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What

What implications for Global Trade and Sri Lanka?

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WTO Bali Ministerial Outcome:

There was a major breakthrough at the 9th WTO Ministerial in Bali, Indonesia, during 3-6 December and much publicity was given to the so-called WTO Bali deal. Minister of Commerce and Industry, Rishad Bathiudeen said that Sri Lanka fully supports the WTO Bali deal and Sri Lanka as the head of the G-15 Group would like to see an early conclusion of the WTO Doha Round. What does the Bali deal mean for global trade and Sri Lanka? Ceylon FT spoke to Dr. Saman Kelegama, Executive Director, Institute of Policy Studies of Sri Lanka on the Bali outcome.

Q: It is reported that the Bali deal on Trade Facilitation would boost global GDP by US$ 1 trillion a year. How will a country like Sri Lanka benefit?

A: If Trade Facilitation measures are implemented in full, the final gain to the global economy will be US$ 1 trillion per annum. But the reality is that trade facilitation measures take time for full implementation, perhaps about 10 years, so the immediate benefits will be far less than US$ 1 trillion per annum. However, there are going to be benefits as the trade facilitation deal in Bali is a binding commitment for all WTO member countries. The benefits will come over a number of years and can be uneven.

The Bali declaration has also made an attempt to streamline Aid for Trade (AfT) and has made it more focused on the high cost of trading in LDCs.

Trade facilitation will provide better market access to Sri Lanka exports because there will be less red tape and cumbersome procedures at the export destination market thereby by cutting trade transaction cost by about 10%. Similarly, for Sri Lankan importers the import consignments can be cleared faster with the simplifying the custom procedures that will come about with implementing trade facilitation measures.

Q: It is said that Trade Facilitation measures are costly to implement and most developing countries and LDCs have expressed concerns on this?

A: Yes, computerizing customs, improving procedures at ports, cutting red tape, improving transparency in transactions at customs, etc., which are all part of trade facilitation are costly to implement.

Computerization and networking Customs with other government agencies are costly capital investment for any government. Moreover, software packages relevant to customs may require frequent updating. Cutting red tape means some retrenchment of labour, and so on.

The WTO is not a funding agency. All what it does is to assist developing countries engaged in implementing trade facilitation measure to mobilize funds for such an exercise. WTO will be able to provide some technical assistance (without funding). Already, multilateral funding agencies have expressed their willingness to provide funds for implementing trade facilitation measures and the WTO Bali package mentions this fact. For example, the European Commission has committed Euro 400 million over a five year period to assist developing countries that will be complying with the WTO Bali package on trade facilitation. So this high cost should not be a major issue in implementing trade facilitation measures for developing countries and LDCs.

Q: The deal on agriculture is seen as a victory for developing countries. What is the background to the deal and what are the key benefits of this?

A: Agriculture came under multilateral trading rules for the first time in 1995 with the formation of the WTO. Agriculture trading in the world was not perfect and was heavily distorted by subsidies offered to farmers and other support schemes. When the WTO Agreement on Agriculture (AOA) came into effect in 1995, the expectation was that most of these subsidies, especially in the developed countries will come down and agriculture trade will take place according to the doctrine of comparative advantage.

However, this did not become a reality. Developed countries found ways and means to retain their agriculture subsidies and the distortion prevalent in agriculture global trade before 1995 prevailed in the post – GATT era. How subsidies distort global trade can be illustrated by a simple example of EU exports of sugar – where it does not have a comparative advantage but is able to create a comparative advantage using a massive subsidy in sugar for sugar production.Agriculture subsidies are playing a key role in the developed world in many sectors.For instance, every cow in the EU get US$ 2.20 subsidy a day on average, which is relatively more than the income of half the global population.

It is to safeguard developing countries from a surge of subsidized goods of the developed countries that they argued for Special Safeguard Measures (SSM) at the 6th WTO Ministerial in Hong Kong. Developing countries formed the G-33 Group and they focused on livelihood security and argued that the vulnerability of poor farmers could not be traded off against commercial interests of developed countries. Likewise, in the Bali summit the G-33 focused on domestic agricultural support in the context of food security.

There is a WTO rule that says that all domestic support measures for market price support schemes, direct production subsidies, etc., for agriculture producers that do not belong to exempt categories (Green Box, Blue Box, development measures, etc.) are subject to reduction commitments. Under the de-minimis principle, all such trade distorting domestic support in developing countries in any year should not exceed 10% of the value of agriculture production. It is this clause that the G-33 countries led by India wanted adjusted at the Bali Ministerial. These countries wanted a 'peace clause' for breaching the permissible limit of 10%. Their argument was based on 'right to food' which they argued as a basic country right.

Although much debated, when comparing with the huge agricultural subsidies in the developed world this request appeared reasonable at the end. US suggested a 'sun set' clause of 4 years waiver period which was not acceptable to India. Finally, it was decided to have an interim arrangement until a permanent solution is found. This too will be a legally binding agreement of the WTO. The key benefit of this is that developing countries will have more 'policy space' to pursue policies that support agriculture development.

Q:How will Sri Lanka benefit from this agriculture deal?

A: Sri Lanka's domestic support outside the exempt categories are far less than the de-minimis of 10%. So there is no overall gain from the agriculture deal but it does give more room to pursue the existing agriculture support schemes like fertilizer subsidy, fixed price farm gate purchase, etc., without any problem from the WTO. There is more 'policy space' for Sri Lanka to have an ambitious food security programme like that of India.

Q:The third item in the Bali package was the LDC market access under the Duty-Free Quota-Free (DFQF) programme. What was the outcome?

A: There were some noteworthy outcomes for LDCs. The number of LDCs in the WTO increased with Yemen obtaining membership at the Bali Ministerial taking the total membership in the WTO to 160.
A 15 year service waiver where WTO members can provide preferential access on trade in services to LDCs which was agreed at the 8th WTO Ministerial in 2011, was given some strength. At Bali, the framework was set to operationalize it and this was a positive outcome.

At Bali, LDCs highlighted their main concerns, viz., (1) given the small export base in LDCs, anything less than 100% coverage in DFQF scheme is of little use; and (2) preference margins under DFQF are reducing due to overall global tariffs coming down, and hence removing non-tariff barriers and refining Rules of Origin will be more beneficial for LDCs. Developed countries took cognizance of LDC concerns and pledged to support them but all of the pledges remain under the 'best endeavour' clause. DFQF programme is also under the 'best endeavour' clause of the WTO without any binding commitments, so whatever assurances made are non-binding.

Q:What did WTO Ministerial in Bali finally achieve?

A: It rescued the WTO from virtual extinction. One can recall, that in 2006 the India Commerce Minister, Kamal Nath, said that the Doha Round is between the intensive care unit and the crematorium. In fact, the WTO was in a virtual coma and it looked impossible to rescue it. The 7th and 8th WTO Ministerials in 2009 and 2011, respectively, failed to rescue the WTO. In that context, the 9th Ministerial in Bali was a major breakthrough to revive the WTO. The deal on Bali package was stuck after intensive consultations almost around the clock.

When the deal was finally made in Bali, the Indonesian Commerce Minister quoted Nelson Mandela who passed away at the time of the Ministerial: "it always seems impossible, until it is done".

Now the challenge is to identify other areas that the WTO members can cooperate and complete the much delayed Doha Round. The Bali package states that on the remaining Doha Development Agenda items a programme will be prepared within the next 12 months. The Doha Development Agenda gives the best trade deal for developing countries like Sri Lanka and all attempts should be made to complete the Doha Round as soon as possible.