

Advancing Global Trade Integration: India and the World Trade Organization Trade Facilitation Agreement

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The World Trade Organization (WTO) Trade Facilitation Agreement (TFA) entered into force in February 2017 – a reassuring move in improving the flagging state of international trade. As the latest agreement within the Bali Package of the Doha Development Round, the landmark TFA is expected to provide a multitude of benefits relating to the cross-border movement of goods for South Asian WTO members upon full implementation.

India has long played an active role within the multilateral trade system, at times being one of the few raising a considered dissenting voice against the consensus during the negotiations. Now, India, along with the rest of South Asia, looks set to benefit tremendously from the TFA, given the mandate outlined in its Foreign Trade Policy (2015-20), its current standing as one of the world's fastest growing economies and its increasing bilateral and multilateral outreach for further global economic integration.

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Delays have plagued the negotiations in the World Trade Organization (WTO) Doha Development Round since it first started in 2001, casting doubt on the legitimacy of the WTO as an effective multilateral trading system. The Trade Facilitation Agreement (TFA) marks the latest agreement signed as part of the Bali Package,² having entered into force on 22 February 2017, following – and exceeding – the requirement of two-thirds ratification by the WTO member countries. The last four member countries to sign were those from the Middle East and African regions, namely, Jordan, Oman, Chad and Rwanda.

The presence of “red tape” in international trade has often been blamed for the delays in the cross-border movement of goods and services. In its present form, the TFA is designed to deliver measures to strengthen the currently flagging state of international trade through improving bilateral trade which is conducted primarily via the rules-based multilateral trading system of the WTO. It has the aim of facilitating the flow of cross-border goods through the lowering of trade barriers, in particular, by lowering transactional costs for businesses and easing the customs process through the harmonisation of procedures across countries.³ This has long been a significant concern of the developing countries and least developed countries (LDCs), of which South Asia is a part.⁴

Benefits of the TFA for South Asia

The importance of the TFA cannot be underplayed – it is the first multilateral trade agreement to enter into force in the WTO’s 21-year history, illustrating the members’ commitment to a multilateral trading system which covers a significant proportion of the global trade and gross domestic product (GDP). At the same time, it is the only component which has been successfully implemented since the launch of the Doha Development Round 16 years prior.

Furthermore, what makes the TFA a landmark agreement is the fact that it allows the developing countries and LDCs of South Asia to implement the TFA according to their own

² The Bali Package is a trade agreement resulting from the Bali Ministerial Declaration and ministerial decisions made in December 2003. As part of the Doha Development Round, it is the first agreement approved by all WTO members and seeks to facilitate trade, acting as the initial TFA framework.

³ World Trade Organization. (2017, February 22). World Trade Organization. Retrieved on 1 March 2017, from https://www.wto.org/english/news_e/news17_e/fac_31jan17_e.htm

⁴ World Trade Organization, Trade Facilitation Agreement Database. World Trade Organization. Retrieved on 8 May 2017, from <https://www.tfadatabase.org/timeline>

domestic capabilities and capacities, and allowing them to implement it within their own time frames.

This, in particular, is a significant and reassuring step for India and the rest of the South Asian region, given the delays faced in the Doha Development Round. The initial hesitation on the viability of the TFA, as viewed by the South Asian states, can be seen in its ratification dates, with a South Asian state – Pakistan – first ratifying the agreement nearly a year after the ratification process started in December 2014. In comparison, a number of Asia-Pacific economies had ratified the TFA by then, with Hong Kong and Singapore being the first two economies to do so.

The latest trade-negotiation round under the WTO, the Doha Development Round, began with a ministerial-level meeting in Doha in 2001. Negotiations continued over the years, stalling in 2008, primarily due to disagreements regarding import tariffs and food security, specifically agricultural subsidies. It culminated in 2013 with the Bali Package, a trade agreement forming part of the Doha Round, which includes provisions that would allow developing countries the ease of trading with developed countries in international markets.

India and Brazil represented the developing countries to call for more favourable conditions regarding trade-distorting domestic support for their agricultural industries. Agriculture serves as the primary means of employment and a source of food production for the vast majority of the population in developing countries and the LDCs, especially those living in rural areas. In India, agriculture remains a sector of economic significance, contributing to US\$13.4 billion (S\$18.5 billion) of total exports in the 2016-17 period.⁵

There are seven South Asian member-countries in the WTO – Afghanistan, Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka – all of which are considered as either developing countries or LDCs under the WTO (Table 1). While the Maldives is a member of the WTO, it was not one of the member countries to ratify the TFA. Bhutan is currently in the process of accession to the WTO.

⁵ Government of India, Ministry of Commerce and Industry, Department of Commerce. (2017, June 26). Annual Report 2016-17: http://commerce.gov.in/writereaddata/uploadedfile/MOC_636281140249481285_annual_report_16_17_eng.pdf.

Table 1: South Asia in the WTO

Country	Date of WTO membership	Date of TFA Ratification	No. of TFA Measures Partially/ Fully Notified	WTO Status
Afghanistan	29 July 16	29 July 16	0 out of 36	LDC
Bangladesh	1 January 95	27 September 16	0 out of 36	LDC
<i>Bhutan</i>	-	-	-	-
India	1 January 95	22 April 16	36 out of 36	DC
<i>Maldives</i>	<i>31 May 95</i>	-	<i>0 out of 36</i>	-
Nepal	23 April 04	24 January 17	2 out of 36	LDC
Pakistan	1 January 95	27 October 15	15 out of 36	DC
Sri Lanka	1 January 95	31 May 16	11 out of 36	DC

Source: World Trade Organization.

Note: Bhutan is not currently a WTO member-country. The Maldives did not ratify the TFA. DC and LDC refer to developing countries and least developed countries respectively, according to the WTO.

Within South Asia, India, Sri Lanka and Pakistan are set to benefit most from implementing the TFA, being developing countries with the basic capacities and structures in place to do so effectively. The TFA is also known for the inclusion of further concessions for the LDCs such as Afghanistan, Bangladesh and Nepal, which may not have the necessary infrastructure, capacity or strong political leadership capable of fully implementing the TFA according to the timeline agreed upon.

Active participation in the TFA, along with full implementation and significant reform of trade policies, will allow the South Asian WTO members to further integrate within the global economy. The WTO member countries' trade costs are expected to fall by an average of 14.3 per cent, bringing in an additional US\$1 trillion (S\$1.4 trillion) in trade per annum, and reducing the import and export periods by over 1.5 and two days respectively – a 47 per cent and 91 per cent reduction over the current average time, according to a study by the WTO in 2015.⁶ Global export growth is expected to increase by 2.7 per cent, along with an additional 0.5 per cent growth in global GDP. Depending on the scope and pace of implementation, the benefits from the TFA can be maximised through extensive and speedier TFA implementation.

Under the agreement, the South Asian members of the WTO will be able to evaluate their abilities to implement the TFA through the selection of one of three categories (A, B or C) for

⁶ World Trade Organization. (n.d.). Trade Facilitation Agreement. World Trade Organization.

each of the provisions. While the developed countries are expected to immediately implement all components of the TFA, the developing countries, such as India, Sri Lanka and Pakistan, will only need to immediately apply the provisions designated as ‘Category A’ commitments upon the entry into force of the TFA. The LDCs have the special consideration of an extra year to implement them.

As of end-May 2017, all South Asian members of the WTO have presented their notifications for ‘Category A’ provisions, with the exception of Afghanistan, Bangladesh and Maldives. In addition, support and assistance is readily available to countries which request it – this is rendered via the Trade Facilitation Agreement Facility launched in 2014.

The other two categories (B and C) indicate other provisions which the members will have to implement after the transitional period, including those which require assistance and support for capacity building. The developing South Asian countries have up to 2.5 years to notify the WTO on their implementation timeline for ‘Category C’ provisions, while the LDCs have up to 5.5 years.

Significance of the TFA for India’s Foreign Trade Policy

Trade facilitation has long been a priority of the Indian government so that it could reduce the transaction cost and time, and render India’s exports more competitive. In recent years, India has structured its foreign trade policy to overcome its trade deficit. This is outlined in its Foreign Trade Policy (2015-20), which incorporates provisions relating to exports and imports of both goods and services.⁷ The reduction of both variable and fixed export costs results in increased exports by firms already within the international trade system, and encourages new firms to export.

India has framed its foreign trade policy to maintain the alignment with its obligations under the various WTO agreements.⁸ It has steadfastly announced its commitment to a “rules-based, non-discriminatory” multilateral trading system, highlighting its interest in working with other

⁷ Government of India, Ministry of Commerce and Industry, Department of Commerce. (31 May 2017). Foreign Trade Policy [1 April 2015 – 31 March 2020]: http://dgft.gov.in/exim/2000/Updated_FTP_2015-2020.pdf.

⁸ Government of India, Ministry of Commerce and Industry, Department of Commerce. (26 June 2017). Foreign Trade Policy Statement: http://dgft.gov.in/exim/2000/policy/FTP_Statement.pdf.

members to “remove any asymmetries in the multilateral trading rules” which place developing countries such as itself at a disadvantage.

However, its trade negotiation history consists of more unsatisfactory than satisfactory progress, particularly when it comes to regional trade agreements.⁹ It is seen as a tenacious negotiator on issues perceived as threats to the survival and growth of selected industries. This has led in part to the delaying of consensus in trade meetings and contributed to the perception of India as a ‘difficult’ negotiating partner.¹⁰

Its bilateral outreach has gained more success. More recently, India has made strides in integrating itself with the global economy, engaging numerous countries through establishing or furthering the negotiations of bilateral trade agreements, though even then the partnerships tend to have constrained trade and investment boundaries. Despite the significant economic growth expectations and TFA implementation, India faces numerous obstacles in its mission to increase the country’s share of global trade and increase its export volume by the year 2020, because of the lack of significant development in its manufacturing sector.

India’s most recent foreign trade policy is also designed to address this lack of development and enhance the country’s exports, using trade expansion as an instrument of economic growth, development and quality-job creation. Its participation in the TFA is aligned with governmental reforms designed to spur investment inflows and increase exports. The Merchandise Exports from India Scheme is one such programme, consolidating five different schemes from before, to reward goods exporters with different kinds of duty scrips.

A similar programme was designed for the services sector under the Service Exports from India Scheme for service providers from India. Services and investment continue to be the key factors in attracting investment and trade inflows into India. Services, in particular, have been deemed as an essential structural component in guiding connectivity and economic development, because much of India’s exports focus on financial and information technology services.

⁹ Carnegie India. (16 February 2017). India’s Trade Policy Dilemma and the Role of Domestic Reform. Retrieved from Carnegie India: <http://carnegieindia.org/2017/02/16/india-s-trade-policy-dilemma-and-role-of-domestic-reform-pub-67946>.

¹⁰ Brookings Institution. (14 November 2014). India and the WTO – A Reprieve. Retrieved from Brookings Institution: <https://www.brookings.edu/opinions/india-and-the-wto-a-reprieve/>.

The future for India's integration with global markets looks bright. Its proposal for a Trade Facilitation in Services Agreement in October 2016 followed a natural progression of its influence in the multilateral trading system. Similar to the TFA, which was focused only on trade in goods facilitation, it is expected to boost global services trade and reduce transactional costs.¹¹ A statement by the Ministry of Commerce and Industry further elaborated that the agreement itself was not about "seeking additional market access but to make existing market access meaningful."

Despite the past hurdles, this is a major step in improving the governance of services trade. It further illustrates India's keen interest to aggressively pursue global trade integration, and by doing so, position itself as a burgeoning key player in international trade.

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¹¹ World Trade Organization. (9 February 2017). Confederation of Indian Industry (CII) event, New Delhi: "Advancing Global Trade and the Role of the WTO". Retrieved from World Trade Organization: https://www.wto.org/english/news_e/spra_e/spra155_e.htm. Also refer to World Trade Organization. (5 to October 2016). WTO members debate new proposals to ease global flow of services, Retrieved from World Trade Organization: https://www.wto.org/english/news_e/news16_e/serv_05oct16_e.htm.