Indian Economy: Some Contemporary Perspectives
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Lecture 37
Indian Economy- India & WTO 2

So, hi everyone, let me welcome you all in this particular session and this is going again in the direction of WTO that we have. So, we have discussed in the previous session about the different roles, frameworks and negotiations, what are the types of unions, the agreements that happens among the countries the, in terms of trade agreements.

In this particular session, we will be talking about the India and WTO from the perspective of research and development. So, the readings remain same and the objective also remains same that we have to understand the trade frameworks in India. So, these are the references that will remain same and it is coming from the previous lecture. So, it remains same for the rest of the lectures that we are going to talk about the Indian WTO.

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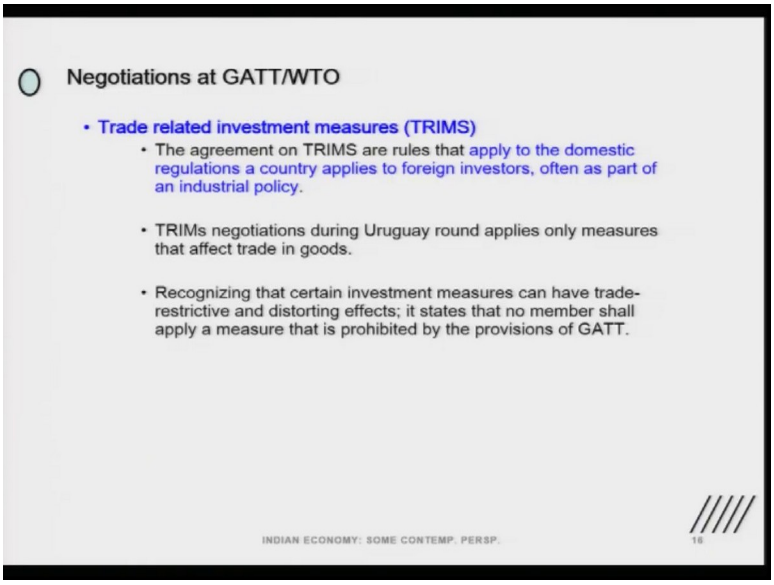

So, one of the important topics that we always talk about the WTO argument is called TRIMS and TRIMS it is nothing but it applies to the regulations on foreign investors often as part of industrial policy. So, this idea came when we have the movement of capital, which means that the hot capital or whatever, we have the foreign direct investment happening. So, each and every countries have already their domestic rules define that which all, from which all countries they will be accepting the investment.

But in certain cases, it becomes a controversial or dispute issue, that the WTO members feel that they are not given due attention if they want to invest in a country. So, in that case of dispute settlement, the WTO also coming into. So, the rule it mentions that, the TRIMS rules that it applies to domestic regulations, a country applies to foreign investors often as part of industrial policies. So, in case industrial policy it has to be.

TRIMS negotiations during Uruguay around applies only majors that affect trade in goods. Recognizing that certain investment majors can have a trade restrictive and distorting effects, it is states that no member shall apply a measure that is prohibited by the provision of the GATT. So, this is what it mentions. So, then you have the trade related intellectual property rights, in case of TRIMS, here we have the investment major.

So, investment majors basically, we are talking about how certain type of activities which are linked to investment and if the countries feel that it is quite sensitive to their national security and for other regions, then that that is a part, but no country can go for discrimination again any kind of an investment, until unless it is the national security issue or any other concern. So, Uruguay round had highlighted such majors.

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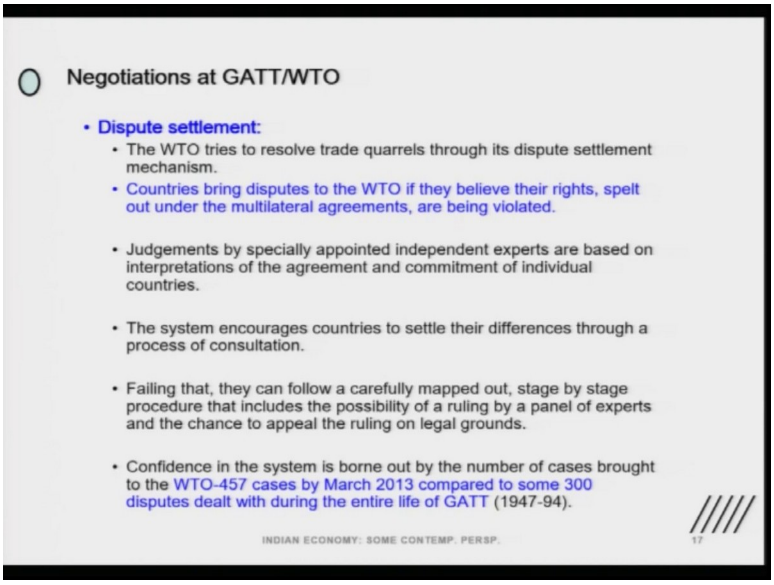

Dispute settlement mechanism is quite unique in case of WTO. So, dispute citizen. So, if the country is going to raise an issue of dispute with the WTO and WTO has to take care of the actions or has to come up with some kind of solution. So, under that it happens that countries bring disputes to WTO, if they believe their rights spelled out under the multilateral agreements are not met or are being violated.

Then there will be a specially appointed experts and these experts will be giving some kind of interpretations on agreement and commitment and then there will be opportunity given that for mutual agreements if the mutual agreements fail, then there will be again WTO coming in, which means that the respect for their personnel and the country specific interest are always welcomed and if they are not settle, the dispute with those intentions in mind then the WTO and they are going to follow carefully mapped out state by state procedures that includes the possibility of ruling by a panel of experts and the chance to appeal.

The ruling on legal grounds. Is borne out by members cases brought, so WTO 457 cases by March 2013 compared to some 300 dispute deals with during the entire life of GATT, so which means that you will find that each and every year. I do not have the exact data but each and every year you will find that whenever you have a ups and downs in the economy, there were more disputes cases with the WTO, because at that time countries take extraordinary measures.

For example, it was the case between US and China, because China and the US had gone for giving the most favoured nation status and they had also gone for streamlining the movement of goods and services. But as a result, it all found that the US were happy that they are going to have the access of the large economy. But at the end, it was found that there was a cases of TRIPS and TRIMS violations and as a result, they had gone for a completely different platform of having the conflict of interest and then it became a quite a controversial topic, it had also impacted the global business cycle for a very small period of time.

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Then you have the trade policy review, the purpose of the trade policy review mechanism is to improve transparency, create a greater understanding of the policies adopted by various countries and assess their impact if they have, all duty members must go under the periodic which means that the WTO members will be sitting together finalizing the things if they have any issue.

Each review contains reports by the country concerned and the WTO Secretariat. So, these are the cases that you have. So, trade policy, which is also important that how the countries are devising their trade policies, whether it is aligning with the common interests of the members or not and whatever the WTO principles have, whether it is aligning with those principles or not. So, this is one aspect that they do.

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One of the important topics that we have is called the non-tariff barriers and non-tariff barriers are quite interesting, then you have the quantitative, you have the restrictions, then you have anti-dumping procedures, countervailing procedures you have then you have a sanitary and phytosanitary sanction.

Then you have the import licensing, then you have the IPR, intellectual property rights, then you have the safeguards for your own industry from others. Rules of origin is one aspect wherein we had recently we had the trade agreements and India had raised the issue under the regional agreement that India did not become part of their raised the issue of rules of origin.

Because rule of origin says that if you have the value addition of 35 percent and more than that, countries should be having the trademarks and whatever you have the copyright attached, but it is not in practice, because most of the countries whatever value addition happens, but they report that it is being produced at the place where there is some kind of duty free or some kind of eligibility in place.

So, that becomes one of the controversial issues, then here you have the TRIMS, then technical barriers trade. I will be, I will be dealing with some of these majors, because it is very difficult to cover in half an hour session each and every topic. So, this was.

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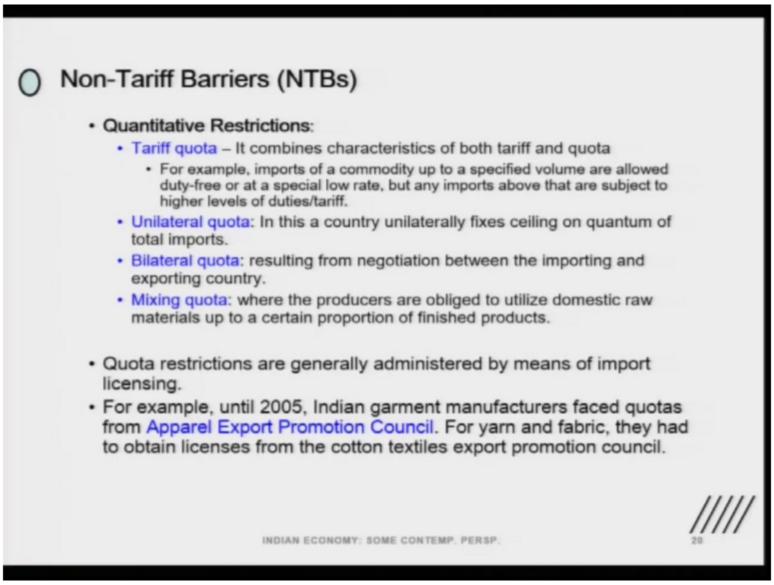

So, one you have is the, one you have is the tariff quota in terms of quantitative restriction that we have, it combines the characteristics of both quotas, so import of a commodity of to specified volume beyond that it will not, so maybe it will be told that allowed and duty free and low rate, but of any imports of that, which means there is some kind of restriction that you can put that if you are going to supply 100 tons of wheat, then it will attract nothing, but if it is going to have 100 beyond or if it is going to be beyond 100 ton of wheat, then it will be a higher it will attract higher tariffs.

So, in that case, then you have the unilateral quota in this a country unilaterally fixes ceilings on quantitative of total imports, which means that it is also talking about some kind of threshold, some kind of quantitative majors and then the bilateral quota. So, basically non-tariff, tariff is a quantitative measure where you impose directly non-tariff means that you will not be charging quantitatively, but you will be putting some alternative measures so that you can restrict the movement of that particular good or the commodity or service.

Bilateral quota resulting from negotiation between importing exporting, mixing quota where the producers are obliged to utilized domestic raw materials up to a certain portions or I would say, whatever we say certain proportions of the finished product, quota restrictions are generally administered by the means of import licensing and all then here you have the.

So in case of India, it was reported in 2005 that Indian garment manufacturers faced this Apparel Export Promotion Council and for yarn and fabric and this was in limelight and then the, there was some kind of issue with regard to the export of certain items, then also some countries also go for something called due to drawback, under that if you are importing certain raw material from outside you will be, you will be given some kind of benefits, but once you have once you have, once you have produced using that raw material and export your goods, then you will be given rebate. So, those are also part of.

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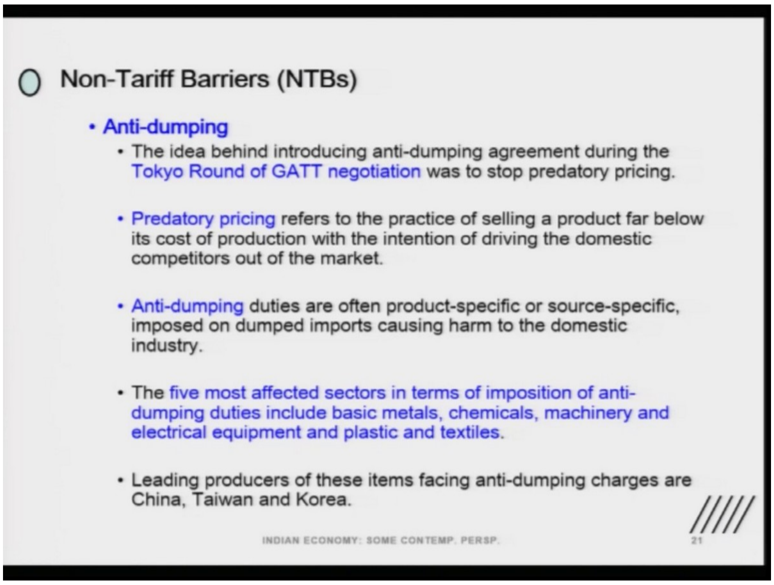

Then here you have the anti-dumping typically it happens that when you have the large number of produce and this produce that you have, you feel that it is not going to be absorbed in the domestic market, given the market that you have in the local or within the country. But, you have fear that if we will not dispose this, then there is a continuous production or ultimately there will be glut.

So, just to make sure that you do not have glut you simply sell at whatever price you have and if you are going to sell a large amount or dumps a large amount of quantity in any market, the local producers in that market will be automatically wiped out. So, for that reason, there are some regulations and it was first time discuss during Tokyo round of GATT negotiations.

So, then you have the predatory pricing, predatory pricing basically refers to a situation wherein you reduce the price. So, one market player reduces the price up to a certain extent that the competitors simply will not be able to compete and ultimately when the markets here will fall and they will be simply out of the, they will be simply after some time, will be out of the market.

Anti-dumping duties are often product specific or the source specific. Imposed on dumped imports causing harm to the domestic industry. Five most affected sectors in terms of imposition of anti-dumping duties include basic metals, then you have the chemicals, machinery and electrical equipment, plastic and textile. The leading producers of these items facing the anti-dumping charges are Taiwan.

So, these are the sectors which are tracked the largest number of dumping cases includes basic metals, we had the case of steel in India, where we had gone for imposition and then Japan had had reported to the WTO that the India has not allowed the market especially in 2015 we had basic metals, chemicals, machinery, electrical equipment and plastic and it has been reported then, so the anti-dumping charges are mostly with China, Taiwan and Korea.

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Then you have sanitary and phytosanitary measures, which means that the food safety and animal and plant health measures that are important. So, it has been found that many Indian exporters are now facing blockade arising from the health environmental concerns. For example, the intranasally permit, so especially in case of one case was reported in tobacco exports that Indian when they sell it outside they artificially put the permissible labour limit lower, so that it will not pass.

Similarly, we have the cases of the domestic pharma companies, facing discriminatory, discrimination in case of Europe and US market and when they sell their, when they go for selling their or when they go for approval of their drug in these countries, then ultimately some kind of discriminatory measures are being adopted and these pharma companies are not giving the licensing or licenses or they are not, their medicines are not approved for domestic selling.

So, in that case also it has been reported that, there are cases of some kind of sanitary and phytosanitary measures and especially as I mentioned for the tobacco that the global requirement is four parts per million, while Japan and the USA had said their permission limit at less than one. So, most of the developing countries those who are in the tobacco export, they feel that it is some kind of discriminatory measure.

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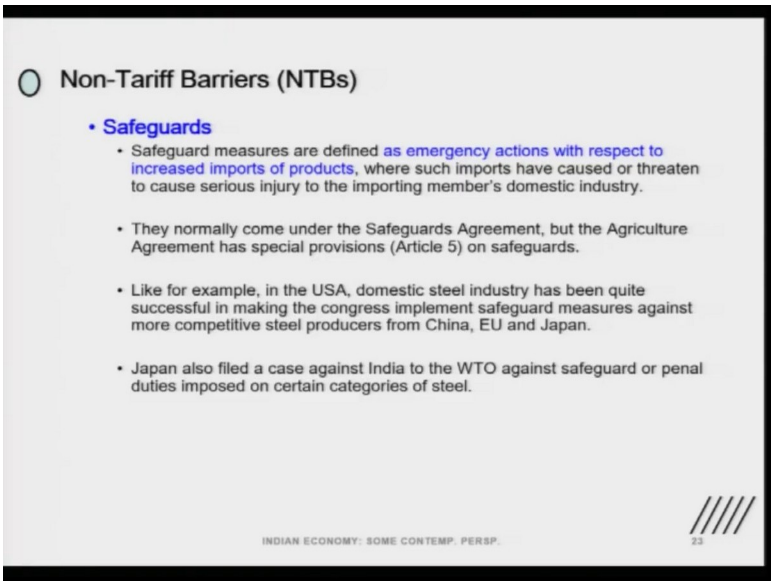

Then you have the safeguards. So, safeguards measures are defined for the emergency actions with respect to increased imports of products, where it is important that just to safeguard the domestic industry. It should not be allowed. So, if you have a this is also some kind of dumping case where if you have the access or something and you dump in the, the government is not going to save the domestic producer then they will be simply wiped out from the market.

Your consumers will be happy to buy whatever they have available at the cheaper price. So, but it is the government which takes care of the interest of the domestic producers, they normally come under the safeguards agreement under Article 5 and for example in the US domestic steel industry has been quite successful in making the Congress implement safeguard measures against more competitive steel producers from China, EU and Japan and lot of the country.

Japan also has filed a case India to the WTO against the steel, especially the penal duties imposed on certain categories of steel. So, this is also one aspect that in WTO, it has been asked to be covered. So, these are the issues under the safeguard. So, in early 2015, when the Chinese economy was down, so China also had started dumping steel in India, Japan was also experiencing some kind of slowdown.

So, Japan also had the excess of steel and they wanted to dump in India and Indian government took measures and because of the safeguard, to safeguard the domestic producers in India and as a result, that has imposed some kind of restrictions on the quantity of the steel as a temporary measure not permanent and at that time Japan has filed a case against India and WTO.

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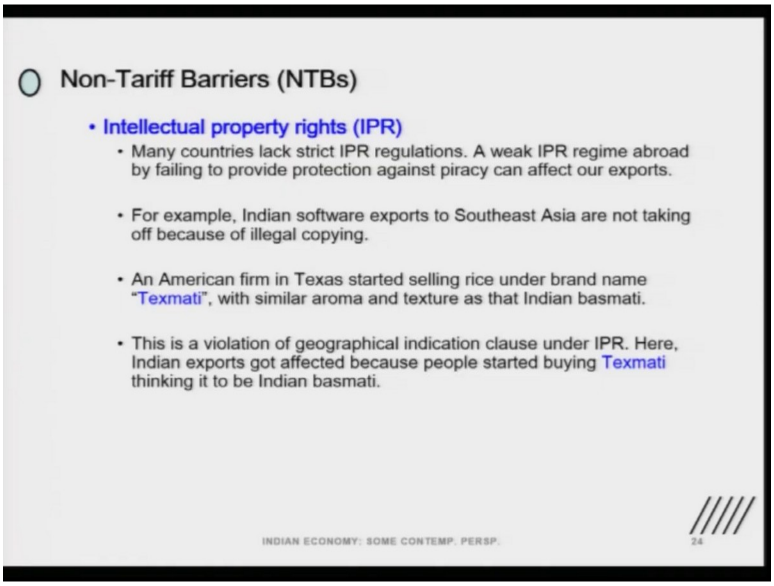

Then here you have the intellectual property rights and intellectual property rights is important to understand, because intellectual property rights is one area that has come up later in the WTO and this particular rule, it emphasizes on the privacy and the copyright issues on the uniqueness of the product.

For example, Indian solved software export to Southeast Asia are not taking up because of the illegal copying that happens over there. Similarly, an American firm in Texas has started selling rice, brand name TexMati, which is similar to what we have the basmati rice in India, then this is also violation to the clause of IPR, there are certain other violations also. So, IPR has become one of the important issues to be discussed and that is why it is important that we should be keeping in mind for using this.

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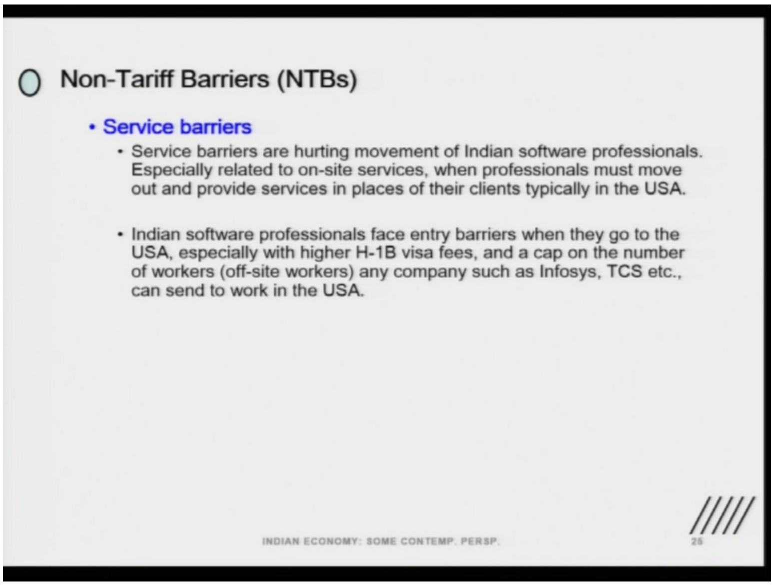

Then you have the, then here, then you have the service barriers, service barriers are also important, because in most of the countries where you have the services sector leading, in that country, it typically happens that messenger will be movement of labour from one place to another for the requirement of the job and if that country feels that their domestic populace is not being employed and it is not in favour of their country, then they impose certain rules and regulations.

Similarly, it had been found especially during Trump era that he had not allowed for, he had not issued the sufficient H-1B visa issues and he also raised the H1-B visa and because it had impacted the services sectors and then government had to take measures of going for the manufacturing growth. So, make in India scheme was implemented.

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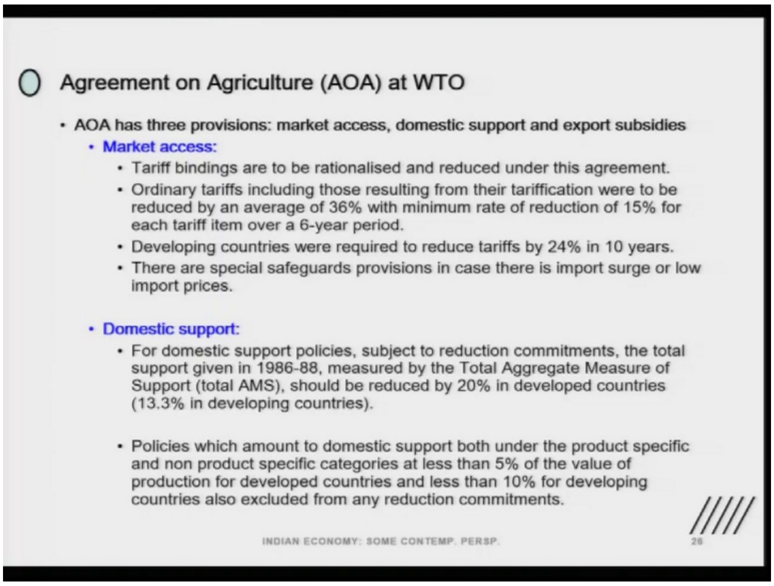

Then there is one more aspect that we should be talking about, which is the agreement on agriculture, AOA. It talks about the, it has the three provisions, one is called the market access, then another one is called the domestic support, in case of market access it becomes important. So, tariff bindings are to be rationalized and reduced under this agreement. Ordinary tariffs including those resulting from the tariffications.

So, under this the norm is that you have you have a tariff reductions in a phase manner, for developing countries it has to be reduced from 36 percent to 15 percent over a period of six years. For developing countries it has reduced by 24 percent in 10 years and whenever the country has faced, so the market let us say talks about the tariffication and it basically tells about the phase wise rationalization of the tariffs, so that the trade can be facilitated.

So, this is what in case of domestic support, which is talking about the aggregate measure of the support, total aggregate measure of the support under this you have the red boxes coming in, so that I will be talking about. It also talks about the, at the Uruguay round of 1986-1988 capacity whatever you have, the total support given in 1986-88.

The majors by total aggregate majors should be reduced by 20 percent in developed countries and 13.3 percent in developing countries. So, this is what it had mentioned. The policy which amount to domestic support, both under the product specific and non-product specific categories at less than 5 percent of value of the production developed countries and less than 10 percent of the developing countries also excluded from this.

So, this is all about this, so the domestic support, is it is basically about the kind of subsidies or any kind of support that the government has given for activities normally in case of agriculture, it has been found, especially in case of European countries, where there is a high domestic support for the farming activities and as a result the price comes down and export their farming produce becomes attractive and as a result it hurts the trade angle of or the trade promotion in the developing countries.

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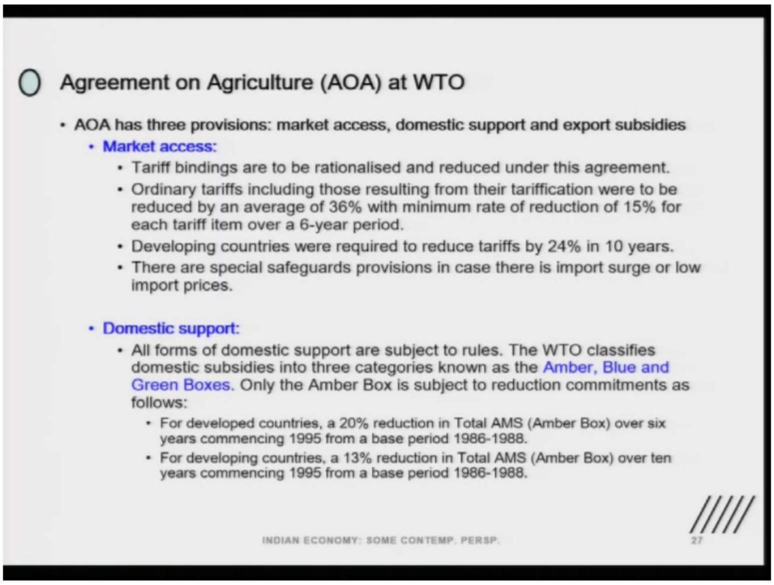

So, this is how it is under the domestic support you have the WTO classifying what is called amber blue and green boxes, amber is the major concern because in amber you have the, it is also called a box which distorts the trade. So, trade distorting angle that you have it is mentioned. So, for developed countries 20 percent reduction in total AMS. It is also called the amber box for developing country it is 13.3 percent.

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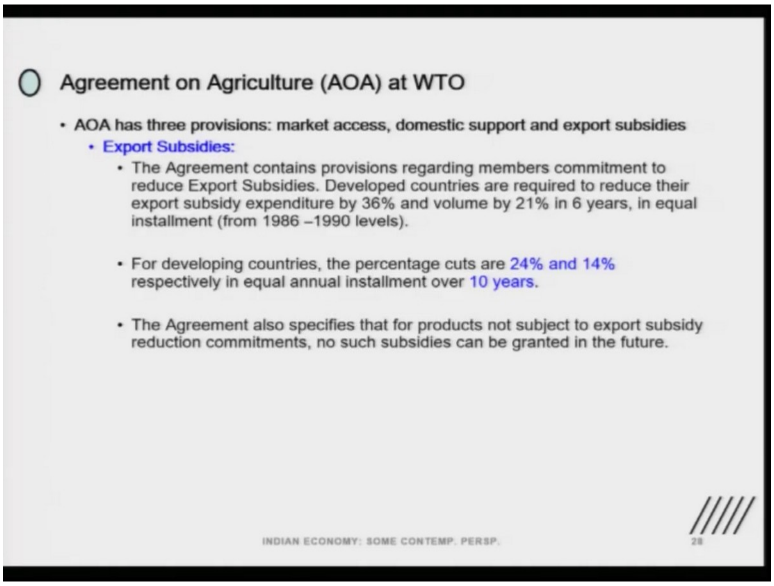

Then, here we have the export subsidy. So, some countries give the export subsidies for example, I mentioned about the duty drawback and some other aspects. So, there you have the special economic zones producing and those economic zones are being given the land and other incentives free and then after that they are being told that they are not given the access of domestic market, but they are simply being told to sold it outside the country, but not within the countries.

So, those special processing zones and special economic zones have become the issue of debate at the WTO. So, the agreement contains provisions regarding members commitment to reduce export subsidies, developed countries are required to reduce their export subsidy expenditure by 36 percent on volume by 21 percent in 6 year and this is the same at the level of 1986-1990 level for developing countries it is the percentage cuts by 24 and 14 percent in equal instalments over 10 years.

So, for developed countries is 6 years, for developing countries it is 10 years. So, this is also one aspect that we always discuss. Then here we have the as I mentioned, so I have already discussed this part, we have the agreement on agriculture. So, for that here, I have tried to give you the idea.

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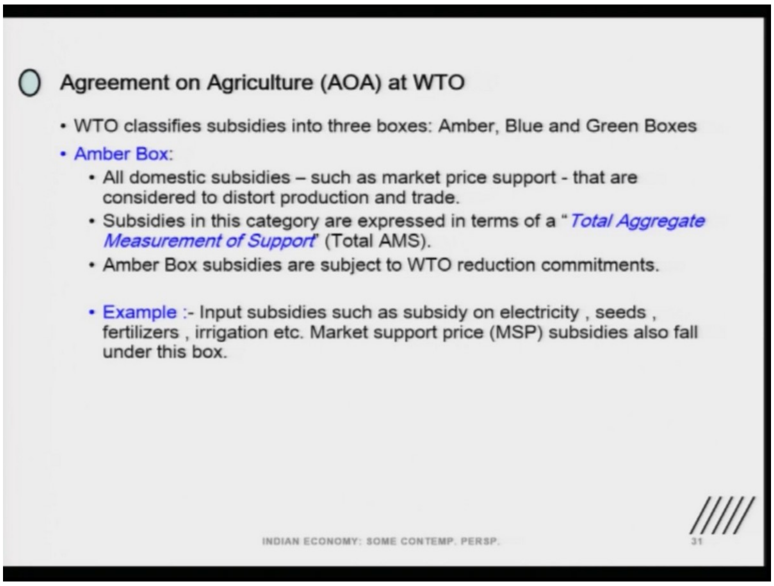

So, the amber box it includes all types of domestic subsidies, such as market price support, that are considered to distort the market, it talks about the total aggregate market support that we have. So, Amber box basically it is more trade distorting, because if you are going to give the subsidies then automatically it will impact it will have the negative impact. So, input subsidies what are included in this. So, input subsidies are such a subsidy on electricity, seeds, fertilizers, irrigation, etc.

So, that is why you find that in some countries the farming especially the developing countries, the farming issue becomes one of the hotly debated topics, because governments comply with these WTO rules and they do not implement that and then those beneficiaries which were used to such type of benefit they get, they get upset and automatically it becomes a law and order issue.

But if you think at the macro level, then at the global level, this is the rule that every country has to adopt. So, input subsidies in when in India, we find that in certain states, some state governments have not given the subsidy on electricity. Similarly, there is a lot of talk about that how we can rationalize the subsidies on nitrogen and other fertilizer, fertilizers that we provide.

But, one argument is also that a country should not be bothered about the outside external factors, so much. First, it should focus on the domestic factor, then it should give priorities to the outside factor. So, market support price is also that we have in India, the minimum support price subsidy also fall under this box. So, that is why the government and other entities are now in a complete deadlock to request the participant that there should not be given extra incentive.

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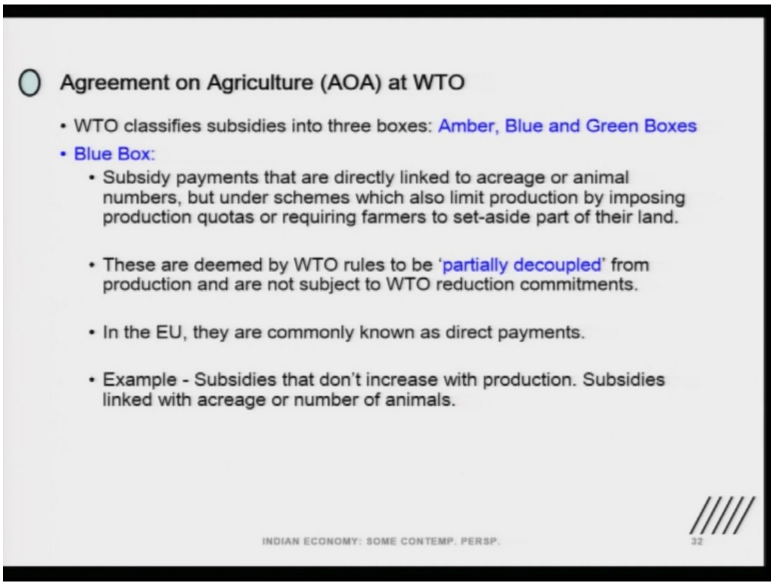

Then here we have the blue box, blue box is mentions about the subsidy payments that are directly linked to the, to the acreage or animal numbers. But acreage schemes which also limit production by imposing production quota, acquiring firms and all. In this the idea is that those subsidy which do not simply add to the production, they can be also, so linked to the acreage or number of animals. So, these are the blue boxes which are non-trade distorting or it is not having that much impact on trade. So, this is how it looks like.

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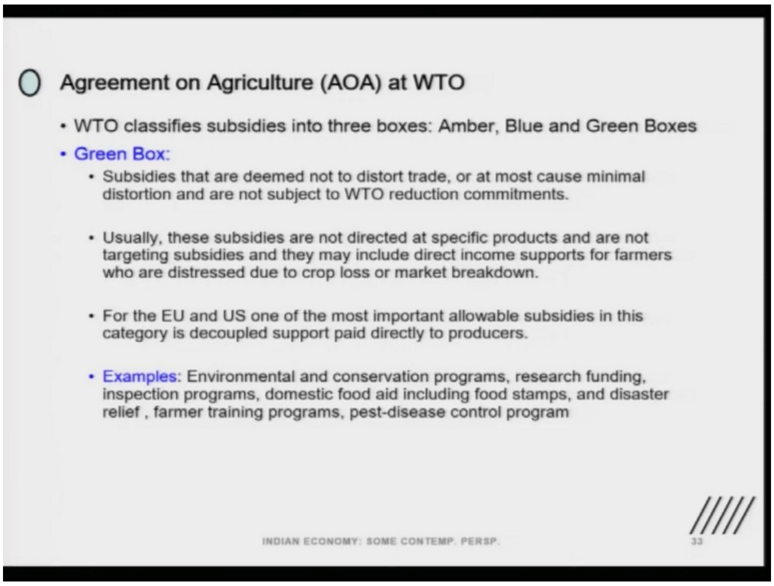

Then you have the green boxes, green boxes are non-distorting completely and that is why these are important to be discussed here. So, in case of green boxes, you have the different R and D activities in agriculture resource, the kind of research that we conduct in facilitating the agriculture services. So, those are included in this.

So, subsidies that are deemed, not to distort trade or at most cause minimal, minimal distortions that are not subject to the WTO reductions commitment, you will find that in green boxes, the environmental and the conservation programs, research funding that I just mentioned about inspection program, domestic food including food stamps, disasters, disaster relief, we have the farmer trading program, then you have the pest disease control.

These are part of the green box. So, green box and the blue box are promoted. The amber box is the major concern and that is why it becomes sometime controversial issues for the government also.

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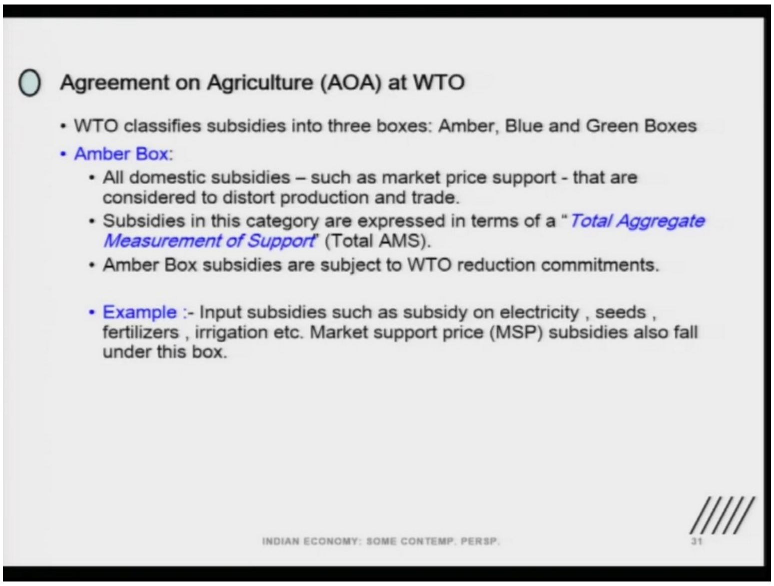

So, this was the concern. So, under the total aggregate measurement support, we have these boxes and sometime in your exams, you will be asked that which all boxes among all these boxes, which boxes trade distorting, let me summarize. So, we have now covered almost every aspect of the WTO.

I will have one more session on this, that will be focusing mostly on the India's stand and what are the controversies with regard to the WTO and even at industry level and even at an agriculture level, what are the concerns? So, maybe half an hour is more required to finish this part of the WTO.

But so far, I think it has been a it is a smooth journey to understand the evolution of the trading laws, evolution of the rules governing the trading practices, how since 1940s and Uruguay round, then we had the Tokyo round how that had led to the expansion of trade not only in goods, but also in services and how different types of services have added to the different types of disputes that have been observed.

What are the mechanisms to deal with those disputes and then where the developing countries interests are lying and how it has become one of the negotiable issue. With this background I will be stopping now. Thank you. Thank you so much.