International Business
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Lecture - 46
Uruguay Round Agreement on Agriculture, GATS

Hello friends. So, welcome to the class, let us carry on from the last lecture where we had stopped; we were discussing about the WTO right, the World Trade Organization. As we discussed that the WTO came into existence in 1995, right. So, it was an outcome from the GAT which is the General Agreement on Tariff and Trade; and the tariff and trade agreement actually covered the goods right and not the services, the WTO included the services as well.

And this was again it was this happened during you know negotiation which happened in the Uruguay Round right, which was a one of the you know negotiation which happened for about seven and half years, and 123 countries were present in that, participated in that. So, after that you know the WTO came in principle, and the WTO largely looks into the you know as a dispute settlement and creating trade policies and ensures that there are no unfair know treatments given to nations, member nations.

So, all looking into all this the basically that there are several cases also we had discussed in the last class have some of them; for example, how China lodged a complaint in the WTO against the US and the US lost that case. And in another case, India lost a case to the US right, where the WTO had asked India to stop some of the, you know subsidies and all which was given by the Indian companies and the government was supporting it.

So, today will carry on from there and we will talk about the Uruguay Round which we also had started.

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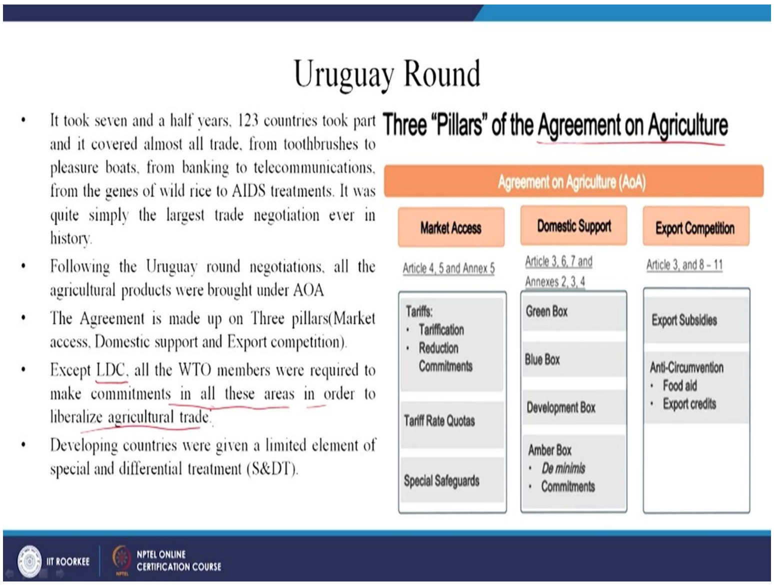

So, the there was one thing in the Uruguay Round which was called as the agreement and agriculture; we had started and we discussed why agriculture was taken up as one of the separate topics. Just because the importance of agriculture being very high and the developing countries and the less developed countries, they depend a lot on the agriculture.

And, almost you know the earning capacity that agriculture provides in some of the these nations is about 4 to 5 times that any other sector could provide, right. So, looking into all these, there was an agreement on agriculture and this agreement actually was standing on three basic pillars; which we are discussed the market access, domestic support, and export competition, right.

So, market access basically what it says is for example, it talks about the tariffs, you know tariffication will get into that; reduction commitments, tariff rate quotas, special safeguards. And, in when it comes to the domestic support, basically talks about the subsidies being provided by the member nations, right.

So, now, subsidies actually make things uncompetitive. So, in order to have a fair play, the WTO says that tariffs should be reduced; but then it cannot be done instantly, so it gives time for different countries in a different way, for example, for the developing nations it is slightly different and developing nations it is different.

And then it also discriminates the kind of subsidies right into three groups; for example, the green, blue and the you know red. So, red although it is not there; but then they say there is a red box also right, to understand it better.

And third pillar is the export competition, where talks about export subsidies and you know the food aid and credits and everything, right. Some of the developed, less developed countries, least developed countries who are the WTO members are required to make commitments and they are exempted from this. And but, they would have to make commitment that in all these areas in order to liberalize the agricultural trade, right.

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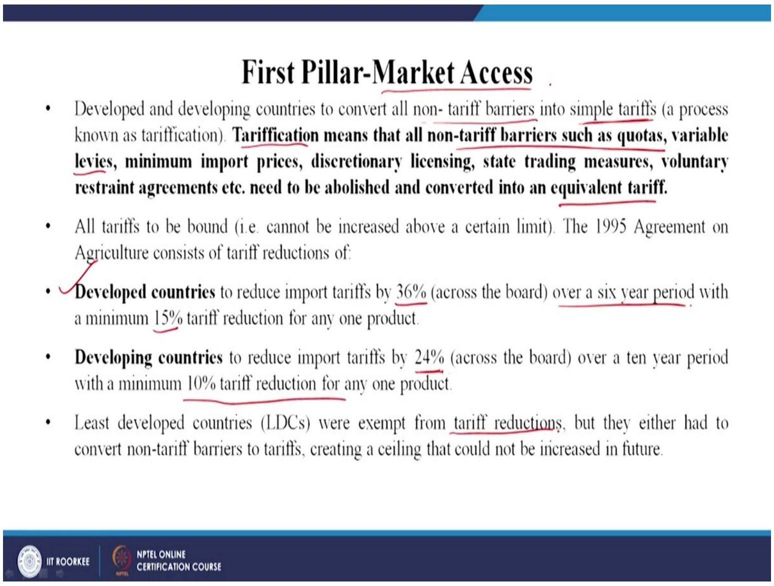

So, what is this first pillar let us talk about it; the market access. So, developed and developing countries have to convert all the non-tariff barriers into simple tariffs; because it has been seen that, the non tariff barriers for example, like you know the rules and regulations, you know voluntary the quotas and all.

So, these things are very difficult sometimes to understand and they are they make it very complicated. So, in order to make it more simpler, trade being to make the trade more simpler; the WTO has asked all the member nations to convert most of these non-tariff barriers into simple tariffs, right.

So, which is a process called as tariffication? Tariffication means that all non tariff barriers such as quotas, variable levies, minimum import prices, discretionary licensing, state trading measures, voluntary restraint agreements etcetera they need to be completely abolished and just convert them into a equivalent tariff, right. So, but the tariff also cannot be very high.

So, it says, all tariff to be bound right that is cannot be increased above a certain limit; this is yes you have to convert into a simple tariff, but they have to be within a certain limit. The 1995 agreement on agriculture consists of tariffs reduction of for the developed countries to reduce import tariffs by 36 percent.

So, that is across the board for all products over a six year period and with a minimum 15 percent tariff reduction for any one product at least. And for the developing countries the scheme was slightly different; they have to reduce import tariffs, so import tariffs, so by 24 percent, right.

So, developed countries have to reduce by 36 percent and import developing countries by 24 percent; this discrimination is there just because of the stability, the strength of the nation, right. So, developed countries can be are more competitive more, they have more productive, so they can go for instant reduction of 36 percent.

But developing countries might be it might be difficult for them, so it was done 24 percent; so over a ten year period and with 10 percent tariff reduction for any one product, right. The least developed countries were exempt as we had discussed from tariff reductions; but they either had to convert nontariff barriers to tariffs creating a ceiling that could not be increased in future.

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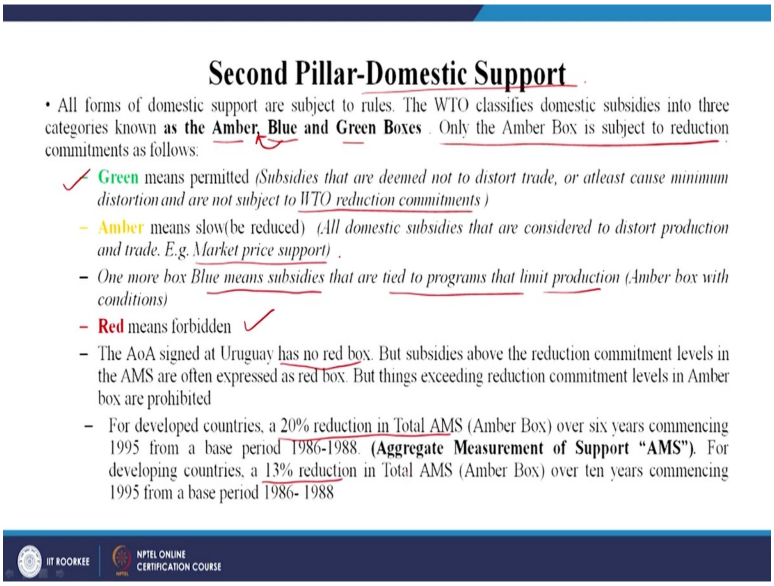

The second pillar or second part of this agreement was the domestic support. Now what is domestic support? In fact, we know that every country tries to provide its a you know agricultural you know members; so the farmers and the different members in the sector; the they provide some kind of subsidy, right.

This subsidy is given, for example, in Punjab we give you know free electricity. So, that is a, you know the government bears that costs right, that is subsidy; some cases we give free seeds. So, in some cases we give fertilizers.

So, these are kinds of subsidies that the government gives and subsidies; there are different arguments, sometimes people feel that subsidies do not make you more productive if they rather they make you incompetent, right. Anyway the WTO classifies the domestic subsidies into three categories; the amber category, the blue and green. So, these are different colors being given, right.

So in fact, the blue is nothing, but a part of the amber only, we will see. In among these three it says; only the amber box is subject to reduction. Now let us see what these are. First of all the green box, the green means permitted.

Subsidies that are deemed not to distort trade right; for example, if the government directly gives cash for example, to the farmers. So, that is something that is not going to distort trade right or at least cause minimum distortion or not subject to the WTO reduction commitments. So, this are not coming under any danger category, so they are not dangerous. So, there is nothing being said about it.

The second is the amber; amber means slow, as you have seen the traffic light, right. So, to be reduced; so that means, it is to be reduced. All domestic subsidies that are considered to distort production; that means, which makes the foreign products not competitive uncompetitive and because the because of the subsidies the domestic agriculture farmers or anybody, they are making more cheaper products.

So, to avoid to create this un you know, unfair play right; so the government, the WTO sorry ask to reduce a such kind of you know subsidies you know such kind of products, right. Example is the market price support which the government offers.

So, that is a amber comes under amber category and that has to be reduced. One more box which is the blue as I said; the blue means subsidies that are tied to programs that limit production, ok. So, the amber box, it is a amber box with certain conditions, right. Finally, there is a red box which actually does not look in a, is not visible; which means forbidden, completely forbidden, so nothing, no discussion on that, right.

So, the AoA Agreement on Agriculture signed at Uruguay has no actually red box right. But subsidies above the reduction commitment levels in this AMS are often expressed as red box. But things exceeding reduction commitment levels in amber boxer provided, right.

For developed countries, a 20 percent reduction in the total AMS right; what is AMS? Aggregate Measurement of Support, right. So, developed countries have been asked for a 20 percent reduction in the total agreement measurement of support, aggregate measurement of support over six years. And for developing countries it has been a 13 percent reduction in total agreement aggregate measurement of support being asked.

So, this is what the WTO has asked its member nations to do it, so that the agricultural sector does not get affected instantly; that means the developing nations do not feel the pressure. But slowly they get into a situation there where everybody comes into a level playing field and everybody tries to play under the same rules, so that there is no unfair practice being done for any one country or any other country, right.

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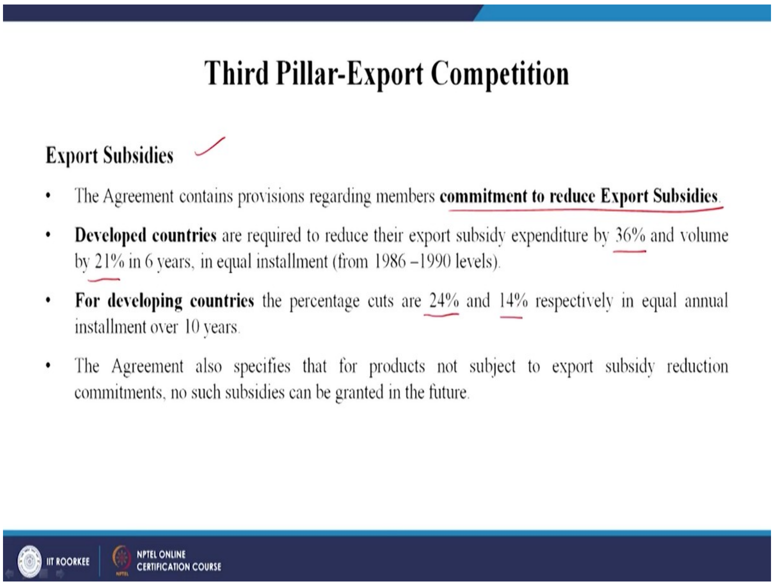

The third pillar is the export competition. We says which for example, it talks about export subsidies; the agreement contains provisions regarding members commitment to reduce export subsidies. So, if the government is providing subsidies for export; so this is against the WTO guidelines, right. So, it asks the member countries to reduce this export subsidies. Developed countries are required to reduce their export subsidy expenditure by 36 percent and volume by 21 percent in 6 years, right.

For developing countries it was 24 percent and 14 percent, right. Interestingly many a times that arguments comes that, it is the developing and the least developed countries where the subsidy and the export subsidies all this these are you know largely there and it is not much with the developed countries; but that is a very very wrong notion.

In fact, there have been cases, for example, Japan has been you know always, you know there has been a criticism for Japan that it has given very high subsidies for on its for its farmers, right. So, maybe because of its problem that they have, that terry in the land which is very highly not very fertile and all; but whatever may be the condition, right.

So, it is that some other developed countries have been criticized very largely that, although they try to you know reduce the subsidies and try to enter into other markets. But if they look at their own conditions, they too are responsible for providing subsidies to their own domestic players right; so which is actually expected that the developed nations would take the lead and try to make it as fair as possible.

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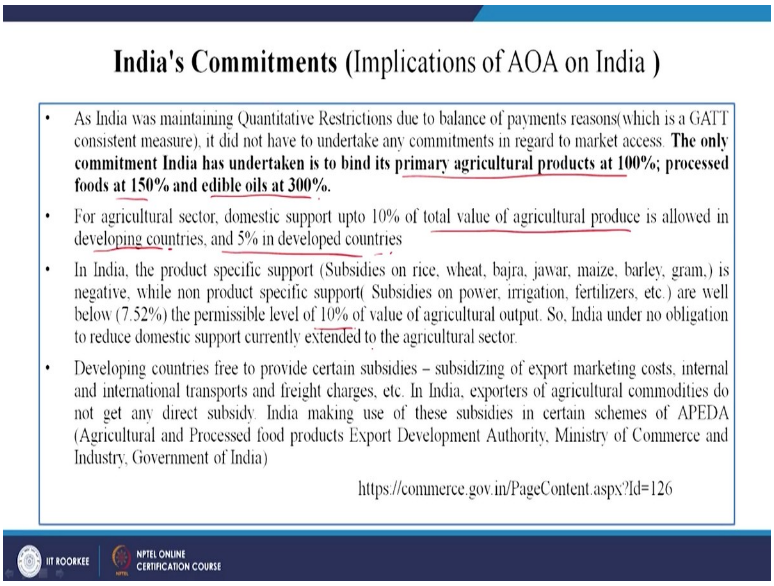

India's commitment, now in this case; as India was maintaining quantitative restrictions right, due to the balance of payment reasons; it did not have to undertake any commitments in regard to market access. The only commitment India has undertaken in its bind is its to bind its primary agricultural products at a 100 percent, processed foods at 150 percent, and edible oil at 300 percent, right.

For agriculture sector, domestic support up to 10 percent of the total value of agricultural produce is allowed for developing countries and 5 percent in developed countries, right. In India the product specific support; subsidies on rice, wheat, bajra, jawar, maize, barley, gram is negative in fact, while non product specific support subsidies on power are all well below 7.52 percent, the permissible level is 10 percent.

We had seen in the last slide also right, of agricultural output. So, India under no obligation to is to there is no obligation to reduce domestic support currently extended to the agriculture sector although. So, this is discussion which always goes on.

But India is in a much better position, when it talks, when we are talking about the implications; so we can see, we are at a much better position. Developing countries are free to provide certain subsidies right, as a it was already mentioned; subsidizing of export marketing costs in order to boost the export, internal and international transports and freight charges, etcetera.

In India what is happening? Exporters of agricultural commodities do not get any direct subsidy; India making use of these subsidies in certain schemes, for example, the Agriculture and Process food products Export Development Authority, Ministry of Commerce and Industry, Government of India.

So, what India is basically, the Indian government has been doing following a very nice policy; it has been not giving any direct subsidy as such, but it has been supporting, we are making more you can say creating better infrastructure, better policies, so that the subsidies are not directly given, but they make the players more competitive by providing the facilities, right. So, this is what the Indian government has been attempting to do and it has been largely successful in that also.

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Now, we will come into the General Agreement on Trade in Services, GATS right, TRIMs and TRIPS. Today we will discuss these three factors also.

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So, what is the General Agreement on Trade in Services? Something which comes under the WTO, we are talking with the WTO, right. It is a known fact that trade in services is the rapidly growing field in the global scenario. So, you can see India has be become a software hub today, right.

So, many in several things for example, biotechnology, for example, in software and banking solutions we are doing much better. According to WTO, services constituted about 60 percent of the global production and employment. Combined with changing consumer preferences, such technical and regulatory innovations have enhance the tradability of services and, created a need for multilateral disciplines.

The rapid growth and change has prompted the members of the WTO to bring in changes in rules and regulations on trade in services and GATS was introduced in 95. GATS is a multilateral agreement which that was negotiated in the Uruguay Round, right. What is the basic purpose of it?

As stated in Preamble, the GATS is intended to contribute to trade expansion under conditions of transparency and progressive liberalization and as a means of promoting the economic growth of all trading partners and the development of the developing countries, ok.

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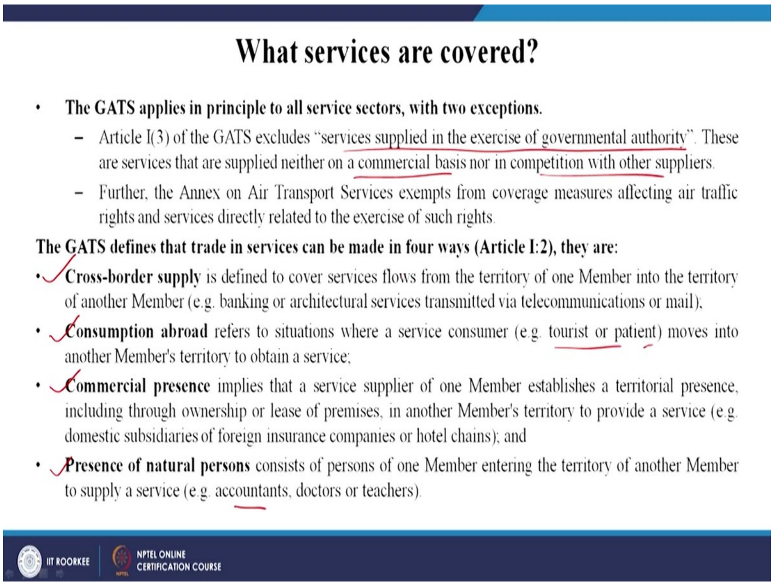

So, what services are covered? Let us see, the GATS applies in principle to all service sectors with two exceptions. What are these two? So, it excludes services supplied in the exercise of governmental authority; these are services that are supplied neither on a commercial basis nor in competition with other suppliers, right.

So, what it says? Services supplied in the exercise of governmental authority; so something which are not on a commercial basis nor in competition. So, there are not hope to a, they are not falling in that open market mechanism, right. Further on air transportation services from coverage measures affecting air traffic rights and services, which are directly related to the exercise of, you know this is another.

So, air transport and this one; these two are the ones which are exempted right, the two exceptions basically. The GATS defines that trade in services can be made in four ways; what are they? First cross border supply, consumption abroad, commercial presence, and presence of natural persons.

What does they mean? First one, the cross border supplies defined to cover services flows from the territory of one member into the territory of another member; example banking or architectural services transmitted via telecommunications or mail, ok. Second is consumption where it says, for example, refers to situations where a services consumer moves into another members territory to obtain a service; tourism or patient coming for treatment.

Commercial presence implies that a service supplier of one member establishes a territorial presence, including through ownership or lease of premises in another member's territory right; example, domestic subsidiaries of foreign insurance companies or hotel chains, ok.

And lastly, the presence of natural persons consists of one member entering into the territory of another to supply a service; example, accountants, doctor's, teachers, software engineers for example, right. So, this is what the GATS defines that trade in services can be made in these four ways, ok.

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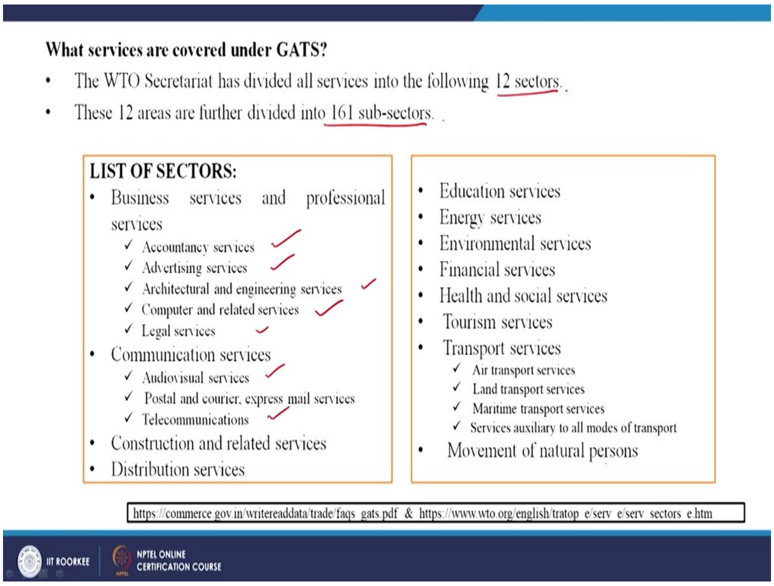

The WTO secretariat has divided all services into the following 12 sectors; this 12 sector are further divided into 161 subsectors. So, list of the sectors are business services and professional services; accountancy, advertising, architectural, computer, legal; under communication it is audio visual services, postal and courier, express mail services, telecommunications; construction and related services; distribution services.

You have education, energy, environmental services, financial services, health and social services, tourism, transport; which is subdivided again air transport, land transport, maritime transport, services auxiliary to all modes of transport and movement of natural persons, right.

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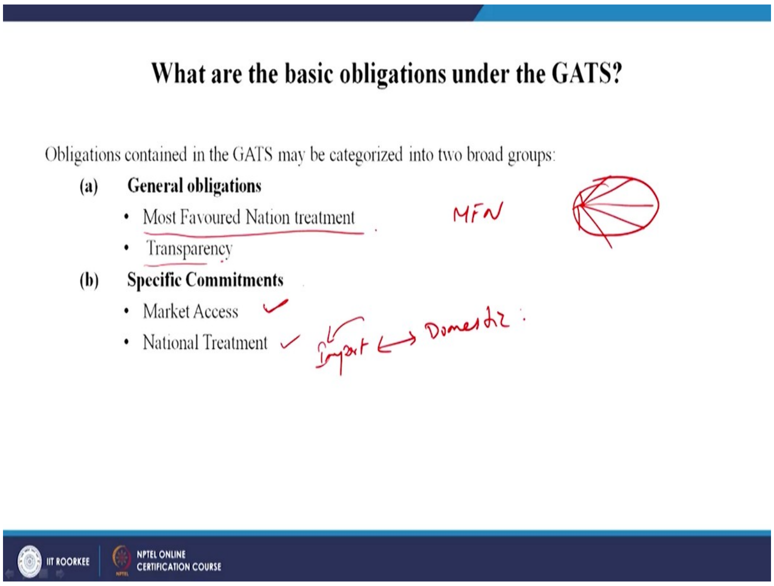

What are the basic obligations under the GATS, right? Obligations obtained in the GATS may be characterized two broad categories or broad groups; one this is very important, we have already I think discussed, but still I would like to go again with this. The most favoured nation treatment right and transparency, which is contained with the transparency; second is specific commitments which talks about the market access and national treatment.

So, the GATS under the; now GATS what it says is that, the general obligation is the most favoured nation treatment. Most favoured nation treatment this concept started with that, when earlier one country used to give a favour or a most favoured nation treatment to another nation right, for a particular trade or service.

Now, once anybody becomes a member of the WTO; the WTO says that if you give the most favoured nation treatment to anyone, then that treatment also has to be given to others,. So, that is the first thing. So, that includes that; obviously, leads to a transparency and there is an you know equality for everyone, right. The second thing is a specific commitment it wants. What it says? That market access; that means, everybody should be able to access the market.

So, but this is where you know sometimes the debate goes that, accessing the market is generally for you know personal gains. So, the developed countries right would be in a position to exploit the market better of another country and they have started getting into new territories once the markets, their own markets got saturated. So, these are the debates which I am trying to make, right.

So, when their own markets got saturated; for example, if you look at the Japan market today, the US market, the UK market for that or any other market, the developed countries markets, they have already got saturated. So, they are in a mood to look at other markets, right. So, they are trying to access new markets. So, and now they want commitments from the developing nation's right, who are the new members.

So; obviously, one can smell some kind of personal gain for this member nations. So, it is not like you know, it is only a Utopian state everybody gains you know it could be possible; but then there is always a debate that can go on. And where it says that, when a foreign product or a imported item comes into any country right, so that should be treated as equal to a domestic product, right.

So, now, that means, if I understand it rightly; the developed nations are the countries which are already doing well and they have attained economies of scale, they have attained very good knowledge about the production systems, and their human resources well developed, skills are well developed. So, these countries now are looking for an opportunity to get into new markets.

And now they want that these markets, other markets should trade them their products as their own domestic products; now that is very interesting. So, at one side this GAT looks very innocuous; sometimes there is an undercurrent feeling that maybe this developed countries could exploit the other countries, and that is maybe one of the objectives right, that is always there as a critic for globalization, I can always speak for that, right.

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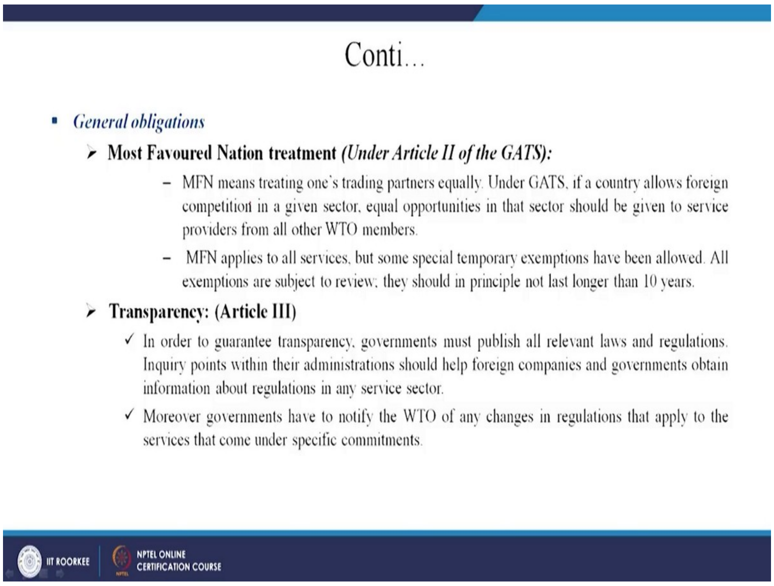

So, now what is the most favored nation treatment? It says most favored nation treatment means, treating ones trading partners equally under GATS; if a country allows foreign competition in a given sector, equal opportunities in that sector should be given to service providers from all the WTO members as I just explained. MFN applies to all services, but some special temporary exemptions have been allowed.

This transparency it says under Article III; in order to guarantee transparency, governments must publish all relevant laws and regulations. Inquiry points within their administrations should help foreign companies and governments obtain information about regulations in any service sector, right. Moreover governments have to notify the WTO of any changes in regulations that apply to the services that come under specific commitments.

Well, in the name of you know guise of transparency, in the guise of most favored nation treatments; well the exploiting you know, exploitation is highly possible situation, right.

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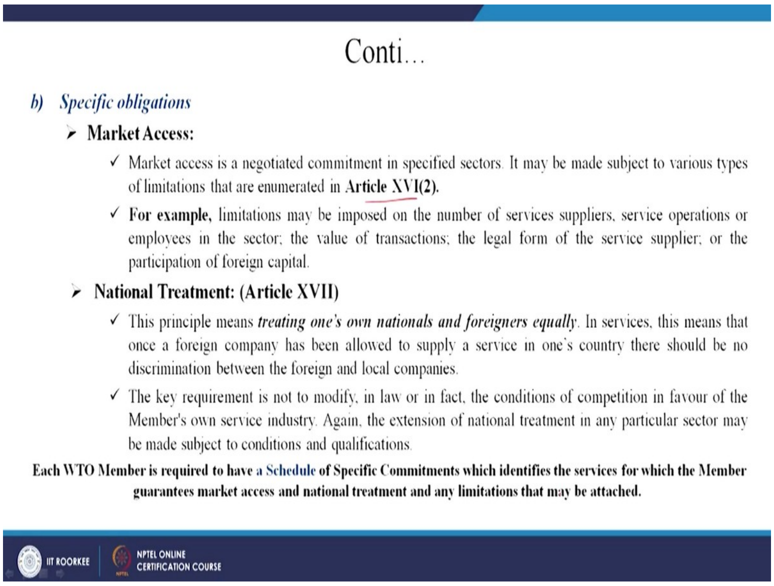

Second is the market access, the market access is a negotiated commitment in specified sectors; it may be made subject to various types of limitations that are enumerated in the article XIV, XVI sorry.

For example, limitations may be imposed on the number of service suppliers, service operations or employees in the sector, the value of transactions, the legal form of the service supplier or the participation of foreign capital. What is the national treatment it says? Treating one's own nationals and foreigners equally; in this, in services this means that, once a foreign company has been allowed to supply a service in one's country, there should be no discrimination between the foreign the local companies, right

The key requirement is not to modify in law in fact; the conditions of competition in favor of the members own service industry. Again, the extension of national treatment in any particular sector maybe subject to conditions and qualifications. So, what it says? Each WTO member is required to have a schedule of specific commitments which identifies the services for which the member guarantee market access and national treatment and any limitations that may be attached.

So, well at one side these are very clear, this is what the WTO tries to do, tries to make the global globe as one market. But the condition you know, the worrisome factor to it that is attached to it is that, the countries which are yet to grow you know productively where the skills are less, the you know the markets are not well developed and the infrastructure is not well developed, in such a condition they would surely grow.

In fact, for example, some people make a debate, some people make an argument; that the British's when they came to India they also gave us something. For example, the railways, for example, they constructed bridges and dams; yes we have gained, there is no doubt about it. But then that does not allow any foreign company to exploit another country; rest because of the difference in the knowledge between the two sides, right ok.

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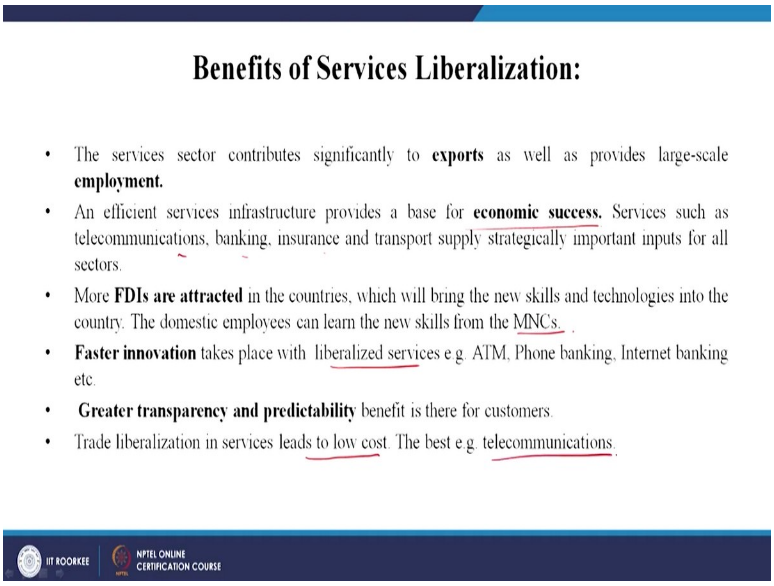

What are the benefits of services liberalization? Service sector contributes significantly to exports; now for example, the software, right. An efficient services infrastructure provides a basis base for economic success; like telecommunication, banking, insurance, transport etcetera. More FDIs are attracted in the countries, which will bring the new skill and technology into the country.

Now, the domestic employees can learn the new skills from the MNCs. Faster innovation takes place in with liberalized services; for example, in these sectors. Greater transparency and predictability benefit is there for the customers and trade liberalization services leads to low cost; so the consumer gains here, right.

So, best example in telecommunications you can see in India; for example, at one point of time the cost of one incoming call and outgoing call was about 16 rupees, right. So, if you, there you have to pay for an incoming call to; but today it is almost very very less, right. So, for 3 months you take a package of maybe 300 rupees also or 200 rupees also is possible.

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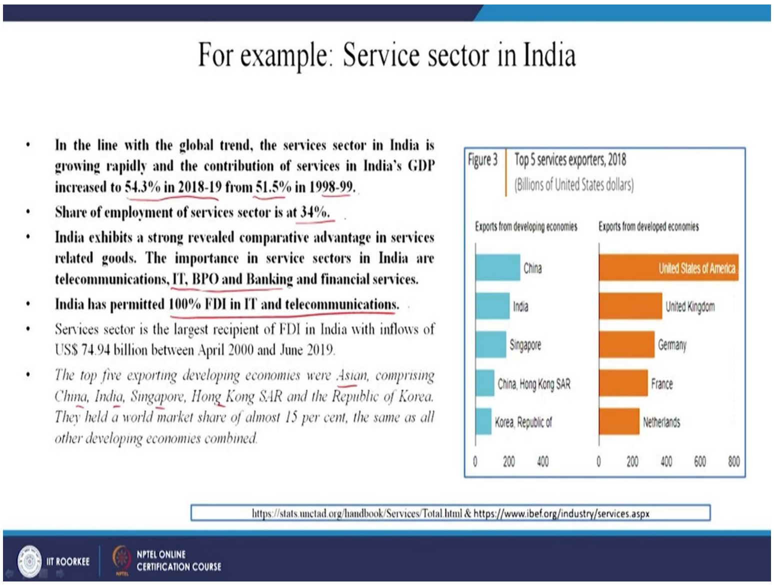

So, in line with the global trends, the service sector in India is growing rapidly. India is doing well and the contribution of services has increased to 54.3 percent 2018-19 from 51.5 percent in 98-99.

Share of employment is at 34 percent. India exhibit strong comparative advantage in service related goods; and especially it is in the IT, BPO, you know and banking and financial services. India has permitted 100 percent FDI in IT and telecommunications; services the largest recipient of FDI in India with inflows of 74.94 billion between 2000 and 2019, right.

Top five exporting developing economies were Asian, comprising China, India, Singapore, Hong Kong and the republic of Korea. They held a world market share of almost 15 percent, the same as all other developing economies combined, right.

So, this is a small you know table figure which can tell you the exports from the developing economies, exports from the developed economies, right. I think we are running short of time. So, what we will do is, we will stop here right and we will continue in the next lecture with the others like for the trade related services and trade related investment measures, right. We will talk on that; so I think this is all for the day.

Thank you very much.