

# ISSUE BRIEF

No. 4279 | SEPTEMBER 25, 2014

## Obama Should Push Modi on Trade Facilitation

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This week President Barack Obama will welcome new Indian Prime Minister Narendra Modi to Washington for their first bilateral summit. In Geneva, the Trade Facilitation Preparatory Committee of the World Trade Organization (WTO) will also be meeting. The timing of these two events provides an opportunity to measure India's commitment to trade freedom and to push Modi to agree to the terms of the Bali Package's Trade Facilitation Agreement (TFA).

Observers have been optimistic that Modi's new government would be more open to economic reform and engagement with the U.S.<sup>1</sup> However, Modi's delay of the timeline for trade facilitation implementation has led observers to question his commitment to market-based reforms. During Modi's visit, President Obama should press him to abandon India's obstructionist position and return to the agreed process in the Bali Package for addressing sensitive agriculture issues.

### **TFA: Cutting Red Tape, Saving Money**

Trade facilitation, one of the oldest and most well-known methods of liberalizing bilateral trade,<sup>2</sup> involves cutting red tape at border crossings and smoothing customs and border procedures to reduce waste and speed up import and export pro-

cessing. It is estimated that "the average customs transaction involves 20–30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and the re-keying of 60–70 percent of all data at least once."<sup>3</sup> These redundancies increase the transaction costs of cross-border trade, which are eventually passed on to the consumers and producers.

For these reasons, the Peterson Institute for International Economics estimates that trade facilitation could have long-term economic benefits to the global economy of nearly \$1 trillion and support 20 million global jobs.<sup>4</sup> The Organization for Economic Co-operation and Development (OECD) estimates that cost reductions under a "full implementation" scenario of the TFA could reach 15 percent. Indeed, even reductions under a "limited" scenario would still save around 12 percent.<sup>5</sup> These reductions would make cross-border trade more efficient and goods cheaper.

### **Doha: Back from the Dead**

India's obstruction of the implementation of the Bali Agreement resulted from disagreements over agricultural issues during the Doha Round of negotiations that began in 2001. The Doha Round was intended to build on the success of the initial Uruguay Round by creating rules to further liberalize the international trading system with a particular focus on issues affecting developing countries. In particular, the Doha Round set out an ambitious work program that included agriculture, trade facilitation, capacity building, and services.<sup>6</sup>

However, in 2008 negotiators failed to come to an agreement on fundamental market access issues

This paper, in its entirety, can be found at <http://report.heritage.org/ib4279>

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related to agriculture. Among other things, negotiations broke down over India's insistence on a special safeguard mechanism that allows developing countries to raise import tariffs temporarily above the allowed bands to protect domestic farmers from import surges.<sup>7</sup>

In light of these disagreements, newly elected WTO Director General Roberto Azevêdo sought to advance the Doha Agenda after 2008 by focusing on the least controversial parts in hopes that such a strategy would lead to incremental success. The Bali Agreement evolved out of this strategy.

In December 2013, all WTO members agreed to a compromise agreement. Under this plan, negotiated by India's previous Congress-led government months before parliamentary elections, India would receive immunity from WTO subsidy rules until the 11th Ministerial meetings in 2017. In return, trade facilitation would move forward with a deadline of July 31, 2014, for voting it into the WTO agreement.<sup>8</sup>

### **New Government, Old Strategy**

Before formally adopting the TFA at the final gathering of WTO members, Indian negotiators, at

the behest of newly elected Prime Minister Modi, requested that parties revisit the agriculture issue to secure the Indian vote. According to India's ambassador to the WTO Anjali Prasad, "My delegation is of the view that the adoption of the TF (trade facilitation) Protocol be postponed till a permanent solution on public stockholding for food security is found."<sup>9</sup>

This position directly contradicted the compromise negotiated by the Congress-led government in December. At issue is the massive National Food Security Act passed in 2013, which establishes a right to food for India's poor and expands subsidized food expenditures by an estimated 47 percent. It also requires India to maintain food stockpiles that could distort international grain prices.<sup>10</sup> While popular among India's poor, such programs are rife with graft and inefficiency, and they likely violate WTO rules, potentially exposing India to international trade litigation.

### **Say "No" to Indian Obstructionism**

India's about-face on trade facilitation is unacceptable and a step back for a new administration billed as pro-market. Attempts to renegotiate the

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2. Antonia Eliason, "The Trade Facilitation Agreement—Episode IV: A New Hope for the World Trade Organization," Social Science Research Network, March 6, 2014, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2405640](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2405640) (accessed September 17, 2014).
3. Carlos Fortin, opening statement at Expert Meeting on Trade Facilitation as an Engine for Development, U.N. Conference on Trade and Development, Geneva, September 21, 2005, [http://vi.unctad.org/digital-library/?act=show&doc\\_name=fortinspeechtradefac](http://vi.unctad.org/digital-library/?act=show&doc_name=fortinspeechtradefac) (accessed September 17, 2014).
4. Gary Hufbauer and Jeffrey Schott, "Payoff from the World Trade Agenda 2013," Peterson Institute for International Economics, April 2013, <http://www.piie.com/publications/papers/hufbauerschott20130422.pdf> (accessed September 17, 2014).
5. The Trade and Agriculture Directorate, "The WTO Trade Facilitation Agreement—Potential Impact on Trade Costs," Organisation for Economic Co-operation and Development, Trade and Agriculture Directorate, February 2014, [http://www.oecd.org/trade/tradedev/OECD\\_TAD\\_WTO\\_trade\\_facilitation\\_agreement\\_potential\\_impact\\_trade\\_costs\\_february\\_2014.pdf](http://www.oecd.org/trade/tradedev/OECD_TAD_WTO_trade_facilitation_agreement_potential_impact_trade_costs_february_2014.pdf) (accessed September 17, 2014).
6. World Trade Organization, "Ministerial Declaration," Doha WTO Ministerial 2001, November 20, 2001, [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm) (accessed September 17, 2014).
7. Daniella Markeim, "The Importance of Reviving the Doha Round," Heritage Foundation WebMemo No. 2123, November 5, 2008, <http://www.heritage.org/research/reports/2008/11/the-importance-of-reviving-the-doha-round>.
8. International Trade Centre, "WTO Trade Facilitation Agreement Timeline," [http://www.intracen.org/uploadedFiles/intracen.org/Content/About\\_ITC/Press/Articles/WTO-Trade%20Facilitation%20Agreement.pdf](http://www.intracen.org/uploadedFiles/intracen.org/Content/About_ITC/Press/Articles/WTO-Trade%20Facilitation%20Agreement.pdf) (accessed September 17, 2014).
9. Anjali Prasad, quoted in Tom Miles, "India Says WTO Bali Deal Contingent on Its Food Security Demands," Reuters, July 25, 2014, <http://www.reuters.com/article/2014/07/25/us-india-trade-wto-demands-idUSKBN0FU1NH20140725> (accessed September 17, 2014).
10. Santosh Singh, "Indian Cabinet Approves National Food Security Bill 2013," U.S. Department of Agriculture, Foreign Agriculture Service GAIN Report, April 11, 2013, [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Indian%20Cabinet%20Approves%20National%20Food%20Security%20Bill%202013\\_New%20Delhi\\_India\\_4-11-2013.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Indian%20Cabinet%20Approves%20National%20Food%20Security%20Bill%202013_New%20Delhi_India_4-11-2013.pdf) (accessed September 17, 2014).

parameters for advancing trade facilitation threaten the Doha Agenda and multilateral trade liberalization. In meetings with Prime Minister Modi this week, President Obama should emphasize:

- **India has more to lose than to gain.** The President should underline that India's current negotiating strategy will damage future economic growth. The previously agreed food security timeline provides an opportunity to reform India's graft-ridden food-security programs. In addition, a permanent solution to the sensitive agriculture issues and a TFA would help to open foreign agriculture markets to Indian consumers and smooth international trade flows.
- **Food security issues and trade facilitation are not linked.** President Obama should indicate to Mr. Modi that these two issues should be addressed separately in WTO negotiations.
- **The original TFA should be passed.** President Obama should push Prime Minister Modi to agree to implementation of the TFA based on the parameters negotiated during the December 2013 Bali Conference. If India's request stands, it will set a poor precedent for future negotiations and encourage countries to renege on agreed rules and processes.

- **The U.S. could pursue a plurilateral course.** If India refuses to agree to the original parameters, the U.S. should insist that negotiators proceed with the TFA plurilaterally, without India's participation. Plurilateral negotiations can still be adopted into the Marakesh Agreement with the assent of three-quarters of the WTO members. This would build on the enthusiasm for a TFA by bringing the agreement under the jurisdiction of the WTO Secretariat and subject to the dispute settlement body.<sup>11</sup> However, any move toward plurilateral negotiations should be closely coordinated with the African Union, which has previously objected to the TFA timeline as part of its negotiating strategy for further technical assistance.<sup>12</sup>

## Conclusion

If India does not acknowledge the important role that trade plays in promoting prosperity and economic freedom, the global economy will leave India behind. President Obama and Prime Minister Modi have a unique opportunity to cultivate the U.S.–India bilateral relationship and move India toward greater economic freedom.

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