RESEARCH SEMINAR IN INTERNATIONAL ECONOMICS

School of Public Policy
The University of Michigan
Ann Arbor, Michigan 48109-1220

Discussion Paper No. 521

Designing a Pro-Active Stance for India in the Doha Development Agenda Negotiations

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October 13, 2004

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For presentation at the "WTO Seminar: India's Post-Cancun Concerns"
Jointly Organized by Planning Commission and International Trade and Development Division, School of International Studies,
Jawaharlal Nehru University, New Delhi, October 18-19, 2004

Abstract

In this paper, we first summarize the framework that has been agreed upon as the basis for the WTO Doha Development Agenda (DDA) negotiations. We then discuss briefly the design and mission of the WTO and the economic effects of multilateral trade liberalization. Thereafter, we discuss the conditions for India's realization of the maximum benefits from the DDA negotiations and the implications for broader Indian domestic policy reforms. We then set out our recommendations for India's pro-active involvement and negotiating strategies in the DDA negotiations for multilateral trade liberalization in agricultural products, manufactures, and services, and for improvements in WTO rules governing trade and related issues. We conclude with a brief discussion of the policy agenda adopted by India's newly elected coalition parties, the implications of the emphasis on social reform and equity for India's negotiating strategies in the DDA negotiations, and a vision of the role that India might play in the global trading system and in world politics.

October 13, 2004

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I. Introduction

In this paper, we focus on the potentially significant gains for India from a strategy of pro-active pursuit of its national interests in the WTO Doha Development Agenda (DDA) multilateral trade negotiations currently underway. Being pro-active means that these gains can be realized by negotiations for greater market access for India's exports of goods and services to its major trading partners in conjunction with reciprocal offers to these trading partners of greater access to the Indian markets.

In Section II following, we summarize the framework that has been agreed upon as the basis for the DDA negotiations. In Section III, we discuss briefly the design and mission of the WTO and the economic effects of multilateral trade liberalization. In Section IV, we then discuss the conditions for India's realization of the maximum benefits from the DDA negotiations and the implications for broader Indian domestic policy reforms. In Section V, we set out our recommendations for India's negotiating strategies in the DDA negotiations for multilateral trade liberalization in agricultural products, manufactures, and services, and for improvements in WTO rules governing trade and related issues. Section VI concludes.

II. The Framework of the DDA Negotiations

Almost three years have now passed since the conclusion of the WTO Ministerial Meeting held in Qatar in November 2001 that was designed to launch the Doha Development Agenda (DDA) negotiations. It had been hoped that the negotiations would be energized by the WTO meeting in Cancún in September 2003, but agreement could not reached on the negotiating framework. After a series of subsequent meetings, it was announced on July 31, 2004 that agreement had been reached on a framework for the final phase of the DDA. As indicated in USTR (2004, pp. 1-4), the main features of this framework include the reform of agricultural trade, new market access for manufactures, opening of services markets, and trade facilitation for the movement of goods across borders:

- **Agricultural trade reform**
    - All countries, except the least developed, will reduce agricultural tariffs, with deeper cuts in higher tariffs, a "banded" formula to achieve greater tariff harmonization across countries, consideration of a tariff cap, and selective expansion of tariff quotas for "sensitive" products. Developing countries will be subject to lesser tariff reduction commitments.
    - Elimination of agricultural export subsidies
    - Disciplines for export credits and export guarantee programs
    - Disciplines for the trade-distorting practices of State Trading Enterprises
    - Reductions, caps, and harmonization of levels of domestic support overall and for specific commodities, with 20% reductions by all WTO members in the first year of implementation.
    - Maintenance of the viability of food aid programs
    - Changes in national policies for cotton to address issues of market access, domestic support, and export competition.
- **Manufactured Products**
    - Negotiation of a tariff-cutting formula for industrial products under which higher tariffs will be cut more than low tariffs.
    - Sectoral initiatives to fully eliminate or harmonize tariffs in particular industry areas
    - Developing countries will be allowed longer implementation periods and flexibility on percentages of their tariff lines. Least developed countries will be encouraged to bind more of their industrial tariffs.
    - Non-tariff barriers will be identified and subjected to reductions in later negotiations.
- **Services**
    - Intensify negotiations to open global services markets and to achieve progressively higher levels of liberalization
- **Trade Facilitation**
    - Update and modernize current WTO rules on border procedures

- Cut red tape and unnecessary formalities at the border
- Advance reforms to promote anti-corruption efforts

In keeping with the professed objectives of the DDA, it is stated in USTR (2004, p. 5) that:

- "The framework encourages expanded trade between developed and developing countries, as well as expanded "South-South" trade. Open markets and domestic reform go hand in hand, offering the best means for further integrating developing countries into the global economy.
- This reflects the recent commitment of G-8 Leaders to ensure that the poorest are not left behind but that they too develop the capacity to participate in the global trading system. The framework recognizes that different countries will need to move at different speeds toward open trade."

Now that the framework for the DDA negotiations has been established, it is essential for the WTO member countries to design their strategies in order to pursue their national interests in the negotiations. We turn next accordingly, for background purposes, to outline briefly the design and mission of the WTO, discuss conceptually what the economic effects of trade liberalization may be, and then consider the conditions needed for India in particular to maximize the benefits from its involvement in the DDA negotiations.

III. The Design and Mission of the WTO and the Economic Effects of Trade Liberalization

Design and Mission of the WTO

Srinivasan (2004, p. 18) has noted that "…the WTO is a misunderstood and maligned institution in much of the debate on it in India." It may be useful therefore to review briefly the main features and mission of the WTO, as set out on the WTO website (www.wto.org):

> "The World Trade Organization (WTO) is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.
>
> The result is assurance. Consumers and producers know that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services that they use. Producers and exporters know that foreign markets will remain open to them.
>
> The result is also a more prosperous, peaceful and accountable economic world. Virtually all decisions in the WTO are taken by consensus among all member countries

and they are ratified by members' parliaments. Trade friction is channeled into the WTO's dispute settlement process where the focus is on interpreting agreements and commitments, and how to ensure that countries' trade policies conform with them. That way, the risk of disputes spilling over into political or military conflict is reduced.

By lowering trade barriers, the WTO's system also breaks down other barriers between peoples and nations.

At the heart of the system — known as the multilateral trading system — are the WTO's agreements, negotiated and signed by a large majority of the world's trading nations, and ratified in their parliaments. These agreements are the legal ground-rules for international commerce. Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody's benefit.

The agreements were negotiated and signed by governments. But their purpose is to help producers of goods and services, exporters, and importers conduct their business.

The goal is to improve the welfare of the peoples of the member countries."

As the foregoing statement indicates, the WTO is an inter-governmental organization that establishes the rules governing international trade and seeks to enhance the welfare of its members by pursuing the reductions of trade barriers and hence the liberalization and expansion of trade. It is in this context that WTO member countries, India included, can be engaged in and benefit from the process of trade liberalization. In this connection, it may be helpful next to consider briefly some of the ways in which multilateral trade liberalization can be expected to work and the impacts involved.

Economic Effects of Trade Liberalization

When tariffs or other trade barriers are reduced, domestic buyers (both final and intermediate) substitute towards imports, and the domestic competing industry contracts production while foreign exporters expand. Thus, in the case of multilateral liberalization that reduces tariffs and other trade barriers simultaneously in most sectors and countries, each country's industries share in both of these effects, expanding or contracting depending primarily on their export or import orientation and on whether their protection is reduced more or less than in other sectors and countries.

Worldwide, these changes cause increased international demand for all sectors. World prices increase most for those sectors where trade barriers fall the most. This in turn causes changes in countries' terms of trade that can be positive or negative. Those countries that are net exporters of goods with the greatest degree of liberalization will experience increases in their terms of trade, as the world prices of their exports rise relative to their imports. The reverse occurs for net exporters in industries where liberalization is slight – perhaps because it may already have taken place in previous trade rounds.

The effects on the welfare of countries arise from a mixture of these terms-of-trade effects, together with the standard efficiency gains from trade and also from additional benefits due to the realization of economies of scale. Thus, we expect on average that the world will gain from multilateral liberalization, as resources are reallocated to those sectors in each country where there is comparative advantage. In the absence of terms-of-trade effects, these efficiency gains should raise national welfare measured by the equivalent variation for every country,[1] although some factor owners within a country could lose. However, it is possible for a particular country whose net imports are concentrated in sectors with the greatest liberalization to lose overall, if the worsening of its terms of trade swamps these efficiency gains.

On the other hand, if markets are imperfectly competitive, multilateral trade liberalization permits all countries to expand their export sectors at the same time, as all sectors compete more closely with a larger number of competing varieties from abroad. As a result, countries as a whole may gain from lower costs due to increasing returns to scale, lower monopoly distortions due to greater competition, and reduced costs and/or increased utility due to greater product variety. All of these effects make it more likely that countries will gain from liberalization in ways that are shared across the entire population.

The various effects just described in the context of multilateral trade liberalization will also take place when there is unilateral trade liberalization, although these effects will then depend on the magnitudes of the liberalization in relation to the patterns of trade and the price and output responses involved between the liberalizing country and its trading partners. Similarly, many of the effects described will take place with the formation of bilateral or regional free trade areas (FTAs). But in these

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[1] The equivalent variation is a measure of the amount of income that would have to be given or taken away from an economy instead of a change in policy in order to leave the economy as well off as it would be after the policy change has taken place. If the equivalent variation is positive, it is indicative of an improvement in economic welfare resulting from the policy change.

cases, there may be both trade creation and trade diversion, with consequent positive and negative effects respectively on the economic welfare of FTA-member countries. At the same time, trade diversion has negative effects on the economic welfare of non-member countries. The net effects on economic welfare for individual countries, and also globally, will thus depend on the economic circumstances and policy changes implemented.

In reality, of course, all of the various effects just described will occur over time, some of them more quickly than others. It is important accordingly to specify the time horizon over which the trade liberalization takes place, taking into account how the economy and its various sectors do and do not adjust to changing market conditions, and on the short- or long-run nature of these adjustments. In the context of the WTO negotiations, it is typically the case that the reductions in trade barriers are phased in over an extended period of time. Thus, in the Uruguay Round, which was completed in 1994, the liberalization was to be phased in over a period of 10 years. As indicated above, there will similarly be an extended period of phase-in especially for developing countries in the implementation of the DDA negotiations. It is also important to bear in mind that there may be longer-run adjustments that could occur through capital accumulation, population growth, and technological change, and that the longer-run growth paths of individual economies may themselves be influenced by trade liberalization.

IV. Conditions for India's Realization of Maximum Benefits from the DDA Negotiations and Domestic Policy Reforms

The foregoing discussion has sketched the framework for the DDA negotiations and the ways in which significant benefits can be realized by countries participating in the process of multilateral trade liberalization. It should be emphasized in this context that there are two basic pillars of the multilateral trading system and trade negotiations that are important to bear in mind: reciprocity and non-discrimination (most-favored-nation treatment - MFN). Reciprocity in multilateral trade negotiations means that there is a bargaining process in the negotiations in which WTO member countries exchange concessions for the expansion of mutual market access by means of reductions in their trade barriers.

Non-discrimination (MFN) means that all reductions in trade barriers made by WTO member countries are extended to all WTO members irrespective of whether they have made concessions. In this connection and with reference especially to India's involvement in the DDA negotiations, we have the benefit of the writings by such influential, U.S. academic economists as T.N. Srinivasan (2003, 2004) and Jagdish Bhagwati and Arvind Panagariya (2003) and World Bank/IMF staff members such as Aaditya Mattoo and Arvind Subramanian (2003), who remain in close touch with policy issues and developments in the Indian economy. We draw to a large extent on their various writings in our following discussion, as well as on Deardorff and Stern (2004).

In particular, Srinivasan (2003, pp. 1-2) notes from India's standpoint that:

> "We should offer proposals of our own that further our interests rather than merely reacting to others. Offering little in exchange while asking a lot of others is a sure way of becoming a marginal player with negligible influence on the outcome of negotiations. Since unilaterally opening our markets to international competition is in our own interest regardless of whether our access to markets of others is enhanced, getting such enhanced access in return in negotiations is a bonus.
>
> …The Doha negotiations offer us an opportunity to reach for our legitimate position in global trade and finance and to compete effectively in world markets. But to avail ourselves of this opportunity, we have to articulate a consistent position that would promote our interests on various items of the negotiating agenda."

The question then is how the policymakers view the country's interests in the negotiations. In order to realize the maximum potential gains from the negotiations, it is essential that the leading policymakers have the willpower to look across and beyond the interests of the different groups in society, to build domestic coalitions to support continued and greater openness of the economy, and to devise programs to assist sectors and workers and their families to adjust to the changes that may be engendered in the liberalization process. In this connection, Bhagwati and Panagariya (2003, p. 1) stress that:

> "Our liberalization is in our own interests. How well we are able to exploit the markets of our partners depends not just on how open those markets are but also on how open our markets are. This is amply illustrated by our own success in the last decade under progressive opening of our markets. With the economic reforms taking root, our ability to benefit from increased openness at home and abroad is likely to be that much greater in the future."

In building support for a more pro-active role in the DDA negotiations, the policymakers need accordingly to document and publicize the domestic and external benefits that the Indian economy has already realized both from its unilateral policy reforms undertaken since 1991 and from the implementation of the Uruguay Round multilateral agreements in the past decade. This will necessitate the identification and measurement of the orders of magnitude of the sectors, geographic regions, and individuals and groups who have benefited from the domestic policy reforms and the multilateral trade liberalization. At the same time, it is essential that the policymakers be up front about identifying the sections of society that have done less well or perhaps have even been harmed by liberalization. In the course of gathering and disseminating this information, efforts can be made to establish coalitions representing the interests of the major beneficiaries of the liberalization in support of the DDA negotiations. It will also be essential to devise programs and policies to address problems of adjustment to the possibly adverse changes that may be experienced. Finally, estimates can be made of the economic effects on India and its major trading partners of the DDA negotiations. Presumably, it will be possible to show that the benefits stemming from pro-active participation in the DDA negotiations will be sufficiently large so that the "gainers can compensate the losers and the economy as a whole will be better off than would otherwise be the case."

So far, we have sought to develop in broad outline the rationale for India's pro-active participation in the DDA negotiations. In this connection, Mattoo and Subramanian (2003) stress the central importance of instituting and sustaining "good" domestic economic policies that will inject greater competition into the domestic economy together with judicious regulation to remedy market failures and achieve efficient realization of desired social objectives.[2] The issue then is whether and how multilateral

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[2] As noted in Lawrence and Chadha (2004, pp. 23-24): "The list of areas for Indian reform is long. It includes the need for additional trade and services liberalization, customs reform, measures to attract foreign investment, privatization and reform of public sector enterprises, adoption of competition and regulatory policies, liberalization of small-scale sector reservation policies, labor market reforms, reforms of policies for sick industries, reform of relations between the central and state governments, changes in the investment environment for power, telecommunication, and transportation, tax reform and agricultural sector reform. Aside from specific actions in each area, there is a need to improve government performance by reducing corruption, increasing transparency, and providing opportunities for judicial review."

engagement can be designed to contribute meaningfully to overall domestic policy reform. In this connection, Mattoo and Subramanian provide a number of arguments to bolster their position.

First, they argue that multilateral engagement can facilitate domestic reform if governments are able to demonstrate the payoffs resulting from increased access to foreign markets and thereby encourage the formation of countervailing interests to counteract groups that resist economic reform. By demonstrating the external payoffs from greater openness domestically, India can become a more credible bargainer in the multilateral negotiations and thereby be in a better position to induce its major trading partners to provide access to their own markets. Second, multilateral engagement can provide the basis for a commitment to good domestic policies. The point here is that external commitments may provide guarantees against the reversal of current policies and provide a credible promise of future reform. This may help to provide time for competitive conditions to become established and for firms to adjust to market changes and to neutralize vested interests in maintaining the status quo.

Third, by creating and securing greater foreign market access, multilateral engagement in the WTO framework can help to overcome the asymmetric power differences between stronger countries and less powerful countries. This can be achieved by means of resort to the rules-based WTO dispute settlement system that can be used to help protect the weaker party in cases of trade disputes. Finally, multilateral engagement is a means of fending off the distorting effects of preferential trading arrangements that may arise in the form of trade diversion as non-member countries face discrimination in the form of higher trade barriers compared to the members of preferential arrangements whose barriers are eliminated. That is, as mentioned above, one of the two basic pillars of multilateralism is non-discrimination, which can serve to reinforce the conditions of competition for all countries and thereby provide the foundation for the realization of greater economic efficiency and global welfare.[3]

[3] Lawrence and Chadha (2004) provide an extensive discussion in support of a bilateral free trade agreement between the United States and India that they argue could contribute to high-quality institutional reform of the Indian economy.

V. Recommendations for India's Negotiating Strategies in the DDA

Having established the case to be made for India's pro-active participation in the DDA, we turn now to consider the particular strategies to be recommended for India to pursue its interests in the multilateral liberalization of agricultural products, manufactures, and services and for improvements in the WTO rules governing trade and related issues. Table 1 indicates India's effective (applied) rates of duty and bound rates for agriculture, mining, manufacturing, and the whole economy and by stage of processing. It is evident that India's tariff rates are relatively high and, as noted in Figure 1, rank among the highest in the world compared to other emerging-market/developing economies. There is considerable scope therefore for significant reductions in India's tariffs in the DDA negotiations.

Agricultural Liberalization

As noted in Table 1, India's average applied tariffs in agriculture are 33 percent while its average bound tariffs in the WTO are 94 percent. Thus, there is a significant wedge overall between the applied and bound rates, and, as shown in Table 2A, the wedge exceeds 50 percentage points in 556 out of the total 673 agricultural tariff lines With respect to domestic support, noted in Table 2B, India's total Aggregate Measure of Support (AMS) is negative and thus indicative of taxation of Indian agriculture. Mattoo and Subramanian (2003, p.340) note that Indian exporters do receive some direct and indirect export subsidies. They also note that, despite high bound tariff rates, India's production of such major crops as rice, wheat, pulses, and sugar were for the most part fully integrated with world markets, and that India has significant actual and potential comparative advantage in rice, sugar, dairy products, cotton, processed foods, and cereals. India therefore is in a position both to consider reductions in its tariff rates on agricultural imports and to seek greater foreign market access for its agricultural exports.

In devising its strategy for agricultural negotiations, it is important to acknowledge that Indian agriculture accounts for nearly one-fourth of GDP, and that more than one-half of India's total population is in the agricultural sector. In this light, Former Commerce Minister Arun Jaitley (2003) has reflected the political concerns involved:

> "Some countries have been strongly pushing for greater market access for their products as far as agriculture is concerned. But under the present circumstances, with high levels of subsidies, with very high levels of our population in India involved in agriculture, if we open up our farmer to competition with highly-subsidised economies, perhaps we could even be pushing him to a situation, which could create acute social distress, let alone the economic consequences of the same.
>
> And, therefore, when these negotiations are completed, we do hope – and this is one of the points that we've been trying to explain to our colleagues in the developed world – that an adequate understanding of India's position would be accommodated in terms of market access, which really results from the extent to which tariffs are to be reduced. And in identifying certain sensitive products as special products where an adequate amount of protection would have to be assured. Apart of course from creating a special safeguard mechanism whereby a surge of imports to our market could be checked. In terms of sheer volume, a surge in any one of the sensitive items can actually cause distress to…millions of farmers. These are the sensitivities that we have to keep in mind. We do not wish to stall the negotiations on agriculture, but we do hope adequate windows of exception for economies like India that are highly dependent on agriculture, are created."

In addressing these concerns, Srinivasan (2003) has noted that:

> "The sustenance of our rural economy…should not be equated with keeping the current large share…of our labour force and rural households continuing to earn their living directly or indirectly from agriculture. That so large a proportion of our labour force is still employed in agriculture…is a telling indicator of the failure of our development strategy in enabling workers to move from agriculture to more productive employment elsewhere in the economy. …We should focus on increasing agricultural productivity, and, at the same time, generate productive employment opportunities in rural areas outside of agriculture. We should recognize that greater integration of our markets for agricultural inputs and outputs with world markets would provide greater incentives for productivity raising investment and innovation in agriculture. In sum, issues of food security, creation of a safety net for the poor, addressing risks and returns in farming of small and marginal farmers, and rural development are objectives that fall largely in the domain of domestic policy. Using trade policy would be far more costly and less effective in achieving them. Our negotiating partners can easily see through the tenuous connection between the objectives and trade policy.
>
> …the adjustment problem in exposing our farmers to world prices is real and could be serious if the opening is sudden. By announcing the opening in advance and phasing it in over a reasonable time, it can be largely contained. Given the opportunity our diverse agriculture can be very competitive internationally and there is no need to fear competition."

As noted above, the framework for agricultural trade reform in the DDA negotiations calls for reductions in import tariffs, elimination of export subsidies, and reductions in domestic supports. In our judgment, India has much to gain by pro-active engagement in the agricultural negotiations by means of bargaining with the major industrialized countries with emphasis especially on the reduction of import barriers to expand the market access for India's agricultural exports and on reductions in domestic agricultural supports. India should be prepared to offer reciprocal concessions to bind its applied agricultural import tariffs and to reduce these applied tariffs over an extended period of time. To achieve effective results from the agricultural negotiations, India could also consider allying with members of the Cairns Group and the Group of 21 that have much to gain from agricultural liberalization.

Manufactured Products Liberalization

As already indicated, India's tariffs are among the highest of the world's major trading countries. Mattoo and Subramanian (2003, pp. 336-38) argue in this connection that it is clearly in India's interest actively to seek reductions in tariffs on manufactured products. First, while India's manufactures tariffs are high and may be difficult politically to reduce, India's concessions in the DDA negotiations could provide useful bargaining leverage. Second, given the large wedge between India's applied and bound tariffs noted in Table 1, this could lead to uncertainty and unpredictability about India's trade policy on the part of investors. Reducing bound levels of tariffs could thus improve India's investment climate. Third, reductions in tariffs in the major industrialized country markets, especially in labor-intensive manufactures such as textiles and clothing, leather products and footwear, etc., will directly benefit Indian export industries. Finally, there is evidence that India has been affected adversely by the trade diversion resulting from the North American Free Trade Agreement (NAFTA) and other preferential trading arrangements. The most effective way to ameliorate and possibly completely to eliminate the trade diversion effects of the preferential arrangements is to negotiate MFN tariff reductions in the DDA negotiations.

Services Liberalization

Mattoo and Subramanian (2003, p. 346) note that India's services commitments in the Uruguay Round negotiations completed in 1993-94 were rather limited. As they state:

> "The government will need to decide whether to offset to bind the current regime and, more important, whether to liberalize further either unilaterally or as part of the Doha negotiations. The challenge is to ensure that these decisions reflect good economic

policy rather than the dictates of political economy or negotiating pressures. It is useful, therefore, to recall what we have learned about services liberalization:

- There are substantial gains both from successful domestic liberalization, especially in key infrastructure services like telecommunications, transport, and financial services, and from improved access to foreign markets.

- Successful domestic liberalization requires:

    - Emphasis on competition more than a change of ownership

    - Credibility of policy and liberalization programs

    - Domestic regulations to remedy market failure and pursue legitimate social goals efficiently

- Effective market access requires:

    - Elimination of explicit restrictions

    - Disciplines on implicit regulatory barriers"

In recent years, Mattoo and Subramanian cite some significant changes in services policy, including telecommunications, maritime transport services, and to some extent in banking and insurance services. As the result of these changes, they stress that India may now be in a good position in the services negotiations to address foreign services barriers. This is especially the case with regard to the temporary movement of natural persons, given that India is so well endowed with labor with many different skill levels. There are also concerns about the protectionist backlash of outsourcing especially in the U.S. economy that may need to be addressed from India's standpoint in the DDA negotiations.

WTO Rules Governing Trade and Related Issues

Anti-Dumping

As noted in Table 3, India has the distinction of initiating 206 anti-dumping actions in 1999-2002. This compares to 192 actions initiated by the United States and 134 by the European Union. It is well known that the only major justification for anti-dumping measures is in cases of "predatory" dumping in which an exporter intends to drive competitors permanently out of the market so as to secure monopoly advantage and the ability subsequently to raise price. As Srinivasan (2003) and Mattoo and Subramanian

(2003, p. 345) note, the occurrence of predatory pricing is unlikely because it may not be possible to keep other rivals from entering the market. It is also the case that India has been singled out as the object of anti-dumping actions. As noted in Table 4, India had the largest impact of anti-dumping actions per dollar of exports. Given that anti-dumping actions are taken almost always on protectionist grounds, the issue is what alternatives there may be to these actions. Most economists would recommend using competition laws on predation, but it is unlikely that this option is feasible because competition laws are presently not part of the WTO rules and have been set aside as far as the DDA negotiations are concerned. Under the circumstances, the best that might be done is for India to join with like-minded countries in the DDA negotiations and urge that anti-dumping be removed as an instrument of trade policy. In its place, safeguard measures could be used to deal with problems posed by surges in imports. Safeguard measures are covered under Article XIX of the GATT, and, as Srinivasan (2003) notes, they would be much less damaging than anti-dumping measures.

Preferential Trading Arrangements

It is well known that there has been a plethora of preferential trading agreements (PTAs) negotiated especially in the past decade. The WTO has reported (www.wto.org) that, by its definition, there were 250 preferential agreements that had been notified, and that the number could rise to 300 by the end of 2005. The number may thus have roughly trebled since the WTO was first established in 1995. Until recently, India had confined its PTA activities mainly to South Asia, but it has now signed and is actively pursuing bilateral free trade agreements (FTAs) with a number of countries in Southeast Asia. As noted above, there is some evidence that Indian exports have been unfavorably impacted by the NAFTA and by the arrangements negotiated by the EU. There could be some benefits for India from FTAs with countries in Southeast Asia, but these benefits are likely to be relatively small.

To date, India has not become involved in FTAs with any of the major industrialized countries. It is noteworthy though that Lawrence and Chadha (2004) have set forth a detailed case for India and the United States to establish a bilateral FTA. They argue in particular that this would provide an impetus for domestic policy reform in India, and, based on some computable general equilibrium (CGE) modeling, a U.S.-India FTA might yield welfare gains for India that are comparable to what might be expected to result from the DDA multilateral negotiations. In our view, there are important drawbacks to a U.S.-India FTA. That is, it is unlikely that agricultural reforms can be dealt with effectively on a bilateral basis. The DDA multilateral negotiations on agricultural liberalization can be expected to offer greater potential benefits for India. Also, a U.S. bilateral FTA would be very intrusive in requiring that India adapt its domestic policies on matters like government procurement, intellectual property rights, investment, competition policy, and possibly social measures covering labor standards and the environment to conform to U.S. institutions and regulatory principles and practices.

Accordingly, as Srinivasan (2003) and Bhagwati and Panagariya (2003) argue, it would be in India's interest to push for making the existing PTAs open-ended by allowing expanded membership on an MFN basis and by "killing preferences at source" by vigorous pursuit of the multilateral reduction and removal of existing barriers to trade in agricultural products, manufactures, and services.

TRIPS

In the run-up to the WTO Ministerial Meeting in Cancún in September 2003, there was a prolonged controversy related to the public health provisions of the TRIPS Agreement in order to provide medicines to poor countries to deal with HIV/AIDS, tuberculosis, malaria, and other epidemics. It was finally agreed that pharmaceutical firms in countries like India that are able to produce good-quality and low-cost generic drugs could export these drugs to certifiably poor countries unable to produce the drugs themselves. While this was a laudable relaxation of the TRIPS Agreement, Srinivasan (2003) argues there are some larger and fundamental issues that need to be addressed. He notes that:

> "…unlike commodity or service trade in which both exporter and importer benefit, TRIPS in effect would result in transfer to patent holders in a handful of rich countries from…purchasers from a large number of poor countries. The potential benefit, if any, accruing to innovators in poor countries from stronger IP protection is largely uncertain in the distant future.
>
> The most unsatisfactory aspect of TRIPS was that it was thrust, largely by the US, on the developing countries in the Uruguay Round in return for the phasing out of

> the Multifibre Arrangement and agricultural trade liberalization. Apart from the fact that the latter was illusory and the former was back loaded with most of the benefits to developing countries coming after 2005, no convincing case was made for mandating a uniform patent life regardless of whether it was for a process or product innovation, and whether the product was a lifesaving drug or a new nail clipper! Most egregiously, the overwhelming empirical evidence that the link between the monopoly rights granted through patents and incentive to innovate was weak at best and varied between industries, was completely ignored. Even where there was an apparent link, such as in pharmaceuticals, grant of patents has not been shown to be the most cost-effective policy of promoting innovation. In short, the developing countries got a very raw deal when they accepted TRIPS. Taking TRIPS out of the WTO is politically impossible. However, India can once again claim moral high ground by pointing out the lack of a strong economic argument for patent protection and its enforcement through TRIPS."

In addition to the foregoing, Mattoo and Subramanian (2003, p 342) suggest that India might consider changing its IP legislation so as to permit retaliation by withdrawing IP protection in cases in which partner countries do not comply with commitments affecting the market access of Indian exports. They also recommend that India should design its domestic competition law so as to use compulsory licensing to address anti-competitive practices involving IP protection. Finally, they recommended that India should actively pursue its national interests with regard to proprietary protection of its genetic resources, indigenous knowledge, and geographic indications.

Trade Facilitation

It is widely agreed that many countries, including India, have customs and related arrangements that can be very costly and thus inhibit trade. As noted above, trade facilitation has been included as part of the framework for the DDA negotiations. It is certainly in India's interest to institute reforms that will cut red tape and eliminate unnecessary formalities at the border and to promote anti-corruption efforts.

Other Issues

Prior to the September 2003 Cancún Meeting, the EU especially was actively promoting inclusion of the so-called Singapore issues as part of the DDA multilateral negotiations. These issues involved competition policy, investment, government procurement, and trade facilitation. But because of widespread opposition generally from developing countries, including India, at Cancún, it was decided subsequently to drop the first three of the Singapore issues. Thus, only trade facilitation was incorporated into the framework for the DDA negotiations.

In our judgment, we concur with the decision to put the other Singapore issues on hold, since there is so much else that needs to be done to bring about trade liberalization. This is not to say, however, that issues of competition policy, investment, and government procurement are unimportant for India. Rather, as pointed out by Bhattarcharjea (2003), Das (2003), and Srivastava (2003), India may have much to gain by instituting measures to deal with these issues as part of its domestic policy reforms and in the context of the WTO rules and agreements.

We should also note that issues of labor and environmental standards have been excluded from the DDA negotiating framework. Here again, these are issues that can be addressed as parts of India's domestic reform agenda. But, in our view, India should hold fast in keeping these issues outside the boundaries of the WTO rules and procedures.

VI. Conclusion and a Vision for India

In this paper, we began by summarizing the framework that has been agreed upon as the basis for the DDA negotiations. We then discussed briefly the design and mission of the WTO and the economic effects of multilateral trade liberalization. Thereafter, we discussed the conditions for India's realization of the maximum benefits from the DDA negotiations and the implications for broader Indian domestic policy reforms. Finally, we set out our recommendations for India's pro-active involvement and negotiating strategies in the DDA negotiations for multilateral trade liberalization in agricultural products, manufactures, and services, and for improvements in WTO rules governing trade and related issues.

Now that the DDA negotiations are underway, the question is how the recently elected Congress Party leadership and membership of the governing coalition of political parties will decide to pursue India's interests in the negotiations. In this connection, Srinivasan (2004) has reviewed the Common Minimum Programme (CMP) agreed to by the 14 Constituents of the United Progressive Alliance (UPA) that formed the newly elected government. He notes (pp. 3-4) that the CMP has "a strong secular and populist flavor" that is reflected in the following governing principles of the UPA government:

- "To preserve, protect and promote social harmony and to enforce the law without fear or favour to deal with all obscurantist and fundamentalist elements who seek to disturb social amity and peace.

- To ensure that the economy grows at least 7-8% per year in a sustained manner over a decade or more and in a manner that generates employment so that each family is assured of a safe and viable livelihood.

- To enhance the welfare and well being of farmers, farm labour and workers, particularly those in the unorganized sector, and assure a secure future for their families in every respect..

- To fully empower women politically, educationally, economically and legally.

- To provide for full equality of opportunity, particularly in education and employment for Scheduled Castes, Scheduled Tribes, OBCs and religious minorities.

- To unleash the creative energies of our entrepreneurs, businessmen, scientists, engineers and all other professionals and productive forces of society."

There is a "solemn pledge of the UPA government to provide a government that is free of corruption, transparent, accountable and responsive at all times." There is a commitment to the continuance of economic reforms that "…will be oriented to spreading and deepening rural prosperity and to bringing about a visible and tangible difference in the quality of life of ordinary citizens."

Given the orientation of the UPA governing principles, Srinivasan notes (pp. 6-7) that:

"Other than pointing out the need for tripling the current level of FDI, and promising to protect national interest, particularly of farmers in all WTO negotiations and to use the flexibility in existing WTO agreements to protect Indian agriculture and industry fully, and to a play a proactive role in strengthening the solidarity of developing countries in the shape of G-20 in the CMP does not have much to say on external trade and investment issues."

Srinivasan concludes (pp. 19-20) that:

"The protectionist language of the CMP unfortunately is suggestive, *not* of India playing a proactive and aggressive role in resuming the Doha Round for reducing trade barriers everywhere, but of a return to its traditional defensive stance. This stance was futile in the past and would be in the future."

We can only hope that Srinivasan's conclusion is overly pessimistic, and that as the DDA negotiations unfold, the coalition government will recognize what India has to gain from the negotiations and can then implement the appropriate steps to pursue its interests in a forceful and proactive manner. Indeed, it seems fitting for us to conclude by citing the vision that Srinivasan has expressed (2003, pp. 3-4) of "India's Legitimate Position in the Global Economic System:

> "Undoubtedly, our greatest achievement since independence is that India continues to be a thriving democracy. We are the second most populous country and the largest democracy in the world. India was ranked by the World Bank as 162nd in terms of per capita gross national income (GNI) in 2001, and 12th in terms of absolute GNI; the corresponding ranks for China were 123rd and 6th, respectively. In world merchandise trade, we were the world's 30th largest exporter in 2002 with a share of 0.8%, having only slightly improved our position of 32nd largest trade in 1994 with a share of 0.6%. On the other hand, China significantly improved its position from being the 11th largest trader with a share of 2.9% in 1994 to the 5th with a share of 5.1%. Although it is not possible to set a specific number as our legitimate share of world trade, there is no doubt our share is not commensurate with our being the 12th largest economy in the world. More importantly, we should aspire to be seen by the rest of the world as an economy from which they can buy a range of quality products at attractive prices, and to which they can sell their products in a stable market and policy environment with virtually no barriers. We should also be seen as an attractive destination for investment as well as a source for investment finance. The rupee should become a stable 'hard' currency which the rest of the world would gladly hold as part of their foreign exchange reserves. We should be playing a major role in the decision making organs of the WTO, World Bank and the IMF. In short, we have the potential to be, and should have the aspiration to become, one of the major global economic powers. On the other hand, a slow progress towards realizing our potential and, worse still, failure to realize it, would put paid our dreams of becoming a major world power and a permanent member of the United Nations Security Council. The world will then say of us…that 'India is an economy with great potential and is likely to remain so!"

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Table 1. Bound Tariff Rates and Effective Rates of Duty for India

	Effective rate of duty[a] 1993/94	*Effective rate of duty[b] 1997/98*	*Effective rate of duty 2001/02*	*Bound rate of duty[c] by year 2005*
Average unweighted tariff (percent)				
Agriculture	43	26 (16)	33	94 (33)
Mining	70	25 (13)	22	36 (9)
Manufacturing	73	36 (10)	33	52 (41)
Whole economy	71	35 (15)	32	54 (42)
Average unweighted tariff by stage of processing (percent)				
Unprocessed	50	25 (16)	29	74 (40)
Semiprocessed	75	35 (9)	32	44 (23)
Processed	73	37 (17)	33	56 (51)

Note: Standard deviation is provided in parentheses. Tariff averages consider only those tariff lines with ad valorem rates (year beginning April 1).

a. Following the reform package contained in the 1993/94 budget. The auxiliary duty was merged with the basic customs duty in the 1993/94 budget.

b. Effective MFN rate (i.e., actual rates applied where basic rates have been reduced by exempt rates). However, many exempt rates cannot be incorporated, such as where the exempt rate applies to only a part of the Harmonized Commodity Description and Coding System six-digit tariff line. The effective rate also excludes specific exemptions.

c. Includes only items bound during the Uruguay Round. The bound rates do not include the commitments under the Information Technology Agreement.

Source: Mattoo and Subramanian (2003, p.337), based on UNCTAD, World Bank, Government of India, and selected WTO Secretariat estimates.

Table 2. Indicators of Indian Agricultural Trade

A. Difference in Uruguay Round Final Bound Rates and MFN Tariff Rates, Number of Lines by Different Range Groups

Range (UR-TR)	Number of Lines[a]
UR-TR > = 75	401
50 = < UR-TR < 75	155
25 = < UR-TR < 50	29
10 = < UR-TR < 25	39
0 = < UR-TR < 10	41
UR-TR < 0	8
Total	**673**

TR = MFN tariff rate as announced in the Government of India Budget, 1999/00.
UR = Uruguay Round final bound rates.
[a] Tariff Lines at six-digit Harmonized Commodity Description and Coding System (HS) or subgroups of six-digit HS including only agricultural products.

B. Aggregate Measure of Support to Indian Agriculture (Selected Crops)

Year	Product-specific support (as % of value of agricultural output)	Non-product–specific support (as % of value of agricultural output)	Total AMS (as % of value of agricultural output)
1986	–34.29	2.25	–32.04
1987	–32.08	3.2	–28.88
1988	–35.54	3.32	–32.22
1989	–36.97	3.39	–33.58
1990	–31.78	3.36	–28.42
1991	–62.23	3.6	–58.63
1992	–69.31	3.46	–65.85
1993	–54.75	3.14	–51.61
1994	–43.27	3.4	–39.87
1995	–44.09	3.9	–40.19
1996	–45.84	3.62	–42.22
1997	–32.16	4.12	–28.04
1998	–41.89	3.49	–38.4

Source*:* Mattoo and Subramanian (2003, p. 341), based on Gulati (1999).

Table 3. Antidumping Initiations by Economy Taking Action

Economy	Number of antidumping initiations			Index of antidumping initiations (1995–98) per dollar of imports, USA = 100[a]
	1991–94	1995–98	1999–02	
Industrial Economies				
Australia		77	65	1,096
Canada	84	39	68	199
European Union	135	122	134	210
United States	226	94	192	100
All industrial economies	678	353	489	74
Developing Economies				
Argentina	59	72	105	2,627
Brazil	59	54	46	871
India	15	78	206	1,875
Korea, Rep. of	14	34	13	204
Mexico	127	31	30	275
South Africa	16	113	44	2,324
All developing economies	394	509	612	313

a. Based on numbers of antidumping initiations from 1995 to 1998 and values of merchandise imports for 1996.

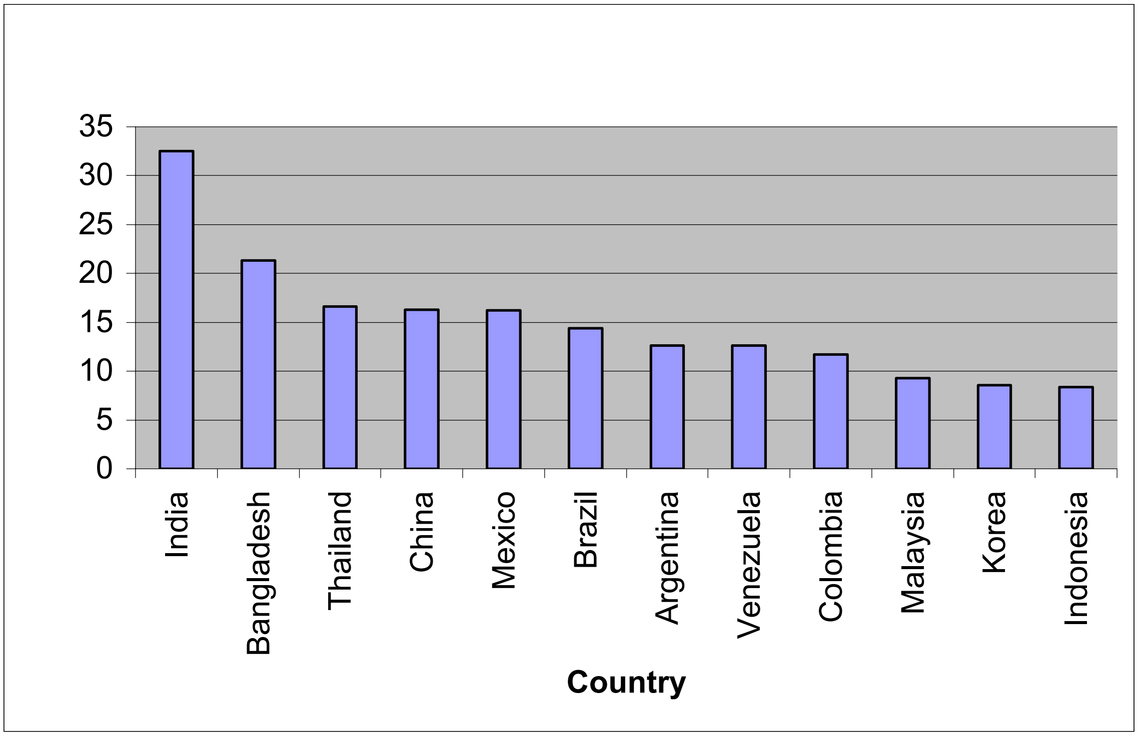
Source: Mattoo and Subramanian (2003, p. 344), based on WTO Secretariat, Rules Division, Anti-Dumping Measures Database.

Table 4. Antidumping Initiations by Selected Exporting Economy

Economy	*Number of antidumping initiations*			*Index of antidumping initiations (1995–98) per dollar of exports, US = 100*]
	1991–94	*1995–98*	*1999–02*	
Industrial economies				
France	26	8	13	34
Germany	35	30	28	70
Italy	16	16	14	77
Japan	32	23	46	67
United Kingdom	20	16	18	74
United States	70	48	42	100
Developing economies				
Brazil	50	23	38	585
China	115	94	154	751
India	24	21	43	779
Korea, Rep. of	50	40	81	385
Taiwan, China	31	30		323
Thailand	26	21	50	451

Source: Mattoo and Subranian (2003, p. 345), based on WTO Secretariat, Rules Division, Anti-Dumping Measures Database.

Figure 1. Cross-country Comparison of Average Tariff Rates



Note: Tariff data are for 2000, except for Malaysia (1997), India (1999), and the Republic of Korea (1999).
Source: Mattoo and Subramanian (2003, p. 336) based on *World Development Indicators, 2002*.