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India at Bali: Saving Itself and the WTO

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The Ninth WTO Ministerial at Bali is being widely proclaimed a shot in the arm for the ailing World Trade Organization and the multilateral rule-based trade system. It might also mark a turning point in the history of India's trade negotiations. For the first time in several years, India would be coming back from the WTO without the 'distinction' of having been a spoiler in the trade talks.

The first couple of days of the Ministerial held from 3-6 December 2013 did, however, point to the possibility of India getting isolated on its demands. India's main objective at the WTO was to protect its recently launched food security programme that aims to provide subsidised food grain to almost two-third of its population. The programme runs the risk of violating one of the major conditions of the Agreement on Agriculture at the WTO that India is a party to. The Agreement binds aggregate support provided by signatory governments to their domestic agriculture sectors to 10 per cent of the nominal value of agricultural production. The support covers a variety of measures including public procurement of food grain at administered prices and issue of the same to consumers at subsidised prices. India was keen on getting an

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exemption from this binding cap as a special & differential (S&D) measure offered to various countries under the WTO, particularly developing economies, based on their specific circumstances.

In the run-up to the Bali Ministerial, as well as during the meeting itself, India made no bones about its determination to not compromise on its food security programme. This posed a dilemma for the rest of the members. India's support was crucial in moving forward on the trade facilitation agreement. This agreement was crucial for facilitating hassle-free movement of goods across borders by harmonising customs procedures and simplifying processes for exporters. Unaligned customs rules and country-specific shipment conditions are major problems for exporters as consignments get stuck at ports for long periods. The WTO has been specifically working on trade facilitation for a long time with the hope of reviving world trade and moving forward on the Doha Development Agenda (DDA). An effective trade facilitation agreement is expected to boost world trade by almost US$1 trillion. India, however, made it clear that it was unlikely to endorse the trade facilitation agreement unless its own demands on food security were accepted.

The Ministerial concluded with India's demands getting accepted and the trade facilitation agreement being endorsed. For all concerned, therefore, it was a 'win-win' outcome. While not conceding on its demand of total subsidies not being limited within their current cap mandated by the Agreement on Agriculture, India did show flexibility in accepting a 'peace clause'; the clause allows developing countries providing subsidies to their farm sectors to continue doing so beyond the specified cap for a period of another four years, till the 11th Ministerial of the WTO.

While India claims that developing countries would be allowed the S&D treatment till a 'lasting solution' is found – which might well require more than four years – many other members might be heaving sighs of relief at having 'bound' India and its allies to a maximum period of four years and got them to agree to the trade facilitation deal. It does appear, though, that by agreeing to the 'peace clause' India has achieved two short-term objectives: allowing the food security programme to proceed unhindered and buying time for seeking solutions within the WTO framework for persisting with the programme. One of the possible solutions in this regard that India and quite a few other developing countries are likely to press for is the calculation of nominal value of the maximum permissible support under the

Agreement on Agriculture on the basis of current global prices, rather than the 1986 prices, that are presently used. Use of current prices would include the inflationary impact of food prices since 1986 and would enhance the subsidy limit.

Whatever be the future amendments to the formula for computing subsidies and India's views on them, there is no doubt that at Bali India eventually softened its position by a considerable extent. Much as the Indian government might claim to have forced the key WTO members to have bent their backs on its demands, India too, would have realised the adverse implications of staying adamant. One of the consequences, other than being dubbed a spoiler again, particularly by the US and other OECD countries, would have been the prospect of getting isolated in the international trade community.

It is noticeable that unlike in some of the previous WTO Ministerial meetings where India was supported by large emerging markets and developing economies like China, Brazil and Indonesia, this time, such support was missing. While India would have gone in to Bali expecting such support to be forthcoming, the situation on ground was different; except for South Africa, India did not have any of the BRICS members supporting its demands on agricultural subsidies.[2] Argentina and some of the major African economies like Kenya and Nigeria were the others to back India. The development would have pointed towards India getting isolated even among the large emerging markets. This would not have been a welcome development given that much of India's future economic and strategic prospects depend on how well it can continue to bond with the emerging markets, particularly the BRICS group. Given the keenness of these countries to get the WTO agenda moving, India ran the risk of getting identified as a member with little constructive and forward-looking interest in world trade even among its emerging-market peers. Being flexible, at least partially, has helped in avoiding such ill will.

The other factor, which would have prompted India to agree to the 'peace clause' despite caveats like sharing full details of its subsidy programme with other members and possible inspections, is a careful assessment of the immediate priorities by the government. From a political perspective, it is important for the current UPA government in India to get the food subsidy programme going given that parliamentary elections are due within a few months. It

2 BRICS forum consists of Brazil, Russia, India, China and South Africa.

is much less important at this juncture to assess how the programme could be run in future, if it could be run at all. To that extent, the shrill rhetoric of the government unwilling to compromise on its declared goal of providing cheap food to the masses, has served its purpose by grabbing headlines, despite the Indian media's spotlight being on state elections. The political appeal of the rhetoric has increased, with some media reports portraying the Bali outcome as essentially a victory for developing countries fashioned by India's almost single-handed crusade for safeguarding their rights to subsidise agriculture. With the political mileage having been achieved – both at home and among low-income developing-country members of the WTO – India could have afforded to be flexible and allow the trade facilitation deal to go ahead. By doing so, it can further claim to have acted as a responsible stakeholder in global trade with unflinching commitment to the cause of the WTO and multilateral trade.

Bali was clearly a happy hunting ground for India. It now remains to be seen whether the 'trade-off' it agreed to at Bali is an indication of more such trade-offs in future underlining a shifting approach in its external trade negotiations.

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