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Rescuing the Doha Development Round The Role of India and China in Multilateral Trade Governance¹

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Abstract

The World Trade Organization (WTO), with a much enlarged membership, has functioned very differently from its predecessor, the General Agreement on Tariffs and Trade (GATT). The old power centres within the multilateral trade regime have been joined by new power centres, especially from the emerging economies. The developing and the least-developed members are acting in coalitions to ensure that WTO deals meet their expectations and development concerns; however, they have not had similar success in agenda-setting yet.

This paper examines the changing contours of the engagement of developing countries in the global trade regime, with special reference to the important role India and China can play in the 21st century WTO system of trade governance. It argues that emerging developing countries today need to pick up the leadership mantle and play a constructive role in furthering the cause of multilateral trade integration. This will be in the larger interests of protecting their international market access as well as the much needed domestic reforms. The paper tries to identify the roles and responsibilities of emerging hegemonic powers like India and China in the successful conclusion of the Doha Round.

1. Introduction

On 26 May 2009, the WTO General Council agreed to hold the Seventh Session of the WTO Ministerial Conference from 30 November to 2 December 2009 in Geneva, Switzerland. This will be the fourth in the series of official high-level meetings that the WTO members will participate in since the launch of the Doha Development Round in November 2001. Notwithstanding the repeated demonstrated willingness of WTO members to engage concertedly for a rapid conclusion of the Doha Round, from the numerous setbacks and temporary suspensions of dialogue it appears that the current Round of the Multilateral Trade

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Negotiation (MTN) is not destined for a speedy conclusion. The most recent projections are for the conclusion of negotiations by 2010, indicating a targeted implementation of the commitments from 1 January 2011, but this could well turn out to be wishful thinking on part of the WTO Secretariat.

The breakdown of ministerial talks in Geneva at the end of July 2008 revealed the continued presence of stark political constraints on further liberalisation of agricultural and manufactured goods trade; these constraints are unlikely to go away soon. Most analysts now agree that the world is likely to experience anemic growth in the next couple of years; the much-hyped 'green shoots' of recovery merely indicates a deceleration of the economic freefall, with the turnaround of the recession still not in sight. As a result, it will be difficult for countries to find the requisite political will to undertake commitments of painful liberalisation necessary to get closure in the Doha Round.

On the contrary, the high chaotic turbulence of ongoing economic and financial crisis has further entrenched the sentiments of reticence and protectionism revealed in July 2008, and in fact the world appears to be moving to a system where there is a much larger direct role of government in production and management of the economy and a return to populist government-led redistribution. Despite the G-20 promises to reduce protectionism and trade barriers, new data published by The Brookings Institution in a recent report show that protectionism through increased use and enforcement of trade remedy measures increased 18.8 percent during the first quarter of 2009.³ This 'backsliding' added to the lack of traction in the ongoing Doha Round negotiations has generated predictable lamentations from analysts on the death of Doha, and more significantly, the demise of multilateralism as the most favoured global trade liberalisation tool.

The entrenched positions of India and China in the agriculture negotiations on issues of developing country flexibilities under the Special Safeguard Mechanism, which countered offers of industrialised country players like the United States, have been cited as the central reason for the dissolution of the July 2008 ministerial talks. While agriculture is central to the conclusion of this Round and has proved difficult to negotiate since the inception of Uruguay Round,⁴ such simplistic explanations and apportioning of blame are counter-productive insofar as they distract from a dispassionate evaluation of the core causes of the continued deadlock. Will a resolution of the current impasse herald a smooth transition back to the earlier days when the world trade order seemingly had little problems in concluding MTNs? Or are we in an era when troubled Rounds are the order of the day? What are the underlying reasons for the observed difficulty by WTO members to come to mutually acceptable compromises to conclude MTNs these days?

³ Bown (2009). However, as Jagdish Bhagwati and Arvind Panagariya (2009) have argued in a recent article, this is the tip of the protectionist iceberg. In 2008-09, global protectionism increased because of aggressive use of (a) legal measures (viz. The trade remedy measures analysed by Bown), (b) illegal measures (viz. subsidised loans and other sector specific assistance/explicit subsidies that are WTO-incompatible), as well as (c) measures that are 'legal as enacted but illegal as implemented' (viz. the 'buy local' provisions enacted in the national stimulus packages). The last also include provisions that were originally enacted to help liberalise trade (by offering an exit strategy for tough times as incentive for members to open up), which could now end up undermining the liberal trading system itself.

⁴ It is important to recall that the lack of disciplines on agriculture and production subsidies were serious bones of contention between the signatories during a major part of the original GATT negotiations. Disciplines on agriculture (and textiles and clothing) has continued to trouble WTO negotiations ever since. However, a forward movement in agriculture is critical for reinstating the credibility of the multilateral trading system that is enshrined in the WTO.

As trade ministers of key WTO trading members continue to meet in formal and informal settings to work out compromises, there is perhaps greater necessity now for both the WTO analysts and senior functionaries in the WTO Secretariat in Geneva to introspect on the most proximate causes for present day problems and find workable solutions. While discussions on what ails the WTO negotiation process began in the aftermath of the failure of the Seattle Ministerial meeting in 1999 to launch a new Round, and there is by now a comprehensive set of literature on the need and conditions for reform in the WTO.⁵ What is perhaps missing from the literature is a view and understanding from the developing world on where their interests lie vis-à-vis the negotiations and the proposed reforms of the system, and how these interests may be best served. This paper aims to initiate discussions to bridge that lacuna. We will however restrict the scope of the paper to the roles that India and China could play in ensuring a successful conclusion of the Doha Development Round (DDR).

The paper explores the role of developing countries in the context of a 21st century multilateral trading system, focusing on the leadership that emerging countries like India and China can provide in not only breaking the current impasse and taking this Round to a rapid conclusion, but also in ensuring that the concerns of developing countries are brought to the fore in the future rounds of WTO negotiations. The plan of this paper is as follows: the following Section 2 will discuss the role of economic powerhouses in maintaining an open global trade regime, followed by an analysis of the evolving nature of engagement by developing countries in this dynamic system. Section 3 will briefly discuss the specifics of the Doha Round that bring out the inconsistencies of governance in the multilateral trade regime, which has been a key to the continued impasse in the DDR. Section 4 discusses how developing countries like India and China should change their manner of engagement in the system to transition from being leaders of the developing world to emerging as *de facto* decision makers of the multilateral trading system by not only actively engaging in agenda-setting but also providing the necessary concessions to get the stalled negotiations moving again. Finally, in Section 5, we summarise and suggest a way forward for the DDR.

2. Sustaining an Open Trade Regime: Role of Global Hegemons

Two related developments appear to be at the root of the recent chaos in the global governance system, with direct implications for the trade governance regime. First, borrowing from the hegemonic cycles analysis in International Relations theory, the United States was a rising contender for hegemony⁶ as of 1873, achieved full hegemonic dominance in 1945, the fruits of which were reflected in the leadership position it assumed to create the world trading governance regime in 1947 in the form of the GATT, and in ensuring that the progressive trade integration and tariff liberalisation continued despite the economic

⁵ The most notable among these have been the Sutherland Report and the Warwick Commission Report. Recommendations range from reforms of the WTO institutional mechanism to reforms of the processes of WTO negotiations.

⁶ Hegemony, or leadership in Greek, initially denoted the dominance of a Greek city-state over other city-states, and was subsequently used to denote the dominance of one nation over others. Moreover, a hegemony is the type of empire, wherein, the imperial state controls the subordinate state(s) with power (the perception that it can enforce its political goals), rather than with force (direct physical action to compel its political goals). In the field of international relations, the hegemon (leader) dictates the politics of the subordinate states upon whom it has hegemony via cultural imperialism. In contrast to the above political attributes and use of military supremacy by states to maintain hegemony, this paper will focus on the 'structural' economic conditions that lend legitimacy to certain nation states to become hegemons. The word hegemony here is used in a narrower sense to denote leadership /power emanating from economic might /dominance.

turbulence in the 1960s and 1970s.⁷ Second, this United States dominance has been slowly declining since the 1970s, and in this new century we are past any semblance of the United States' economic hegemony.⁸

The 'realist' conception of hegemonic transition builds on the relative economic standings of different states which transform the international system to reflect their interests. In this, conflicts are expected to emerge as declining powers resist processes that inevitably diminish their relative position.⁹ Despite the above, a reassuring historical fact remains that the world powers/hegemonies over centuries have generally maintained open economic regimes, though memories of the protectionist phases (which are more of aberrations than the norm) seem to overwhelm as they are also more dramatic. Open and unfettered economic, scientific and cultural relations with neighbours and other powers have been a recurring feature and basis of prosperity in all great power regimes. Closer to our times, the power projected by the two earlier global hegemonies, viz. Great Britain in the 19th century and the United States in the 20th century, can be argued to have been founded on their maintaining an ability to enforce liberal and globally integrated open economic regimes, notwithstanding the existing significant differences in the motivation and the form openness took in the respective regimes.

The 19th century British Empire was essentially a colonial power, deriving and sustaining its economic and political supremacy from continued trade and economic integration with its colonies and other powers. For all the atrocities inflicted on its colonies, the British imperialists remained wedded to the principle of *laissez faire* and tariff duties on primary products and manufactures in much of the British Empire were also kept low. In the words of the Whig free trader Sir John Graham, Britain was "the great Emporium of the commerce of the World". Its domestic market and much of its empire were more or less open for all to sell their wares as best they could.¹⁰ The colonies were Britain's major (though not exclusive) trade partners; between 1871-75 and 1925-29, the colonies' share of Britain's imports rose from a quarter to a third. In the late 19th century, any resident of Londoner could order by mail or telex any product from any part of the world. In the same vein, the British Empire was also an open regime vis-à-vis international mobility of labour and capital, albeit at the cost of great hardship from the migrant labourers and suppliers of capital and resources.¹¹

The United States' economic and political hegemony in the 20th century, on the other hand, was largely non-territorial in character and dependent on issue-based regional alliances with pliant states.¹² Although the United States emerged as a global power through its colonial conquests in 1898 and the subsequent intervention in World War I, it was the collapse of the

⁷ Baldwin and Richardson (1984) argue that tariff liberalisation was the most distinctive feature of the United States commercial policy for the better part of the 20th century; we will develop this argument further in the following paragraphs. See also Irwin et al (2008) for a comprehensive exposition of the role and influence of the United States in creating the Bretton Woods institutions and the GATT protocol. The authors argue that notwithstanding the important contribution from the British and Canadian negotiators, "GATT would not have come into existence without the leadership of the United States", p. 145.

⁸ Baldwin and Richardson (1984), *op. cit.*; Wallerstein (2008).

⁹ Beeson (2009). For related discussion on the causes and dynamics of geopolitical power shifts, see Altman (2009).

¹⁰ Fergusson (2004), p. 187.

¹¹ Raychaudhuri (1996); notable is the experience of India and China under British colonial rule. The regressive actions in the 1870s and 1890s have been termed by one recent historian (Davis, 2001) as "Late Victorian Holocausts".

¹² Cox (2005)

formal 'Empire' during the two world wars that paved the way for the creation of institutions, structures and relations, which contributed to the formation of a informal post-war American empire. The lead that the United States took in the aftermath of World War II was based on "economic foundations of peace",¹³ and the liberal posture was maintained through hegemonic trade and payments positions. The United States emerged from World War II with its economic base greatly strengthened, while the economic structures of both its allies and enemies were ruined by the war – an economic dominance rather unique in the history of industrial nations. The abnormally favourable export opportunities (even in 1952, the United States share was over one-third of global exports), together with the vigorous domestic recovery in the post-war period, helped negate protectionist pressures from domestic industries whose underlying comparative advantages were deteriorating and supported the cause of those groups whose international competitiveness position was strong. As discussed earlier, this allowed the United States to assume global leadership in economic spheres, and helped the formation of international institutions (the Bretton Woods twins and GATT) to support such hegemony.¹⁴

The implementation of an open international trading regime in the post-World War II era was based on hefty tariff reductions, and it was the hegemony emanating from the favourable economic conditions discussed above that allowed the United States to obtain support of the other powers. The rationale behind this lies in the public good nature of an open international trading (and payments) system. A public good is likely to be under-produced unless one member of the concerned group is very large compared to the others, who then uses its dominant position to underwrite the potential free-riding by other members.¹⁵ Proponents of the hegemonic theory of regime-change then point to the dominant position of Britain in the 19th century to account for the open world trade regime. In a parallel comparison, in the immediate post-World War II period, the United States was able to bear most of the cost of establishing a liberal international economic order,¹⁶ and offered more-than-reciprocal tariff concessions.¹⁷ What the United States did in effect in the early part of the 20th century was to redistribute to other countries part of the economic surplus reaped from its unusually favourable export opportunities in order to enable those countries to support the establishment of an open trading regime.¹⁸ This was of course undertaken for the United States to benefit from the improved export opportunities that tariff reduction generated even when its trade partners did not reciprocate entirely. And in doing so, the United States acquired a clear preponderance of wealth and power, so much so that it came to be known as a superpower. Through the Bretton Woods system, the United States hegemony has been projected as an acceptance of the liberal economic thought-leadership popularly known as the Washington Consensus, an exercise of 'soft' power rather than dominance by means of brute military force, and underlines the importance of ideas and institutions in entrenching hegemonic rule.

¹³ In his 26 March 1945 statement to the Congress, President Roosevelt commented that "trade is fundamental to the prosperity of nations" and the "purpose of the whole effort (tariff reductions) is to eliminate economic warfare". Cordell Hull, Roosevelt's Secretary of State further argued that "unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war". Irwin et al (2008), *op. cit.*, p. 13.

¹⁴ Baldwin and Richardson (1984), *op. cit.*, pp 5-13. While several economists argued in favour of this point, a succinct statement and analysis of the United States hegemonic model for establishment of a liberal international order can be found in Lipson (1982).

¹⁵ Olsen (1965)

¹⁶ Vernon (1983), pp 8-10.

¹⁷ Meyer (1978), p. 138.

¹⁸ Baldwin and Richardson (1984), *op. cit.*, p. 10.

This status quo however quickly changed in the following couple of decades after World War II, and by the 1970s, the United States' export competitiveness was no longer unchallenged, which led to changes in attitudes and approaches of the United States' politico-economic engagements with other nations and its trade policy initiatives and negotiations. The change however did not reverse the United States' policy thrust on tariff liberalisation; in fact it has been argued that after 1970s, the United States trade policy was more protectionist insofar as it insisted on the inclusion of non-tariff escape clauses allowing the United States to modify or withdraw tariff reductions if increased imports resulting from a concession caused/threatened to cause injury to domestic industry (alleged 'unfair' trade practices by partners). The United States trade policy commitments in the post-oil crisis period therefore were framed more on the basis of 'liberal' trade than 'free' trade. And this is when the post-World War II United States hegemonic model started faltering, and by the turn of the century we are past any semblance of the United States economic dominance. The United States' economic woes brought on by the current recession, is merely another nail in the coffin of a rapidly deteriorating United States economic supremacy. We seem to have entered a multipolar world where the emerging developing countries are beginning to play increasingly definitive roles because of their economic strength, but the global leadership issues still remain unaddressed.¹⁹

A solution to the above conundrum will not be easily obtained in the near future. However, to begin with, the multilateral trading system needs to realign itself with the changing realities, where developing countries have emerged as important players in the WTO Rounds. The world economy may have "coped with China's and India's economic resurgence",²⁰ and accepted the prospects of the continued march of the BRICS²¹ economies, but it has not yet realigned itself to one of its fallouts, namely the increased clout of developing countries at the negotiating tables of WTO which demands that developing country concerns be put at the forefront of the WTO negotiations. The Doha Round negotiations only seem to pay lip-service to development concerns; while the emerging developing countries are being regularly invited to the negotiating high-table,²² a change that yet has to be perceived in the mindset of industrialised countries that reflects adjustment to this new reality.

Further, the current shifts in national and international economic and political equilibriums as discussed previously also need to be reflected in the decision-making and agenda-setting processes within the WTO. This shift has contributed to the leadership crisis in the WTO today. In addition to the gradual erosion of the United States economic hegemony over the past three decades and the lack of a clear successor from the rest of the industrialised world, the conservatism generated by the current economic and financial crisis also demands that new players assume leadership for ensuring the continued push for multilateral trade liberalisation. As noted by Roger Altman, an important fallout of the financial and economic crash of 2008 has been the erosion of financial resources and the economic credibility of the United States and the European Union to play a leadership role in the global affairs, at least in

¹⁹ The result, in the words of Richard N. Haass, President of the United States Council on Foreign Relations, is the emergence of a 'nonpolar world'.

²⁰ Martin Wolf in Financial Times, January 30 2007, <http://www.salzburgseminar.org/mediafiles/MEDIA28342.pdf>

²¹ BRICS refer to Brazil, Russia, India, China and South Africa.

²² This transition is observed from around 2006. Discussions have even begun on whether the BRICS can replace the existing global hegemon. This latter however doesn't seem probable in the near future, the justification for which will be argued in the later part of the paper.

the medium term.²³ New players therefore need to step in to keep the global trade engines humming through multilateral cooperation and boost global well-being, and WTO negotiations need to be viewed as more than a mere exercise in lowering trade barriers.²⁴ In recognition of the importance of keeping borders open to diffuse the impact of the ongoing recession, at the April 2009 London Summit the G20 members reiterated their commitments to “not impose any new trade barriers”. However, the above notwithstanding, “(n)ow is (also) the time to figure out what balance is needed between the WTO’s rule-making, liberalisation, juridical and deliberation functions, and the role of the different players, in light of the commercial, developmental and political realities of the 21st century”.²⁵

Changing Dynamic of Developing Country Participation in MTNs

With the integration of developing countries into the global production and supply chains, and with the advent of transnational firms in particular, developing countries have become an integral part of the global trading system. Also, the contours of the multilateral trading regime have changed with services becoming an increasingly important element of new trade flows, which has enhanced the agenda of the WTO. Not surprisingly therefore, negotiations have become more complex, making concluding a WTO Round more difficult as compared to the GATT era. In particular, the scope of the Doha negotiations is much larger and deeper than in any previous Round.²⁶ That said, concluding MTNs has never been easy. Although they might seem like successes in retrospect, it is important to recall that few of these MTNs went smoothly. Statistics indicate that WTO rounds have on average experienced a crisis at about five years into the Round and then gone in to hyper-drive mode. It took five years to conclude the Tokyo Round, and the Uruguay Round took nearly eight years and several stops and starts. It would have been a miracle if the Doha Round were to conclude in less than that time, which it has not. In the words of Jagdish Bhagwati, “miracles do not happen in trade (negotiations)” and “with each successive round, the negotiators’ task has grown more complex, even as their ability to close trade deals has increasingly been impaired by the greater visibility of the process and the growing involvement of a variety of protectionist lobbies and stakeholders”.²⁷ The current financial and economic crisis (considered the worst since the Great Depression of the previous century) in the industrialised countries is not helping the cause of liberalisation.

²³ Altman (2009), *op. cit.*, p. 1. Also, Erixon (2008), whose argument on erosion of leadership from the United States and the European Union will be discussed later.

²⁴ When the Doha Round was launched in 2001, the price of oil was US\$25 a barrel, a ton of rice cost US\$170. By mid-2008, oil prices surged to US\$147 a barrel, and rice to US\$1,080 a ton. Prices of both commodities have dropped precipitously since then, and in the second week of January 2009, oil prices are at less than US\$40 while the benchmark Thai rice stood at around US\$550 per ton. Such vast changes in circumstances have had a profound human impact world over and call for urgent action on part of all stakeholders to resuscitate and stabilise the global economic system. In fact, as part of the proposals of the G20 to reshape the international financial system that is in the midst of the worst financial crisis since the Great Depression, Britain has pushed for an early completion of the Doha Round.

²⁵ Evenett (2008)

²⁶ Analysts also point out the following as other barriers to a rapid conclusion of the Doha Round: the method of negotiation (single-undertaking) is also much more ambitious; the large number of (developing country) members makes it difficult to arrive at a consensus; Member driven nature of the organisation; etc. These have resulted in a very complex negotiating process and failures in large part can be attributed to unrealistic expectations of WTO members. See Karmakar (2007) for a critical analysis of the problems faced by developing countries in particular in the ongoing Doha negotiations.

²⁷ Bhagwati (2005).

Also, there have been significant changes in the process and politics of the Doha Round. The actors today are different from previous rounds, and developing countries are also more active in this Round. For more than 50 years, the United States and the European Union, supported by a small group of like-minded countries, led the world in opening up global markets in an irregular but steady manner; but this developed country hegemony changed rather dramatically during the Seattle Ministerial meeting. In 1947, when GATT was instituted, only 23 nations (mostly developed countries and their colonial allies²⁸) participated in that first round of trade negotiations; today, in the ninth round of WTO negotiations, 153 nations are active participants (of which only 24 have the ‘developed’ country status), with an additional 20 countries in different stages of accession. Today, the role of developing countries in sustaining this process of liberalisation of world markets has become significant, for unlike in the 1950s and 1960s, most developing countries follow an export-oriented growth model. With their stakes in multilateral trade system thus changed, a larger and more diverse group of developing countries has started exercising their “veto power” at every stage of the WTO negotiations. Each country also needs to show gains to their domestic constituencies in order to justify concessions made to the trading partners. Thus, in the WTO era, there has been a decided shift from the United States-European Union power duopoly of the Uruguay Round to an oligopolistic form of decision-making in the Doha Round that incorporates the G-20²⁹ representation of the emerging country’s interests in agriculture and non-agricultural market access (NAMA) as an integral part of the negotiating modality.

However, will this pluralistic decision-making suffice to resolve the emerging concerns of this century vis-à-vis the global trading regime and its governance system? The expansion of developing country membership in the WTO has brought into focus a different problem. The GATT negotiation modality of bargaining between a small club-like group of members is not tractable in the WTO system; one of the many errors in the process had been the belief that the WTO with its vast membership and much-enhanced agenda could operate in the same way as GATT.³⁰ The GATT liberalisation agenda operated on a give-and-get basis where the actual bargaining was done among the industrialised country members, and then the outcome multilateralised to benefit the rest of the membership. Developing countries were marginal players in the 1947 GATT negotiations, and participating largely as colonies of the major negotiators they were not expected to contribute to the bargain process. They were also insignificant players in world trade. Hence, developing countries as a whole were allowed (until the Uruguay Round when this process changed significantly) to make offers of tariff reduction commitments that suited their particular state of industrialisation and level of development, which in effect allowed them to maintain relatively much higher tariff bindings on most negotiated products. However, in today’s multipolar world, particularly with the developing countries’ rising share in global trade, the larger economic powers are expected to contribute in the reciprocal bargaining process.

However, as complications arise from the presence of many marginal players as members who have little or no ambition nor the ability to participate in the bargaining process, the

²⁸ Shafaeddin (2009), p. 8.

²⁹ This second G-20 is a coalition of 20 developing country WTO members who have been negotiating on market access and other liberalisation modalities in the ongoing Doha Round of negotiations. The G-20 came into being in August 2003, largely as a reaction to the joint framework proposal on agriculture submitted to WTO by the United States and the European Union. This group is different from the new Group of Twenty (G-20) developed and developing countries (mentioned earlier in the text) that first met in Washington in November 2008 for a two-day emergency summit on the global financial crisis.

³⁰ Erixon (2008), *op cit.*

GATT negotiating modality of reciprocity by the entire membership has failed. The BRICS have not yet emerged as the new economic hegemons nor are they a cohesive unit with the ability to speak for and/or encourage or influence other developing countries to participate in the global trading regime unlike the United States in the previous century.³¹ Further, with the changing economic scenario since 2001, delivering a development-friendly package for the developing and least developed countries (LDCs) seems unlikely to get approval from the industrial country stakeholders and negotiators. Making over-arching and generous concessions is not easy when times are tough. This is exemplified in the lack of unilateral liberalisation in key economic sectors in the industrialised countries in recent times, which in turn is reflected in their limited ability to make credible offers at the negotiating table. In fact, the WTO and its policies governing international trade and investment seem to have become hopelessly outdated. “They are stuck in anachronistic 20th century mindsets, institutions and regulations (that are) increasingly disconnected from today’s business realities”.³² The world truly seems to be in a state of flux.

3. Leadership Crisis in the Doha Round: Cause for Repeated Deadlocks?

The Doha Round has been tough going from the start. One of the key reasons for the repeated deadlocks in the current round has been identified in the lack of credible leadership. Most developing countries continue to be hesitant in engaging fully in the Round; even the more developed of the developing countries are hesitant in assuming a leadership position to steer the Round to success. The current impasse, however, should be treated as an opportunity for members to introspect and work out the extra steps they need to take for ensuring that the potential long-term gains from multilateralism are not sacrificed for short-term populism. Much depends on the compatibility among negotiators, between the dossiers they negotiate (and its interface with the political reality at home) and their real commercial interests, and the dynamism of the multiple stakeholders.

The challenges emanate not only from the net politico-economic clout that the disparate developing countries as a group (or even individually) can muster to steer negotiations to a conclusion that is acceptable to all and delivers on most of the promises of the Round, but also from the wide divergence in the core development concerns and members’ expectations of gains from tariff cuts. In fact demands for less than full reciprocity (LTFR) and protection of preferences for development often work at cross-purposes with the core negotiating modality of progressive most favoured nation (MFN)-based tariff negotiations aimed at creating a level playing field for all. Nevertheless, it is widely acknowledged today that for a successful conclusion of the Doha Round, compromises need to be made by all and constructive leadership from the key developing country leaders is perhaps more important than what the industrialised country leaders could achieve on their own. Notwithstanding the important role played by the United States and the European Union in this Round in terms of

³¹ The joint communiqué issued at the June 2009 BRIC (Brazil, Russia, India and China) Summit at Yekaterinburg in Russia seem to indicate that for the moment the members are focused on reducing their exposure of the United States dollar, rather than taking a leadership position in altering the global financial landscape or restructuring global economic and governance systems. The extent the BRIC may convert their growing economic power into greater geopolitical clout remain limited by the fact that none of them has gained influence in the leadership structure of the IMF or World Bank. Further, the link among the BRIC has always been weak, and intra-group cooperation is tenuous at best. Although they are all populous countries with emerging market economies, the BRIC have huge differences in their industrial bases, economic systems and overall progress. The major factors that may prevent the BRIC from strengthening its political influence however lie in the group’s internal differences and political divergences.

³² Sally (2008)

providing the much needed foresight and negotiating push, credible and responsible developing country leadership would be critical in attaining closure of the current Round and future negotiations.

However, what caused this leadership crisis in the WTO among the traditional leaders? In his paper, Erixon notes that “despite their limitations in engaging significantly in the negotiations in this Round, it would be unfair to blame developing countries for the failures in Doha...A considerably more pronounced problem has been the lack of leadership from the big industrialised countries, most notably the United States and the European Union. Both have been active in the Round, but mere activity does not translate into leadership”.³³ He argues that the lack of leadership from the industrialised countries stem from their inadequate preparation for the Round. Although they expressed high ambitions in bringing in new areas of regulations into the WTO, they themselves were unprepared for the give-and-take it mandates. Other analysts like Altman blame the weakened global economic and financial situation since the turn of the 21st century for the inability of the erstwhile GATT leaders to make compromises and accommodate demands of others in order to ensure continued participation of members.³⁴

Agriculture liberalisation, inducted into the WTO negotiating agenda for the first time in the Uruguay Round, remains an unfinished business; however, neither the United States nor the European Union was prepared for the concessions this would inevitably ask of them. On the contrary, immediately after the launch of the Doha Round, the United States’ government raised the agricultural subsidies and worsened the situation. The European Union was in the process of reforming its Common Agriculture Programme in 2001, but the reforms fell short of ambitions and made the European Union increasingly defensive. Erixon opines that “this failure by the two WTO giants to progress reforms at home has made other countries justifiably suspicious of their intentions and limited their capability to assume leadership”. Experience of past MTNs is indicative enough that most of the multilateral liberalisation under GATT has followed unilateral liberalisation by the members, which was later multilateralised in a trade round. The lack of unilateral liberalisation by the major trading nations of the world in a key negotiating area like agriculture therefore bodes ill for the prospects of the ongoing Round. In fact, on agricultural domestic support, both the United States and the European Union are looking at possible ways to redefine the permissible domestic policies in a manner such that their own existing programmes can be sheltered from cuts.

Also, developing countries have been justifiably suspicious of the hidden regulatory ambitions of the United States and the European Union. The United States has been trying to slip in environmental and labour standards into WTO agreements while the European Union has been pushing for increased regulatory powers under sustainable development clauses and multilateral investment agreements. Both have undertaken unilateral regulatory actions that have proved trade-impeding. In the present poor economic and financial climate of the West, when developing country exports to these economies are naturally weakening, incessant push for unbridled regulatory powers at every opportunity clearly indicates that the erstwhile leading WTO negotiators are not interested in genuine and non-preferential reform and liberalisation.³⁵ Their new professed “mainstream” view on globalisation is clearly biased in

³³ Erixon (2008), *op cit.*, pp 13-15.

³⁴ Altman (2009), *op cit.*

³⁵ Erixon (2008), *op cit.*

favour of new trade regulations rather than opening markets and re-energising this important engine of growth and development.

In the next section, we discuss the constructive role that emerging developing countries can play in promoting trade liberalisation, and then evaluate the role of India and China in attaining the same. We begin with the premise that given their increasing economic clout and rising integration with the global trading system, countries like India, China and Brazil should assume greater responsibilities in jump-starting the stalled Doha Round of trade liberalisation. With the growth poles gradually shifting south and particularly to the Asia-Pacific region, emerging economies with sustained high rates of economic growth and increasing trade-gross domestic product (GDP) ratios have an obligation to provide the much needed leadership in this and future Rounds of MTN. With that as our basic premise, we trace India's and China's past experience as negotiators in the WTO and analyse possible scenarios that could potentially consolidate and establish the leadership of emerging developing countries in the WTO.

4. India and China in the WTO Negotiations: Changing Contours of Global Engagement

This section will enumerate and analyse the dynamic of global engagement of the two emerging developing country powers, namely India and China. We will highlight the similarities and differences in the two economies, in particular vis-à-vis their participation in and expectations from global trade governance.

India, as a founder member of the GATT in 1947 and then as a member of the WTO, has always been acknowledged as a knowledgeable and suave negotiator. India's negotiators have always been treated with respect by both the developed and the developing countries. However, the effective clout that the country wields in the WTO has changed in recent times, improving in direct proportion with its economic growth prospects in the past decade and a half. Today India has emerged as one of the principal negotiators in the WTO. This relative power to influence belies the fact that India's share in world merchandise trade in 2008 was just about 1.92 percent, its trade-GDP ratio was about 45 percent, and despite its slightly better performance with 2.74 percent share in global commercial services trade and a much higher trade-services GDP ratio, Indian business have just started their international forays.³⁶ This gain nonetheless needs to be grasped and nurtured, and it becomes imperative that India's negotiating stance reflects its new-found pre-eminence in the world. Credible leadership from India is expected by one and all in the interests of a successful conclusion of the Round, and in view of this author, a re-evaluation of its strategy would also serve India's national interests better as it will have consolidated the country's newly acquired status in WTO.

China, on the other hand, is a recent entrant into the multilateral trading regime, having acceded to the WTO in 2001, and has yet to fulfil all its accession commitments. China's global integration is much more than India's. With 10.42 percent of global merchandise trade in 2008, a 71.3 percent trade-GDP ratio, 4.02 percent share in global commercial services trade and close to US\$2 trillion in reserves, China's ability to influence global trade negotiations is higher than India's. However, having made significant and deep commitments in several areas as a part of its accession to the WTO, Chinese negotiators are understandably

³⁶ Trade data reported in this section is sourced from the WTO Secretariat online databases.

reluctant to engage more actively in the ongoing Doha Round, for fear of being asked to make additional commitments as a key negotiator. This perhaps explains the reticence shown by China until recently at the different WTO meetings. However, does this mean that *status quo* is the best option for the country as a whole and serves its future concerns? We argue that even for China, given its economic growth and development needs, a closer and more active engagement in the WTO negotiations would help the country's political leadership to secure the much sought after economic gains and address future sustainable development needs in a more holistic manner.³⁷

However, before we develop further on the above theme, we need to take a step back and evaluate the causes and motivations for the particular position that any negotiator takes. A country's negotiating strategies reflect not only its domestic economic and political conditions and sensitivities, but also its negotiators' assessment of their ability to influence the discussions in their favour. To that extent, the fact that India and China today continue to be an important part of all developing country coalitions (rather than striking out on their own as many seem to suggest they ought to) implies that the negotiators in these two countries are realistic in their assessment that being part of a unified developing country group will accord greater gains to their respective countries. However, is this the best that they can and ought to do to further national interests and that of the larger goal of multilateral trade liberalisation? We have argued in the earlier section how developing country leadership is the call for the day to ensure a safe landing for Doha and a sustainable multilateral trading system. So what could be the reasons for their hesitation and how may the two countries overcome them?

In the Uruguay Round negotiations, after a similar impasse, the resolution was largely a mutual adjustment of their respective interests by the United States and the European Union, with minor concessions to other countries (such as Japan and Korea on rice) and token concessions to developing countries, in particular Brazil. This was exemplified in the Blair House agreement between the two trading partners. In addition, members requested the WTO Secretariat to provide a draft agreement that could be deliberated upon, thus paving the path for the creation of the (Arthur) Dunkel Draft, which subsequently faced considerable criticism from the developing country group as well as civil society commentators.

Neither of the above means of resolving the impasse seems plausible in the current Round, and the emergence of the G-20 as an important bloc³⁸ has changed the dynamic completely. The United States-European Union duopoly in negotiations no longer exists. The key difference of the G-20 from other issue-based developing country coalitions is that it is a group of largely diversified developing countries with varied interests, which in turn accords these countries considerable bargaining power in their ability to trade concessions within the group across issue areas that can facilitate agreement. The diversity of the G-20 members' interests also implies that once the group arrives at a common position, it could be deemed a true middle-ground position of a developing country's demands. However, it would be inappropriate for the G-20 to assume that it represents the interests of 'all' developing

³⁷ Most analysts agree that maintaining a high (eight percent and above) economic growth rate is the necessary condition for sustaining the legitimacy of Chinese Communist Party (CCP) rule. The initiatives taken by the country's ruling party in the ongoing recession (bold stimulus measures as well as increasing expression of dissatisfaction with the global financial architecture and its management) therefore needs to be interpreted in light of the perceived need for maintaining CCP's continued dominance and its state capitalism-led model of growth. Though China's foreign policy is no longer determined by ideology, the State's control over the economy is expected to remain paramount in the near future, especially in the absence of other social and cultural safety valves for dissipating dissent and internal conflict.

³⁸ Some observers have alleged that recently there have been indications of a rift among the G-20 members.

countries, and therein lies the need for multiplicity of negotiating groups on the same issue. On agriculture, the G-20 is the strongest bloc, but there exists other equally influential groups such as the G-33, the CAIRNS Group, Cotton Four LDCs, Single Product-Vulnerable Economies, etc. Most importantly, having benefited from autonomous trade liberalisation themselves, developing countries today are more likely to make trade-offs so that markets in industrialised countries are opened up for their highly competitive exports. While both India and China are members in most of the above, India has helped coalesce several of the above groups and also the NAMA 11, without donning the leadership mantle. Outside the WTO, China has also taken initiatives to bring together select developing country leadership under the BRIC Forum and the Shanghai Cooperation Organisation.

However, to achieve their trade policy objectives, India and China (along with other larger developing countries) need to re-work their negotiating priorities and exercise of economic leadership and hegemony. Traditionally, both India and China have had a rather hard-line outlook to multilateral liberalisation, even in sectors where unilateral liberalisation was undertaken. During the Uruguay Round, India opposed the introduction of new issues like services and intellectual property into the WTO. Even during the launch of Doha, India was a fairly vocal opponent of any new element proposed to be introduced into the WTO and on proposals of deep reforms in any sector. As discussed earlier, having acceded to the WTO in 2001, China was more a spectator than negotiator in the initial years of the DDR, also because the country had yet to complete implementation of its accession commitments.³⁹ It is also likely that memories of colonial past and economic subjugation by the industrialised countries continue to weigh on the negotiators' minds, and it has always been easier for India and China to undertake unilateral liberalisation (since it implies an action of an independent free will of the nation-state) than make deep multilateral commitments. However, with the recent unilateral liberalisation and consequent high growth rates that these economies have been enjoying, the leadership in the two countries accept that their 'national interests' no longer lie in continued protectionism.

The recent change in the negotiating dynamic in India and China, though understated, is palpable. In the current Round, with the United States and the European Union, India is one of the few "demandeurs" of a strong services agreement, as also in trade facilitation (the only Singapore Issue that was accepted by members in the 2004 July Framework), which is a major departure from its protectionist mindset of post-Seattle days when India resisted the launch of a new Round of multilateral negotiations. However, there are domestic structural problems in the other sectors of the economy, most critically in agriculture and primarily arising out of a lack of internal reforms in the sector, which limit the country's ability to be an overt pro-reformist in the ongoing Round. In fact, India is sitting on the fence, with some sectors requiring protection while others demand aggressive liberalisation. This not only presents a dilemma but also seriously constrains Indian negotiators in their ability to produce a good outcome from the Round in any sector. The intra-sectoral trade-off as mandated by "comparable levels of ambition"⁴⁰ appears to have become both a boon and a bane at the moment. There is little that India can achieve without deep domestic reforms and structural changes which will enable the country to bear the adjustment costs of the multilateral liberalisation proposed in this Round.

³⁹ It is also possible that until recently, Chinese foreign policy and international interactions were based on Deng Xiaoping's 1989 principle (quoted in Foot, 2006, p. 84): "observe developments soberly, maintain our position, meet challenges calmly, hide our capacities, and bide our time".

⁴⁰ Para 24 of the Hong Kong Declaration

Similarly for China, we observe a marked shift in recent times in the negotiating dynamic, with the country shedding its passivity during the negotiations and being proactive in expressing its concerns. China seems to have travelled a long way from the Deng principles of “observe developments soberly, maintain our position” to President Hu Jintao’s declaration in 2005 that China would “actively participate in international affairs and fulfill its international obligations, and work with other countries in building...a new international order that is fair and rational”. Recent voicing of concern from the Chinese on the erosion of its dollar reserves in the aftermath of the financial crisis, juxtaposed with recent Chinese initiatives to secure the raw-material and energy resources across the globe to eliminate any supply-constraint on Chinese GDP growth, naturally gave rise to global speculation of emerging Chinese hegemonic ambitions. However, it would be fair to interpret the above changes as emanating from the real concern of the Chinese ruling party that the outcome of its particular national financial policy which inevitably leads to the accumulation of the United States dollar, which then needs to be invested in safe assets (and that nothing is safer than buying up the global reserve currency bonds), and which has increased China’s vulnerability to the United States’ economic policies much more than that caused by its dependence on the United States’ consumers. Any reversal from the above trends will require that the country undertake serious reforms of its own financial sector governance and economic management policies, which has social consequences that the CCP will need time to balance. China most probably understands that it is too premature for it to conceive of exercising any real hegemony in the near future, and the academic hyper-activity on the subject is likely a result of xenophobia and persecution mania of the declining hegemon.

All the above notwithstanding, WTO, like its predecessor GATT and despite the various pro-development provisions incorporated since the Tokyo Round, essentially remains a forum for negotiating better market access on traded products, achieved primarily by means of negotiations on reciprocal tariff reduction or market access negotiations in services. However, developing countries must also be realistic that in terms of pure market access in this Round, industrialised countries would have little to offer by way of tariff cuts, except in reduction of their tariff peaks and tariff escalation. The past 60 years of trade negotiations under the GATT-WTO regime has had tremendous success in reducing the average tariff levels applied by trading members; and average industrial country manufactured product tariffs (notwithstanding the tariff peaks) were around 3.5 percent at the inception of the Doha Round. Hence, even a deep cut in the average manufactured tariffs by the industrialised countries, the Doha Round will offer only marginal gains unless these are also applied on the products of export interest to developing countries, most of which are in textiles and clothing and leather sectors. Additionally, a lot of market access barriers are applied through the WTO-compatible standards and safeguards, which will not be addressed even if deep tariff cuts are accepted.

Even in agriculture, identified as the deal-breaker last July, discussions on standards-related barriers are getting lesser focus in this Round than the tariffs and subsidies. However, while there exist significant gains from tariff reduction negotiations in agriculture, there is a possibility that most industrialised countries will be able to shield the products of interest to developing countries, namely dairy and marine products, from any tariff cuts under the special product and sensitive product waivers. In the aftermath of the 9/11 terror attacks the industrialised countries promised greater development contents in the Round, as it was deemed a necessary concession to ensure the launch of the Round. However, with the onset of recession, the conciliatory positions adopted in 2001 are forgotten, and today it is the mercantilist motive that reigns supreme in the minds of both the negotiators and stakeholders

in industrialised countries. The reflection of this changed mindset was recently brought to the attention of the world by a statement from the then United States Trade Representative, Susan Schwab, who pointed out that the focus of the United States in the Doha Round is on “real market access”⁴¹ and “new trade flows” rather than addressing “issues on development”.⁴²

In the interest of securing the extant gains from the Doha negotiations so far, it appears that the developing countries themselves, and in particular the emerging developing countries, would need to show progression and make sufficient concessions to get the talks going. Furthermore, there are distortions in the WTO system that have been built-in within the industrialised countries during the earlier rounds of multilateral negotiations, for example, the high tariffs and distortionary exclusions of key product lines of developing country interests in agriculture and textiles and clothing, that need to be addressed openly and whose reversal calls for proactive engagement from the developing countries. These are not easy concessions for the industrialised countries to make, and to be able to justify these to their domestic constituencies, industrial country negotiators need to secure credible offers of market access from the advanced developing countries.

Finally, by not assuming leadership to affect a resolution to the intransigence in current talks, in effect the developing countries are foregoing potential benefits that greater market access and domestic reforms would bestow on their own economies. By extension, developing countries are also forgoing the possibility to set a future WTO negotiating agenda that best serves their development concerns and market access interests. Developing countries seem happy to continue as a “rule-applying” group rather than a “rule-making” one.

5. The Way Forward: Role of India and China in furthering Multilateralism

What therefore needs to give? What short- and medium-term strategies should negotiators from India and China adopt? It is clear now that focusing solely on coalition building offers a limited solution, and both India and China need to explore other options and negotiating strategies in order to restart serious negotiations. It is undeniable that the multilateral regime offers the least distortionary and least discriminating means of external sector liberalisation. The world community is waiting for leadership from the emerging developing countries like India and China to resolve the present impasse.

The experiences in the Doha Round’s NAMA negotiations are relevant here. The NAMA negotiators in particular are facing two unprecedented challenges. First, the developed countries’ tariffs are low on average, but often high on the products crucial for developing countries, such as textile, clothing and leather products. Second, the bound tariffs of the

⁴¹ This is a new concept introduced during past couple of years of the Doha negotiations. Presumably it implies that for the negotiated market access to be “real”, tariff levels facing the exporters should be lower than what is currently experienced. In terms of negotiations, it means that the tariff cuts will have to be deep enough to bring the bound tariff rates below the currently applied ones. For that to take place, either the developing countries will have to accept tariff reduction coefficients (under the simple Swiss formula) of say 15 or so, or apply reduction commitments from their currently applied tariff rates and not the bound rates, in contradiction to the accepted modality of tariff reduction in the WTO. This unique situation has come by because of the extensive unilateral tariff reduction exercise undertaken by the developing countries since the Uruguay Round, which had created very large gaps (known as “water” in WTO parlance) between their bound WTO tariff rates and the applied rates. The problem with requiring such deep reduction commitments from developing countries is that it violates the LTRF allowed to developing countries. Developing countries are justifiably arguing that they are being penalised for doing the right thing outside the negotiating room.

⁴² The United States Congressional statement in March 2008.

major developing countries (Brazil, India, Indonesia, Mexico and South Africa) are high (on average 35 percent, with peaks up to 150 percent) while their applied tariffs are moderate (on average from 8 to 15 percent). Negotiators therefore face the daunting challenge of offering “real market access” for all participating members, as called for by the industrial countries, while simultaneously allowing the flexibilities accorded to developing countries in the July Framework on LTFR in reduction commitments. However, the main problem with the NAMA negotiations in this Round lies in the fact that the proposed gains from negotiated tariff reduction have failed to enthuse the driving force of the previous round of negotiations, viz. the business community.

Further, reciprocity as a pillar of trade negotiations appears to have lost its utility, and in fact is now being used as a tool for protectionism. As Krugman⁴³ famously pointed out, the economist’s case for opening markets is essentially a unilateral case. If trade liberalisation brings about economic benefits, market opening should be pursued regardless of what other countries do. Nonetheless, economists go along with reciprocity because it serves a useful political economy purpose, in particular when faced with vested interests within the country. Negotiated as a part of a package of trade commitments, governments often find themselves in a better position to proceed with market opening, because they get the support from those constituents that gain from the improved access to market opening. Mutuality of concessions also (according to Bhagwati⁴⁴) implies fairness and makes adjustment to trade reforms politically more acceptable.

This is not to say that reciprocal concessions did not contribute to trade negotiations; they have in fact played an important part during the GATT era in multilateral trade liberalisation. Therefore, WTO tariff negotiations since the past couple of Rounds are undertaken on a reciprocal basis, and cuts are proposed and undertaken from the existing bound levels of tariff rates. However, this modality appears to have lost its efficacy in the current round of MTN, due simply to the significant amount of unilateral opening that has been undertaken by most developing WTO members since the Uruguay Round (and the industrialised countries having already reduced their tariff bindings to a very low level); the business community is disenchanted with the incremental gains that the tariff negotiations in this Round could potentially bring. As a result, the industrialised country negotiators are now pressurising their developing country counterparts to concede additional market access in a manner that accords “real market access” as the acceptable cuts which would meet the LTFR requirement do not cut to below the applied rates of their key trade partners. In other words, the industrial country negotiators propose that developing countries should take cuts from their applied tariff levels, and not seek credit for unilateral liberalisation of the past decade in this Round. On the other hand, though currently most industrialised countries on the average have binding caps on their manufacturing tariffs well below the proposed eight percent, and their applied tariffs are usually at less than 3 percent, a handful of politically sensitive sectors – often those, such as textiles, in which developing countries are competitive exporters – have been shielded to a significant extent from liberalisation. Exports from the poorest countries face the highest tariffs of all. This has resulted in significant anguish among the developing country negotiators.

The consequence of the above political grandstanding at WTO has contributed to the current NAMA stalemate. In the interests of concluding the current Round of WTO negotiations,

⁴³ Krugman (1997)

⁴⁴ Bhagwati (2002), p. 5.

members may consider the following intra-sectoral tradeoff. Developing countries (most certainly India, given the large gap or ‘water’ between its bound and applied tariff rates) should agree to bind their unilateral regimes in return for deep cuts in the protected tariff lines in the industrialised countries and rationalisation of the applied non-tariff barriers. China on its part could look at speedily resolving the IPR related concerns and start reforms of its domestic financial sector, the two most contentious issues vis-à-vis China. As discussed in the previous section, initiating financial sector reforms in China are also necessary for the country to reduce its macroeconomic imbalances vis-à-vis the rest of the world, a necessity for the country to move onto a sustainable growth path given the drastically changed global demand conditions in the aftermath of the 2007 financial crisis.

Also, both India and China should look at being less defensive about the agricultural market access issues; at a time when the two countries’ food security concerns mandate an open import regime, livelihood concerns need to be balanced carefully with the economic welfare and efficiency gains from a more open regime. Since the two countries are unlikely to reverse the present low tariff regimes (and in cases of contingency the emergency safeguard measures can always be invoked) they can prove themselves as equal and serious players in the Round by offering a more liberal market access than seen so far, in return for elimination/reduction of the pernicious tariff peaks in the industrialised countries in sectors of trade interest.

However, more importantly, this would allow members to focus on the more crucial of the market access barriers in industrialised countries: i.e., the non-tariff discriminatory and protectionist standards. It needs to be remembered that even under the grand preferential agreements such as the African Growth and Opportunity Act and the Everything but Arms, it becomes increasingly difficult for the beneficiary LDC trade partners to enter the United States and the European Union markets the higher they go up the product value chain. The days of substantive gains from reciprocal tariff negotiations seem to have gone; members should get tariffs out of the way and start negotiating upfront the real concerns for market access. And having taken the lead in ensuring the speedy conclusion of the Doha Round, these new change-agents will get to wield a stronger economic and hegemonic clout in determining the evolving global economic architecture as well as in setting the future agenda for the multilateral trading regime and its governance.

In the present scenario of anemic economic prospects, potential inflation, and the general mood of rising protectionism in all countries (manifested in the aggressive use of trade defense provisions), it is unlikely that members will make offers with adequate concessions to lead to a successful conclusion of the ongoing WTO negotiations. However, this is also the time for developing countries like India and China to assume a more pro-active role and make the necessary concessions to jump-start the stalemated Doha Round, which will herald India and China’s arrival into the WTO negotiating scene as credible and serious players of the MTN game. Until the Tokyo Round, it was the unilateral liberalisation in the manufactured goods arena which was negotiated and bound in the MTNs by the important industrial country members, and then ‘MFNised’. This practice helped to bring down the industrial country average tariff rapidly to the present day three-percent level, which the emerging developing countries like India and China have benefited from. Today, these countries, by adopting a similar posture as the United States, Canada and Europe of the 1960s and 1970s would also help to bring down the tariff barriers and serve the cause of promoting south-south trade.

However, would that not mean developing countries are losing an important bargaining chip at the WTO, viz. the reciprocal tariff reduction? We have argued that with the demise of reciprocal tariff reduction as a credible negotiating tool, countries must find other means of shielding the sensitive and vulnerable sections of the society from international competition. Holding onto an ineffective tool makes little sense. Recent research at the Indian Council for Research on International Economic Relations⁴⁵ has shown that the progress in liberalisation and its link with WTO are at best limited and peripheral for most member countries. Barring the requirements of deeper liberalisation commitments from countries acceding to the WTO, there has been little that the WTO negotiations have contributed to the promotion of liberalisation in WTO member countries, notwithstanding perceptions to the contrary.

Today both India and China are in a much better position vis-à-vis multilateral negotiations, due to the continued unilateral liberalisation moves, and most industrial sectors in these economies will not have to face any significant real adjustment costs from the grand liberalisation move advocated previously. On the other hand, this multilateral binding of the unilateral liberalisation in the key market access pillars would help create immense goodwill and clout in the multilateral trading system, and simultaneously clear the way for placing squarely on the negotiating agenda the regulatory issues that are the real market access barriers. The first mover advantage will give the emerging powers the much needed legitimacy for claiming the leadership position for agenda-setting in forthcoming trade rounds.

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