

CUTS International

Meeting Proceedings

THE FUTURE OF WTO (MC12)/INDO-PACIFIC ECONOMIC FRAMEWORK /TRADE POLICY INDIA NEEDS

BACKGROUND

In times of uncertainties, the global economy calls for a strategic plan to pave the way for a better and common future. The multilateral system, that binds nations together, requires both resuscitation and concomitant significant structural reform. Moreover, countries would have to revisit their domestic and international policies and make necessary changes to sustain in such circumstances.

For the purpose of trade policy, CUTS International, the global think and action tank has been holding discussions with groups of eminent experts on the policy rubric and reforms since June 2022, when the 12th Ministerial Conference of the World Trade Organisation (WTO) took place. Since then, CUTS has hosted five sessions on various dimensions and contours of the anticipated changes at the WTO, India's domestic trade policies, including its approach towards the trade pillar of the Indo-Pacific Economic Framework.

I

FUTURE OF THE WTO OR WTO OF THE FUTURE?

Members of the World Trade Organisation (WTO) have been able to successfully negotiate a package of decisions and deliberations at their Twelfth Ministerial Conference (MC12; June 12 to 17, 2022) in Geneva. In almost five years since the previous Ministerial Conference, this multilateral body had been subject to enormous strain. The MC12 was observed as a make-or-break moment for the organisation. Even though the outcome was not so great at least it stopped the system to backslide.

After intense negotiations and trade-offs, members were able to conclude a multilateral agreement at the WTO. Outcomes relating to fisheries subsidies, pandemic response package, waiver of Trade-Related Aspects of Intellectual Property Rights (TRIPS) obligations for COVID-19 vaccines, food security, and e-commerce have breathed new life into the institution.

Yet, members have been able to only acknowledge the concerns regarding WTO dispute settlement system, without addressing them. The full restoration of a well-functioning adjudication mechanism for trade disputes remains a formidable task. Also, the WTO has to deal with the challenges inherent in governing disparate economic systems. Groups of countries have been pre-empting and establishing WTO-beyond rules, such as in e-commerce, in blocs and thus, leaving others having genuine development concerns vis-a-vis those issues.

In this context, CUTS International organised a two-part webinar series, presented by the Secretary-General, **Pradeep S. Mehta**; moderated by **Montek Singh Ahluwalia**, former Deputy Chairman of the Planning Commission of India; and distinguished panellists who addressed diverse issues relating to the WTO in this background.

SESSION 1:

The first webinar was conducted on June 23, 2022, graced by speakers like **Pascal Lamy**, former Deputy Director General at the WTO; **Amita Batra**, Professor of Economics, Jawaharlal Nehru University; **Mark Linscott**, former Assistant U.S. Trade Representative; **Deborah Elms**, Executive Director of Singapore-based Asian Trade Centre; and **Mia Mikic**, Adviser, Asia-Pacific Research and Training Network on Trade of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). Discussions focused on whether the MC12 could provide momentum to revive the institution's negotiating, monitoring and dispute-settlement functions. While some panellists believed that MC12 was a victory by itself, others differed.

To discuss the future of the WTO, **Pradeep S. Mehta** noted that the institutional inertia had been broken. The challenging facets in the repair of the said system lay in the consensus on what shape the reform ought to take place and the restructuring of the dispute settlement mechanism.

Pascal Lamy asserted that there was no consensus in decision-making, and one should not equate it with unanimity. Members should not only provide reasons behind their opposition but also rethink the issues that should be allowed to progress without consensus. This, in turn, would prevent obstructionism and deadlocks such as the prevailing crisis about the Appellate Body, the WTO's apex adjudicatory body.

On plurilaterals, **Amita Batra** opined that open-ended ones may also be discussed as means to circumvent the burdensome demands of consensus in a multilateral framework. However, to ensure that plurilaterals are representative in nature, members will have to define basic norms laying down the terms of participation as well as the scope of beneficiaries.

Beyond plurilaterals, **Mark Linscott** cautioned against the unrelenting growth in FTAs creating massive tensions within the multilateral order. Nonetheless, he mentioned that the WTO and

FTAs could still coexist without being pitted against each other. On one hand, FTAs reaffirm the obligations of the WTO. Correspondingly, the WTO too can learn and borrow from FTAs on new-age issues such as digital trade, environment and labour, among others.

Deborah Elms highlighted another fundamental issue plaguing the discourse on trade-related issues. The agenda to reform the WTO must move beyond a select group of trade negotiators and experts. The WTO cannot progress if lay persons remain unaware or unconcerned about the importance of the WTO and more importantly, the role of freer and fairer trade in raising living standards.

In this regard, **Mia Mikic** pointed out, that the role of businesses will be paramount in creating a modernised rule book. Creating interested stakeholders, and in turn, a global community that can appreciate the value of a multilateral trading system will take the momentum generated by MC12 further.

Finally, **Montek Singh Ahluwalia** summarised the discussion, stressing that trade should not be disassociated from considerations of fairness. Trade-generated distributional losses cannot be ignored for too long without grave consequences. He also noted the need for greater high-level political engagement at the G-7 and G-20 to set the tone for the multilateral trade agenda and take it forward.

SESSION 2:

The second webinar of the two-part series was conducted on July 14, 2022. This time, with speakers like **Anabel González**, WTO Deputy Director-General, WTO; **Tim Yeend**, Associate Secretary, Department of Foreign Affairs and Trade, Australia; **Simon J Evenett**, Professor of International Trade, University of St. Gallen, Switzerland; **Victor do Prado**, Senior Fellow, Brazilian Center for International Relations; **Stephen Olson**, Senior Research Fellow, Hinrich Foundation; and **Hamid Mamdouh**, Senior Counsel at King & Spalding LLP.

As an introductory comment to the discussion, **Pradeep S. Mehta** said that there was a need to redouble the efforts to raise awareness about the importance of the WTO, and the role of freer and fairer trade in raising living standards for the common masses.

Anabel González recognised three factors which were instrumental for the success of MC12 – the perseverance and role of WTO Director-General Ngozi Okonjo-Iweala in leading from

the front, the pragmatism shown by Trade Ministers, and an across-the-board willingness to compromise. She observed that a few “common sensical, actionable and forward-looking principles” were the need of the hour, which could guide the work of WTO reform going forward. Importantly, she noted that a fully functional global trading system needed a fully functional dispute settlement system. She cautioned that reliance on a uniform approach to all negotiations at the WTO risked driving negotiating activity outside the institution. She recognised the value of consensus in decision-making but also expressed concerns about the difficulty to achieve as some may not be suitable for each and every trade-related issue.

Tim Yeend observed that plurilateral agreements (agreements involving less than the full WTO membership) are very much a part of the multilateral system, particularly when done in an inclusive manner. Such agreements provide an easier environment to find negotiated solutions and ultimately serve to drive multilateral consensus in the long run. Australia has been a strong proponent of plurilateral Joint Statement Initiatives (JSIs) at the WTO, particularly on issues such as electronic commerce. He also noted the need to adopt creative approaches to WTO dispute settlement, including the Multiparty Interim Appeal Arbitration Arrangement (MPIA) which is currently in force and counts Australia among its participating members. MPIA has been conceptualised as an interim procedure till the time the WTO’s Appellate Body remains incapable of deciding appeals. In agriculture, he observed that it remained challenging to make progress on legacy issues, and its time to go beyond cliches.

Simon J Evenett emphasised the need to ensure that the momentum from MC12 did not unravel, similar to what had happened after the Bali Ministerial Conference in 2013. On the waiver of Trade-Related Aspects of Intellectual Property Rights (TRIPS) obligations for Covid-19 related patents, Simon raised questions about the extent to which it was a meaningful way forward. He also stressed that the trade impasses at the WTO were not a result only of the developments which occurred in Geneva, but were also spill overs from domestic trade frictions in countries. There is accordingly a need to build support for trade multilateralism at home, which would then generate positive tailwinds in Geneva.

Victor do Prado noted that at every Ministerial Conference, there are a set of imponderables. He recognised that MC12 was a very important and welcome stepping stone, but also said that the real test lay in what the WTO could deliver at the next MC13. Victor touched upon various pressing issues relating to WTO reform, including transparency, plurilaterals and dispute settlement.

Stephen Olson stated that we need to adjust expectations of what the WTO can and cannot accomplish. In his opinion, many of the outcomes at MC12 only constituted “agreements to talk about talking”. While he acknowledged the crucial role of the WTO, he lamented that it could no longer act as the global trade referee because its rules book was outdated.

Hamid Mamdouh highlighted the increasingly complex nature of trade policy issues, especially those involving regulatory matters such as digital trade. He pointed out that there is today a “trust deficit” in the business community with the working of the WTO, which must also be addressed when speaking about WTO reform. Importantly, he lay great emphasis on the need for a return to fundamentals, underlining that the greatest success of the WTO has not been in terms of trade liberalisation or market opening, but in guaranteeing predictability and stability through a rules-based system.

In a nutshell, **Montek Singh Ahluwalia** observed that the MC12, though not a remarkable success, was not entirely a failure either. By thriving in some areas and keeping the ball in play in others, the WTO stays relevant in today’s global scenario. He also observed that consensus in decision-making led to resultant failures to arrive at decisions, suggesting a relook at the rule. Prior to this, he did mention the pivotal role of the United States of America (USA) as a “benign hegemon” in maintaining trust in the global trading system. He observed that as the US’ relative economic strength eroded over time, an equally benign hegemonic grouping did not rise to take its place, which was a factor in reduced trust in economic globalisation overall.

II

INDO-PACIFIC ECONOMIC FRAMEWORK: MORE THAN MEETS THE EYE?

Prior to the MC12, the Indo-Pacific Economic Forum (IPEF) was launched by the President of the USA, Joe Biden, in Tokyo on May 23, 2022, on the side lines of a Quadrilateral Security Dialogue (QUAD) summit. Currently representing 40 per cent of the world GDP, the IPEF aims to make the Indo-Pacific region an engine of global economic growth. For India, a non-member of both RCEP and CPTPP, this framework offers a significant opportunity to ramp up its trade and economic engagements in the Asian region. It is also said to provide a distinct geopolitical flavour against the worries about China’s daunting ambitions of taking over the world, and finally, will produce many immediate benefits on the economic front in terms of cooperation and investment and technology development for clean energy.

On these grounds, CUTS organised an insightful webinar on August 5, 2022, to discuss the IPEF for prosperity and its implications and potential for India. Moderated by **Pradeep S. Mehta**, the discussion involved esteemed dignitaries like **Montek Singh Ahluwalia**; **Gopal Krishna Agarwal**, National Spokesperson for Economic Affairs, BJP; **Badri Narayan Gopalakrishnan**, Lead (Advisor), Trade and Commerce, NITI Aayog; **Pritam Banerjee**, Consultant, Asian Development Bank, **Deepak Mishra**, Director and Chief Executive, Indian

Council for Research on International Economic Relations (ICRIER) and **Amita Batra, Professor, JNU**.

The introductory note by Mr Mehta stated that most deliberations around the said framework were regarding its form, rather than its elements. He recognised that as of now, only the process to establish the IPEF had been launched, while the actual framework would be shaped over the coming months as negotiations under its four pillars progressed.

As the first speaker of the discussion, **Mr Ahluwalia** mentioned that the ease of movement across borders and minimisation of procedural hassles are critical for enhancing trade, which can be facilitated by being a part of a trading agreement. According to him, India is required to be much more open, integrate with the global economy and have confidence in its domestic producers. He also stated that it was a crucial time for India to step up to compete with China in Global Value Chains (GVCs).

Gopal Krishna Agarwal reiterated the commitment of the Indian government to integrating into GVCs and its keen interest in signing Free Trade Agreements (FTAs) with important trading partners like the US. However, he stressed the need to carefully assess what was on India's plate in such deals. While the need for greater economic integration was clear, the important question lay on the time and the procedure to implement the same. He also focused on the need for coherence among trade, industrial and logistics policies; recognising the need for moving forward with long-pending domestic economic reforms and corresponding political economy concerns.

Badri Narayanan Gopalakrishnan spoke on how India's trade strategy aligns with the IPEF, proving it to be a great opportunity for the country. Observing India's overall gains from trade liberalisation, he said that India had always been a strong advocate of a transparent, rules-based trading system. While IPEF is not particularly a trade agreement, he still considered its trade component important for India. He mentioned that India, instead of relying solely on the World Trade Organisation (WTO), has been seeing FTAs with renewed interest. Moreover, he highlighted the nation's change in trade strategy where it was now entering into such trade agreements with countries sharing a complementary trade relationship.

Pritam Banerjee talked about the inadequacy of the existing/current multilateral system, making IPEF an advanced decision taken in today's trade scenario. He stated that it was time for India to present a more confident face and drive the narrative as a mature economy. The framework offered a chance for India to engage with issues such as digital trade more proactively, instead of adopting a passive, defensive stance. He also mentioned the need for a whole-of-government approach to domestic reforms, which needed to take place parallelly with India's international positioning on trade-related issues.

Deepak Mishra said that it was refreshing to see the government's current ambition of vigorously engaging in FTAs. Mishra lamented that trade policy and domestic reform, as well

as industrial policy, had often been misaligned and diverted India from its aim and purpose. For trade to work, the reforms need to be accompanied by simultaneous domestic reforms. He observed that a strategy of first securing a large share in GVCs, before demanding more local value addition, would be a wise step for India to follow.

Amita Batra agreeing with almost all the opinions expressed above added that India should focus primarily on the trade pillar of the IPEF and should not shy away when it comes to proper negotiations regarding tariff inclusion with the US when coming to terms in the trade agreement.

In general, the speakers unanimously opined the IPEF is a great opportunity for India from a trade perspective, and it should look into its existing policies and strategies to be ready for a stronger integration in the future.

III

THE TRADE POLICY INDIA NEEDS

Since India decided to stay out of the trade pillar of the IPEF, views were diverted towards a foreign trade policy structure at the domestic level that required substantial modification. Particularly, release of the Foreign Trade Policy of 2015-2020 had to be extended till September 2022 and again till the next financial year, owing to “*volatile global economic and geopolitical situation and currency fluctuations*”. Hence, a strategic trade policy for the maximisation of benefits was the starting point of all discussions. In order to perform well domestically, as well as globally, India requires a redevelopment in their policy formulation, including low tariffs, more openness to trade, and consideration of the industrial sector. Therefore, CUTS International organised a two-part roundtable session in this context to evaluate the nation’s trade policy goals and the actions required to achieve them.

SESSION 1:

On October 14, 2022, the first roundtable began with an opening address by **Pradeep S. Mehta**, wherein, he emphasised the importance of a robust foreign trade policy, which requires coherence among different policies such as industrial, competition, investment as well as knowledge and innovation. This will help us take comprehensive and cogent actions on how to enhance our trade performance. Following his remarks, the floor turned into a Roundtable-house discussion where each invited Speakers shared their opinions on the given subject.

In his keynote address, former Commerce & Industry Minister **Suresh Prabhu** said that trade is a launchpad for the development of the domestic economy. He highlighted that trade

always has upsides and downsides, and trade policy measures should aim to leverage the positive gains and minimise the negative consequences.

In his opening remarks, **Naushad Forbes**, Co-Chairman, Forbes Marshall, stated that India's economic history makes a powerful case for free trade. He said that India should seek to join more Free Trade Agreements (FTAs) while learning from its experiences with past FTAs. He also called upon the Indian industry to articulate its interest in free trade more clearly, and for that voice to be heard by policymakers.

Martin Wolf, the Chief Economics Commentator of the Financial Times, noted that changes in the global trade environment did not mean the end of trade, but in fact, these changes had themselves created huge opportunities. For India to capitalise on these and insert itself into global value chains (GVCs), it must think clearly about services, including digital trade, reduce formal and bureaucratic trade barriers, and accelerate skill acquisition and integration with the global knowledge pool.

Montek Singh Ahluwalia, former Deputy Chairman of the Planning Commission of India, pointed to the need to have a clear tariff policy, supported by an exchange rate policy, to help realise greater trade. He also recognised FTAs as tools to not just enhance market access for exports, but also to stimulate reforms domestically. He suggested that India should be open to deeper behind-the-border integration that is a part of newer FTAs.

While some discussants considered trade policy and industrial policy to be inextricably linked to each other, others sought to draw a distinction between the two. The importance of attracting investment, and achieving scale which stimulates competitiveness and encourages firms to focus beyond the domestic market, were mentioned as steps to drive both trade and growth.

Nagesh Kumar, Director of the Institute for Studies in Industrial Development (ISID), asserted that the impact of trade on growth and development can be evidenced by looking at the trajectories of other countries. While emphasising that export-oriented industrialisation and growth made eminent sense, he noted that trade had never fully recovered from the global financial crisis, and the growth of world trade has been flat all these years. He also pointed out the need to exploit India's own domestic market to achieve competitiveness. Lastly, he remarked that exchange rate management is a very important determinant of competitiveness that should be an area of major focus while developing trade policy.

Ashwani Mahajan, National Co-Convener of the Swadeshi Jagran Manch, pointed out that before embarking on any new trade agreement, the fate of earlier agreements must be understood. In addition, he also cautioned about the potential impacts of non-trade and trade-related issues in FTAs, citing government procurement as an example. He stated that trade policy cannot be spoken about without mentioning industrial policy and domestic concerns.

Apart from industry, he also stressed that the impacts of trade liberalisation on sensitive sectors like dairy and agriculture must also be fully considered.

Other expert comments focussed on the need to ensure domestic trade integration, as a prerequisite to better international trade performance. This would require greater involvement of state governments and more action nationally to implement a forward looking trade policy.

Given that trade policy can generate both winners and losers, the importance of policies to handhold those who are most vulnerable to the adverse effects of trade was also discussed. The need for greater political will, a commitment to domestic reforms, a focus on MSMEs, increased uptake of technological solutions, and a comprehensive FTA strategy, are some of the other priority policy areas that came up during the discussion.

SESSION 2:

The second roundtable was conducted on November 17, 2022, with **Montek Singh Ahluwalia** as the keynote speaker, and a number of distinguished experts, industry representatives and trade policy practitioners, namely, **Harsha Vardhan Singh, Raju V Kanoria, Rajat Kathuria, Ajit Ranade, K M Chandrasekhar, Lakshmi M Puri, Anup Wadhawan, Dhiraj Nayyar** and the like, to deliberate on the direction in which India's trade policy should move.

Pradeep S. Mehta briefed the meeting on the discussions which had taken place at the 1st session on 14th October which had a very large cohort of speakers. Because, the session could not take up views of many this second session is being organised. Alas, many were unable to speak in spite of the time extension of half an hour, in both sessions. This only embodied the high enthusiasm of learned intervenors on what India's Trade Policy should be like.

There was a general consensus on the need for India to be more open to entering into mega-regional FTAs, particularly those in the Asian region, in order to better integrate into regional and global value chains. The slow progress of multilateral trade negotiations, geopolitical fractures, the need to be located within FTA territories in order to attract investment, the projection of India as an engaged Asian power, and the brighter economic outlook of the Asian region were some of the reasons mentioned in support of this view.

In his opening remarks, **Mr Ahluwalia** highlighted that exports are not just meant to pay for imports, but they indicate the level of integration with the global economy and demonstrate competitiveness. He outlined three broad determinants of trade policy which affect levels of India's export competitiveness – the openness of the economy, indicated by the prevailing levels of tariffs, the extent to which India is willing to be drawn into Free Trade Agreements (FTAs), and its approach to Global Value Chains (GVCs). He also emphasised that good physical infrastructure and logistics are not just essential for exports, but for a well-functioning economy overall.

Many speakers rued the missed opportunities by India for not signing on to the Regional Comprehensive Economic Partnership (RCEP) agreement. **Ajit Ranade**, Vice Chancellor, Gokhale Institute of Politics and Economics, formerly Chief Economist Aditya Birla Group, said that, policymakers must seriously reconsider India's participation in Asian treaties like the RCEP. If remained outside, the potential investors who would want to relocate entire value chains may not do so to India.”

In a similar vein, **Raju V Kanoria**, Chairman and Managing Director, Kanoria Chemicals and Industries Ltd., mentioned that economic thinking was being driven by political rhetoric. India is not an integral part of supply chains yet because the country has been ignoring large agreements like the RCEP which dominate global trade. He asserted that the government should adopt a positive stance on signing onto FTAs to increase our trade opportunities.

However, while recognising the need for greater trade liberalisation, **Gopal Krishna Agarwal** cautioned about the depth and timing of it, emphasising that domestic constraints make it imperative that efforts are first directed at making India's domestic industry more competitive, before opening it up to the global competition. He observed that there lay no other choice but to open up the economy, in tandem with solving domestic challenges. Many voiced similar concerns.

It was worth an observation that historically, India's trade with countries that do not partner with any FTA (including the USA and China, two of India's largest trading partners), has done better in trade than with its FTA partners.

Manish Tewari, Member of Parliament (MP), Lok Sabha and former Union Minister, in his intervention, touched upon the currently limited role of Parliament in trade policymaking. He observed that if the Parliament is involved more proactively, explaining to the MPs the importance of trade policy with regard to India's economic prospects, it will only dovetail and add to the discussion to get India's trade policy right.

On tariffs, while there were some differing views on details, there was a general sense that India needed to reduce its currently high average tariff levels, preferably to levels prevailing in other developing countries, and particularly matching those in the ASEAN region. Further, regarding tariffs as a method to protect domestic industry, there was a recognition that this often becomes counter-productive, as MSMEs' access to imported inputs and intermediates becomes more expensive, harming their cost competitiveness.

The relationship between trade, tariffs and exchange rate fluctuations was also discussed. In this regard, **Veena Jha**, CEO, IKDHVAJ Advisers LLP pointed out that over time, tariff policy would mitigate the effects of currency depreciation. India's trade policy must consider the effects of both.

Many participants emphasised that improving competitiveness and achieving scale were the key factors in export performance, observing that any economy which is not competitive domestically cannot expect to be competitive globally and integrate with GVCs. **Anup Wadhawan**, former Commerce Secretary, Government of India, remarked that a prerequisite for competitiveness was being an open economy.

Further, pointing out that trade prescriptions were by themselves inadequate to address issues relating to competitiveness, **Dhiraj Nayyar**, Chief Economist, Vedanta Resources Limited, mentioned that, “Policy induced costs on domestic competitiveness must be resolved before looking at purely trade concerns like tariffs.”

The need for a GVC-oriented trade policy, which looks at issues from a supply chain-wide perspective, and better logistics were identified as key factors which could help improve competitiveness for GVC integration. The recent National Logistics Policy was welcomed by many in the group as a positive development, and they called for its effective implementation.

Harsha Vardhan Singh, former Deputy Director General, WTO, stated that the government needed to act as a partner and not an overseer when it came to enabling Indian companies in integrating with GVCs, noting that policy stability and regulatory certainty were important elements of this. The focus must also be to encourage firms to expand, particularly from micro to small and medium categories.

The related aspect of standards also came up for discussion. It was underlined that unless efforts towards harmonisation of standards (such as SPS and TBT), and entering into mutual recognition agreements were prioritised, market access commitments made by trading partners will remain unrealised, as Indian MSME exports would be denied entry on grounds of standards.

Many speakers pointed out that the Indian industry and its associations needed to take a greater interest in trade negotiations and commercial diplomacy, articulating their voices and positions on trade issues clearly. With respect to trade negotiations and regulatory/institutional capacity, while it was noted that the capacity of Indian trade negotiators has improved tremendously over the years, experts felt that further capacity enhancement should remain at the heart of any restructuring initiatives in the trade policy administration.

K M Chandrasekhar, former Cabinet Secretary, Government of India and Ambassador to the WTO, stated that there was a need to fully leverage India’s strengths– the resilience and size of the domestic market, and prioritise the needs of the economy while negotiating Preferential Trade Arrangements (PTAs).

The important role of India’s foreign Missions in economic diplomacy as two-way channels of information between their host countries and headquarters was also highlighted

prominently. In this context, **Lakshmi M Puri**, former Assistant Secretary-General, United Nations and Indian diplomat, emphasised that dedicated personnel ought to be put in relevant missions for leveraging geopolitical developments with policy prescriptions for trade.

The discussion raised various other important aspects, such as the need for greater conversations between the industry and trade experts to ensure a frank exchange of views and positions on trade policy matters. Many former Indian trade negotiators, former Commerce Ministry mandarins, eminent economists and other top trade policy experts participated in the said roundtables. In the overall, there was a huge interest in the last two roundtables and some important speakers could not offer their valuable insights in spite of time extensions.
