trade under the preferential trading regime is only 15 per cent of global trade. One of the reasons for such a low rate of trade through PTAs could be the individual rules of origin which are there for each agreement. He said, paradoxically preferential trade agreement could either “reinforce the multilateral trading system” or “result in its weakening”. He also noted several systemic issues affecting better flow of cross-border trade, which can only be addressed through multilateral negotiations.

4. Expectations from the Doha Early Harvest Package

- 4.1 Mr. Kher said that though India is of the opinion that the Doha Round of multilateral trade negotiations should conclude as a “Single Undertaking”, it is increasingly warming up to the notion of an Early Harvest.
- 4.2 He advocated that development dimensions should be reflected in the Early Harvest package and there should be balance of interests of different country groups. He explained India’s point of view on some subjects such as trade facilitation which are likely to be considered for Early Harvest and on some other important issues.

Trade Facilitation

- 4.3 Noting that trade facilitation is pivotal to conclude the Doha Round of negotiations, Mr. Kher explained its three major components, which are:
- Article V, VIII and X of the General Agreement on Tariffs and Trade which deal with transit and other important issues of trade facilitation: compliance with a new agreement on issues pertaining to transit, fees, rules and procedures would be ‘mandatory’ and may result in countries faced with disputes in the WTO mechanism;
 - Customs cooperation: this would be undertaken as a ‘best endeavour’ effort; and
 - Special & differential treatments which are not clear and on which India has submitted a proposal.
- 4.4 Even though trade facilitation would reduce transaction costs by addressing inadequacies in infrastructure, the cost of its adaptation to be incurred by developing countries would be considerable. They would be on account of changes in laws, investment in infrastructure and human resources development. He advocated for a gradual approach toward implementing a multilateral agreement on trade facilitation, balancing obligations with developmental needs of poor countries.

Plurilateral Agreement on Trade in Services

- 4.5 Mr. Kher iterated that India has a significant interest on trade in services, particularly those related to information technology and IT enabled services. However, the proposed plurilateral agreement on trade in services by a group of developed countries has extremely limited policy space.
- 4.6 He mentioned the technique of ‘ratcheting’ where as reforms are undertaken in a system, commitments are to be made simultaneously. Some of the other inflexibilities in the proposed agreement include the fact that there will be no “a priori exclusion” of certain sectors.
- 4.7 Another major concern is limited discussion on supply of services through temporary movement of skilled and semi-skilled workers on which India and many other developing countries have significant comparative advantage. These are the reasons why is not participating in this negotiation.

Environmental Goods and Services

4.8 Mr. Kher noted that various elements of the proposal on environmental goods and services, including the 54 product lines which are mentioned, did not particularly coincide with Indian trading interests.

Information Technology Agreement

4.9 Ms. Kidwai alerted the audience to the findings of a stakeholder consultation on the Information Technology Agreement II and noted that product coverage, the definition of 'Information Technology Products' and the impact of ITA-I on India's electronic hardware industry are of significant concerns.

4.10 Additionally, Mr. Kher mentioned that of the 300 items tabled in the Information Technology Agreement II, 120 are those which fall outside the purview of goods pertaining to information technology (for example, air conditioners, juicers, and toasters). The assessment of the implementation of Information Technology Agreement I revealed that except a few most countries had lost more than they had gained.

5. Maintaining 'Realism' while Engaging in Negotiations

5.1 Mr. Kher stressed on the importance of establishing internal and external 'balance' while dealing with these new issues. Developing countries asserted the need for 'realism' while making and receiving these requests for improvement in international trade.

5.2 Dealing specifically with India, he mentioned that bolstering support for retaining the minimum support programmes provided to Indian farmers and covering subsidies granted in certain cases under the Green Box mechanism of the Uruguay Round Agreement on Agriculture would aid in establishing a better sense of balance.

5.3 Mr. Kher concluded by stating that the issues which had been placed on the table in the run-up to the Bali Ministerial, when considered collectively, needed to exude a better sense of balance between trade and development. He said, even if the Bali Ministerial Conference does not conclude on a positive note, the weight of the WTO itself would in no way be undermined.

5.4 Noting the importance of balancing various interests including those of producers and consumers in the domestic context and among various country groups, Mr. Mehta pointed out the importance of optimal use of negotiating capital, particularly for countries like India where it is limited.

5.5 Responding to Mr. Kher's presentation, Mr. Lamy said that based on ground realities and changes therein different countries and their groups have evolved specific positions to aid their negotiations at the WTO. He urged members to find opportunities to create value from trade amidst their differences.

6. Relevance of the World Trade Organisation

- 6.1 Responding to perceived threat about gradually diminishing relevance of the multilateral trading system, Mr. Lamy recognised the growing importance of the relationship between domestic concerns of public interest and behind-the-border measures affecting international trade. This is one of the reasons for increasing number of non-tariff measures based on ethical issues such as genetically modified foods, hormones in beef, etc. What is needed is capacity building for better domestic regulations and harmonisation of regulation between and among trading partners. He underlined that such systemic issues (technical assistance and capacity building, regulatory harmonisation) can be better addressed in a multilateral system as dealing with them bilaterally would be too costly.
- 6.2 Noted the growing importance of trade-plus issues, Mr. Mehta advocated for developing a “Geneva Consensus on Trade” which should be based on the principles of balanced rules and there should be cooperation and coordination among various international bodies such as the World Intellectual Property Organisation, International Labour Organisation, United Nations Environment Programme to develop and take that ‘Consensus’ forward.
- 6.3 To conclude, Mr. Lamy cited the example of the WTO Dispute Settlement Mechanism which is better equipped to handle trade disputes in a balanced, non-discriminatory manner as opposed to the dispute settlement mechanisms in preferential trading agreements.
- 6.4 Furthermore, he pointed out that mechanisms evolved by preferential trading agreements would be ill-equipped to deal with larger systemic issues like agricultural subsidies granted by rich countries to their farmers, issues pertaining to fisheries subsidies.
- 6.5 Mr. Lamy concluded by noting that despite the impasse in the Doha Round of multilateral trade negotiations, the WTO has established itself as “the body” governing the international trading system and its members should explore avenues to create value in trade in general and multilateral trade negotiations in particular.