

# ISAS Brief

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## Modi's India in the WTO: Politics Trumps Economics

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### Introduction

The serene ripples of Lake Geneva in no way reflected the waves that were being created this summer within the headquarters of the World Trade Organization (WTO) located at its shores. These were being caused by the policy or at least the negotiating strategy employed by the new nationalist government of Prime Minister Narendra Modi of India. Single-handedly his representatives blocked the passage of a Trade Facilitation Agreement (TFA), to the dismay of many of the world's rich and powerful countries, as well as a number of large emerging nations. According to some supportive analysts, the TFA would have added US \$1 trillion to the global economy and created 21 million jobs.

Not that India was opposed to the TFA. Indeed, India fully recognized its benefits, and did not need the tutoring proffered on the subject by its mainly western interlocutors. But India wanted simultaneous action on removing the cap on agricultural subsidy that the WTO imposes. This removal would help Indian farmers earn at least 50% over the production price. Theoretically the two deals are not linked, but as a negotiating technique or ploy, India held the former hostage to an understanding on the latter. Linking one with the other meant reopening of settled issues,

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which normally governments are not wont to do, but that did not seem to deter India. It was Modi's 'India first' policy at play in the multilateral scene. Perhaps the world is about to see much more of it in the times ahead.

### **The Agricultural Conundrum**

The backdrop is as follows: At the WTO Ministerial conference, the highest decision making body of that organization, which was held in Bali, Indonesia, in December last year, talks were on the brink of collapse. They were saved by the skin of the teeth when it was agreed that the question of food subsidy would be resolved by the time of the next Ministerial meeting, i.e, 2017. On the occasion of the Bali conference, India, then run by Prime Minister Manmohan Singh commandeered many developing countries that wanted relief for their poor and vulnerable farmers as opposed to the free-trade preferred by, mostly, privileged countries. So there was nothing substantively new about the Modi government's demand now. What is new was the negotiating style, a strong and uncompromising attitude at the table, the tendency not to worry about the popularity of its position, the penchant to mix both 'process' and 'substance' to advance its own interests.

This, in-spite of the rapidly diminishing support from other developing countries, who have broken camp as they are unwilling to sacrifice the TFA for the softening of subsidy norms. At the end only Cuba, Venezuela, and Bolivia, remained as supporters, not necessarily the most desirable bedfellows in that citadel of capitalism which is the WTO. China, Thailand, Mexico, and Pakistan were openly critical. Unfazed by such detractors, and unpersuaded by the cajoling of John Kerry, the visiting US Secretary of State in New Delhi, India seemed unafraid to adopt a go it alone policy.

### **Nature of the Negotiations**

It is not that the WTO norms do not allow for agricultural subsidies. They do, under the body's "Green Box" schemes, they must be limited to 10% of the production costs for developing countries. India has no particular quarrel with that. However it is based on prices dating back to 1986-1988 levels. India wants current inflation and exchange rates to be factored in. In which case, it argues there would be no need to tamper with the percentile figures. India's procurement policies have led to a stockpile of over 60 million tons of food-grains, 38 million tons in wheat, and 22 million tons in rice. Critics point to the dangers of spoilage in storage, and potential corruption in terms of siphoning off stocks by unethical players. These may be true, but Indian agriculture is still a gamble on monsoons, and provisions need to be made for the 'non-rainy day'. No need to wait for 2017, Indian negotiators argue. Better to do the deal now, simultaneously with the TFA. For, at this time there are two birds in hand, which is better than

dealing with one now, and waiting around for the other in the bush, to be handled at a distant date.

Overtly unstated in Geneva, but behind knowledgeable minds is the fact of upcoming elections in several Indian States, including predominantly agricultural ones as Haryana and Maharashtra. Unsurprisingly Modi wants his Bharatiya Janata Party (BJP) to win them. This is much easier done with the support of the farmers. The voices of Indian diplomats in the WTO negotiations are music to their ears. Once WTO decisions had led Indian farmers to suicide. Modi believes, if appropriately managed, today he should be able to make policies from that same institution turn tears of sorrow to those of joy. Many who use economics to read India's position suggest that the Indian stance in Geneva may not promote what the country should be seeking, but this paper is about the manner of its diplomacy rather than the objective benefits it may bring to the country.

## **Conclusion**

Modi must be aware that he will be suspected of allowing politics to trump economics, domestic issues to dominate diplomacy. So what of it? Is it not an American truism that all politics is local? So what is wrong if the source of all diplomacy is domestic? These are some ideas that must be churning in his mind. In Geneva the deadline for the TFA, 31 July has come and gone. Deadlines in the WTO have come and gone before: according to one calculation, no less than on 27 previous occasions! Another one should not make an awful lot of difference. India has placed its own set of proposals at the table, that its representatives assert, merit serious consideration, and time should not be of the essence. Such timings are merely man-made functions of diplomacy. Is it possible for other WTO member states to go ahead with the TFA without India? Perhaps. In that case, India will make sure the play becomes akin to the staging of 'Hamlet without the Prince of Denmark'.

True, much of Modi's multilateral policies may not differ from that of his predecessor in substance, but they do so in style. But that in itself is making a huge difference already, as the WTO story shows. It also demonstrates that the world must take into account 'Modi-nomics', and as it is beginning to do, live with Modi's India, and India's Modi.

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