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India on WTO reform: Defending the Status Quo

Patryk Kugiel

India is concerned about the undermining of the multilateral system of international trade and the risk of WTO paralysis. Although it has previously criticized the organisation as representing the interests of developed countries, India appreciates the WTO's role in achieving its economic goals. In negotiations on the future of the WTO, India will support proposals to improve its effectiveness, including the reform of the dispute settlement system (DSS). It also will be ready to block changes restricting the privileges of developing countries. This stance may thwart deeper reforms of the organisation demanded by the U.S.

India became fully involved in the global economy and international trade only after the end of the Cold War and the commencement of liberal economic reforms in the country in 1991. Since then, it has developed at a rate of 6–8% of GDP annually, becoming an important beneficiary of globalisation processes. Today, it is the sixth-largest economy in the world, although in terms of nominal GDP per capita (\$1,942) it belongs to the group of the poorest countries (140th in 2018). Also, its share in international trade in merchandise and services is relatively small—in 2017, it was just 3%. That same year, India accounted for only 2.6% of the global trade in goods and 4.2% of services. Despite this, trade plays a big role in its economy, accounting for 41% of GDP. However, the country's large trade deficit (\$150 billion in 2017) remains a growing problem. The government's goal is to increase exports as a new source of economic growth and job creation. According to the foreign trade policy adopted in 2015, India plans to increase its share of world trade to 3.5% by 2020 and double the value of exports.

The Importance of the WTO for India. The condition for achieving these goals is maintaining the current free-trade system with the WTO at its core. This is why Prime Minister Narendra Modi, when speaking at international events, such as the World Economic Forum in Davos in 2018, defends globalisation and criticizes protectionism. India is a GATT founder and has been one of the most active WTO members since its creation in 1995. In trade negotiations, India positions itself as representing the interests of developing countries. As such, it criticizes privileges for developed countries, such as agricultural subsidies, and insists that a key goal of the WTO should be to create conditions for levelling global economic inequality. However, it is reluctant to broaden WTO regulations to other areas not strictly related to trade, such as environmental protection or labour standards. Although it is interested in the success of the Doha Round, its defensive negotiating style and use of unanimity to block unfavourable provisions are considered one of the reasons for the failure so far of the negotiations. The latest example was India's unilateral delay of several months in 2014 before signing the protocol to the negotiated Bali Package because of what it described as the lack of a "lasting solution" to subsidies for the poorest people by developing countries (food security).

At the same time, while supporting the principles of free trade, India is still a relatively closed market and protectionist tendencies have intensified during Modi's time in office. In only the last three years, India has increased tariffs on more than 400 products. In total, the average tariff increased from 12% in 2010 to 13.8% in 2017, reversing the previous downward trend (from 85% in 1991). Despite a number of reforms

facilitating business operations (in the *Doing Business* ranking, it improved from 130th in 2014 to 77th in 2018), non-tariff barriers are still a serious obstacle to market access. In addition, in March 2017, India unilaterally terminated 58 agreements on investment protection, including those with 22 EU countries.

Demands and Expectations. India has not presented a comprehensive vision of the future of the WTO and will not do so at least for the next several months because of the May parliamentary elections. It agrees on the need to reform the organisation but would expect changes going in the opposite direction than the U.S. proposals. At an informal ministerial meeting of WTO members in January in Davos, India rejected, among others, U.S. proposals to punish members who do not notify the WTO of the introduction or increase of subsidies.

India supports DSS reform and the unblocking of Appellate Body (AB) appointments. Therefore, India, the EU, and China have proposed changes to the AB. India often uses the DSS, bringing 24 cases against the other members and joining 157 complaints lodged by others. Meanwhile, it has been the target 27 times. India fears that the paralysis of the DSS will prevent it from pursuing its rights, will take away the power to enforce WTO regulations, and will lead to the free imposition of protectionist measures by other states. It has already experienced the effects of the current crisis when in February the AB, due to staff shortages, postponed indefinitely consideration of its appeal against a negative opinion on Japan's complaint regarding the import of steel products.

India also will not agree to equal status for all WTO members. In February, it announced, together with China and South Africa, support for maintaining privileges for developing countries under the WTO's Special and Differential Treatment (SDT) system. In May, India plans to organise an informal mini-ministerial meeting in New Delhi of the least developed and developing countries to agree on a common position on this matter. At the same time, India perceives some of China's commercial practices as negative—the country accounts for 50% of India's trade deficit—prompting numerous anti-dumping investigations, in fact, the most against any other member (226 against China compared to 57 against the EU and 43 against the U.S.).

India is sceptical of pursuing trade negotiations within smaller geographic or thematic groups (“flexible multilateralism”). Although it is party to some 15 FTAs, it has not signed any new ones since 2012. It also has not overcome the deadlock in negotiations with the EU and is considered the party hampering the progress of the Regional Comprehensive Economic Partnership (RCEP) of 16 Asian countries. It also did not join the group of 76 WTO members wanting to regulate e-commerce (though China did), or working groups on investments and small and medium-sized enterprises launched at the ministerial conference in Buenos Aires in 2017.

Conclusions and Perspectives. Maintaining the principles of free trade and the strong role of the WTO in it is fundamental to maintaining India's growth and modernisation. As a country that joined relatively late the processes of globalisation and has recently benefited from the current system, it favours its maintenance. At the same time, serious internal constraints (e.g., high levels of poverty, weak industry, large trade deficit) mean that India expects wider access to other markets while maintaining the right to self-protection. Such a contradictory position undermines India's credibility as a defender of free trade and will be difficult to defend. Therefore, although at the declarative level it supports strengthening reform and improving the functioning of the WTO, it will in practice defend the *status quo* and especially the privileges accorded to developing countries.

A more detailed position on the WTO may be presented by the new government after the May elections. Regardless of the election results, no major changes from the current policy are expected. It is possible, however, that India will join the Buenos Aires working groups, considering that it is better to co-create new regulations than to boycott the process. It will also build alliances with various partners on a case-by-case basis. Cooperation with the EU will focus on the improvement of the DSS (especially the AB) and with China in defending the privileges of developing countries and the SDT system while also criticizing agricultural subsidies in developed countries. However, together with the U.S. and the EU, India can exert pressure on China to limit its unfair trade practices.

India's preference for the *status quo* and past WTO negotiating tactics indicate that it can block thorough reform of the organisation. This attitude to trade will become an increasingly serious problem in its relations not only with the U.S. but also with the EU. The Union has already expressed this in its strategy towards India adopted in December 2018 calling for a “more constructive attitude in the WTO” and encouraging wider market access. A weaker WTO and global trade disruption may in the long run induce India to be more willing to negotiate bilateral trade agreements with the EU and the U.S.

Table: Summary of India's Trade in 2017

	export	import
Merchandise trade	€261.3 billion	€384.9 billion
Trade in services	€162.9 billion	€136.3 billion
Total trade	€945.4 billion	
Trade balance	€ -97.0 billion	
Share in world merchandise trade	2.68%	
Share in world trade in services	4.2%	
Share in global trade	3%	
Share of trade in GDP	40.9%	
Number of free-trade agreements	15	
Number of cases in DSS (complainant)	24	
Number of cases in DSS (respondent)	27	
Number of cases in DSS (third-party)	157	
Average tariff	48.5%	
Average tariff (MFN)	13.8%	
Average tariff (weighted in trade volume)	7.5%	

Source: DG Trade statistical guide, WTO.