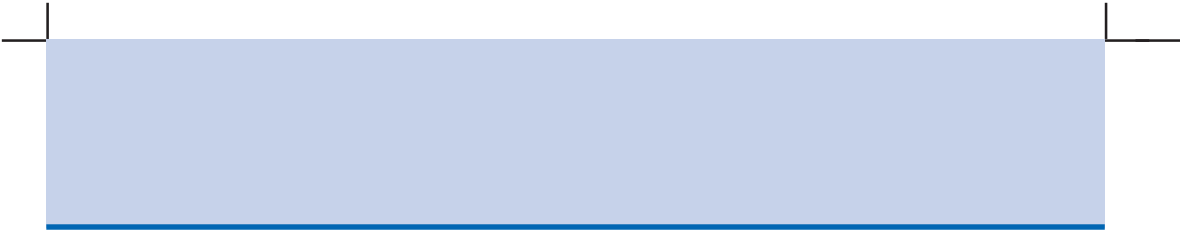




**DEVELOPMENTS  
IN THE WORLD  
TRADING SYSTEM:  
INDIA'S OPTIONS**

**PROF. JAGDISH BHAGWATI**

Professor of Economics, Law and International Affairs  
Columbia University



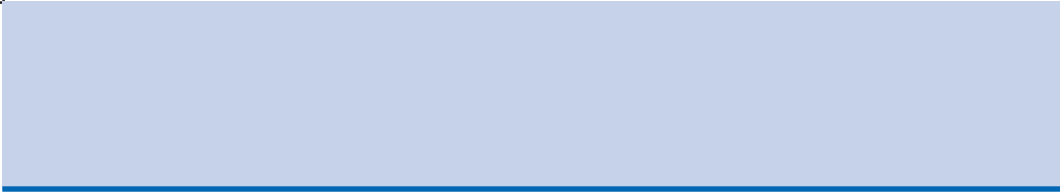


**Developments in the World Trading System:  
India's Options**

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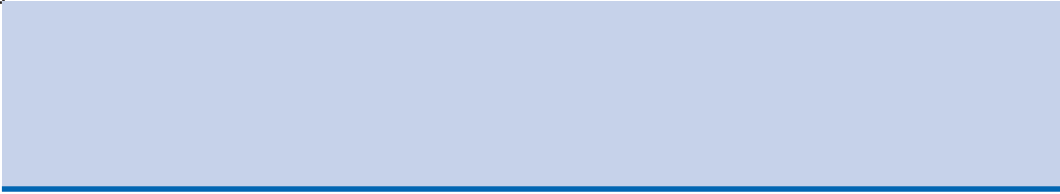
The world trading system is not merely at a crossroads today; it is taking the wrong fork in the road. The Indian policy options as this drama is unfolding have to be clearly understood and defined: else, we will be relegated to the back of the bus which will be driven by others in ways and directions that reflect their narrowly nationalistic, not ours or cosmopolitan, advantage.

The major culprit is the Obama administration (from whom many including myself and many others in the US expected much, especially in regard to multilateralism). It has sadly undermined the world trading system, especially the Doha Round which it abandoned without as much as a sigh — at least the Moor Boabdil in Granada uttered one last one as he surrendered to the Catholic queen and king of Castile and Aragon in 1492. No government has, of course, pointed a finger at the US; after all, it is a Rottweiler and no government will bark at a Rottweiler.



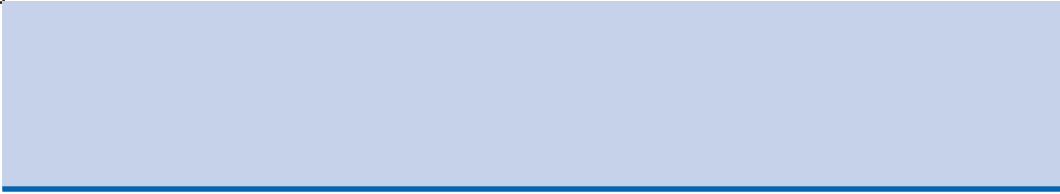
But independent academics like myself will and should. In fact, we alone can do so as we do not depend for financial survival on governments. Working as “advisers” to governments (as some of my prominent Columbia colleagues do, even going so far as to reward dictators like the late President Meles of Ethiopia with glorified visits to the campus leading to massive demonstrations against the University and these gentlemen) also undermines our ability to function as critics: it is difficult to bite the hand that you have shaken or taken your paycheck from the day before.

If I may be self-referential at my Lecture today, my proudest moment as an intellectual came when I asked the GATT Director General Arthur Dunkel, who had created a special position for me as his Economic Policy Adviser in 1991, whether he had cleared my appointment with the Indian or the American government. He replied: with neither, as both would have opposed your appointment. I therefore plan today to be an equal-opportunity critic — for India’s own record on trade has not been exemplary and needs a corrective as well.



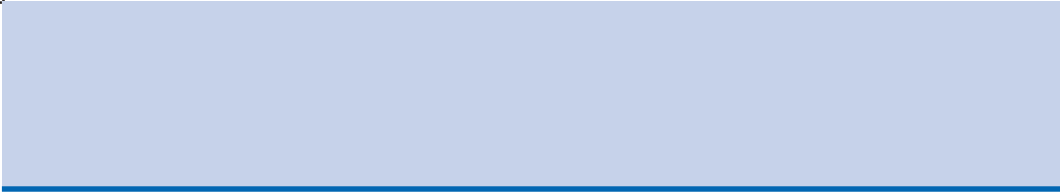
In fact, I propose to argue today three main issues. First, now that President Obama has been re-elected, it is time for India to take frankly and frontally up with him his regrettable assault on the WTO system that decimated Doha. With bilateral and regional, Preferential Trade Agreements the only real alternative available now, we face the prospect that, with the demise or intensive-care situation of multilateral trade liberalization, we are in danger of undermining the equally important rule-setting (on issues like anti-dumping) during these WTO-sponsored multilateral Rounds of trade liberalization and the WTO's widely-admired Dispute Settlement as well. This needs to be understood; and India needs to play a role in highlighting this set of issues and what can be done to prevent this fallout from what the Obama administration did to Doha.

Second, not merely has the first Obama administration undermined multilateralism in trade. The regionalism that it has been pursuing in the Asian region is also likely to fragment rather than advance open trade in this region. The US initiative on Trans Pacific Partnership (TPP) will fragment Asia the way US policy



has fragmented South America as well. India (as an Asian nation and major power) has to step up to the plate before the US has set its unfortunate policy in cement. India needs to play, acting its size, and not just be an onlooker of developments as it has tended to in G20 meetings as well: a wit has said that India likes to attend the G20 banquets but has not bothered to help choose the menu!

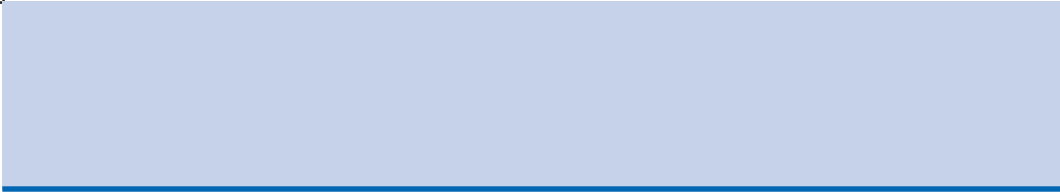
Third and finally, there is little doubt that Obama and the Democratic Party in general have never ceased their refrain against “outsourcing” from the outset of the first Obama term. Of course, outsourcing means, not China, but India. India would be foolish to continue pretending that “this does not matter”, that it is simply “political patter”. With jobs a continuing issue, any time that politicians in the US condemn outsourcing, India loses brownie points. One may well ask why the unfortunate Sikhs were targeted by the neo-Nazi and not, say, the Hasidic Jews who look much more like Osama Bin Laden: the former are seen as “taking American jobs away”, not the latter. With little excuse now after the election for indulging in self-serving political nonsense at the expense of India, we can



surely ask Obama to lay off and to call off the Democratic hounds like Senators Charles Schumer and Barbara Boxer or to face some retaliatory rhetoric and action. We are properly into a “Hindi-Amriki Bhai Bhai” phase, as the two nations are “natural allies”; but that does not mean closing our eyes and ears the way we did in the “Hindi-Chini Bhai Bhai” days!

### **The Virtual Demise of Doha**

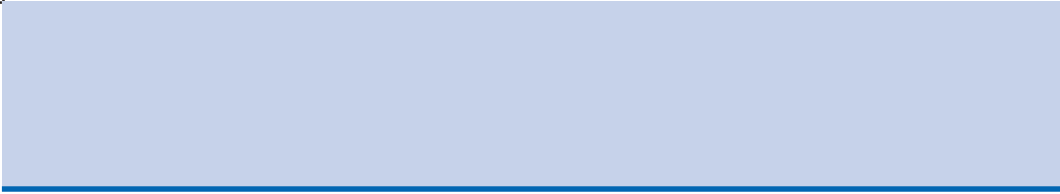
Much of the blame in the Obama failure in challenging the unions’ anti-trade narrative on wages lies in what might be called the “sin of omission” by President Clinton. When Clinton successfully fought for the passage of the Uruguay Round and NAFTA, he vanquished the unions politically. But he did not convert them to a pro-trade viewpoint. So, Obama inherited a union movement that remained unconverted to trade. And when union funds and support led to Obama’s victory and associated Democrats being elected, Obama had the difficult choice of having to convert the unions, and their friends in the new Congress, to a pro-trade viewpoint all on his own. And he backed away from the task.



[Interestingly, many have focused only on Obama suffering from the macroeconomic consequences of President George W. Bush's failure to raise taxes to pay for the protracted 2<sup>nd</sup> Iraq War. That was a "sin of commission"! So Obama's failures in the first term of his Presidency were owed to both Bill Clinton and George W. Bush.]

As it happens, President Clinton has hardly been an ally of free trade even during the Obama administration or in his campaign for Obama in the recent election. While he has been eloquent on several issues, little has been said by him on free trade. This omission is to be traced, I believe, to his well-known desire to support the candidacy of Mrs. Hillary Clinton for the White House. Mrs. Clinton was very much anti-trade during the primary contest that she lost to Obama who then proceeded to win the election in 2008: she misread Professor Paul Samuelson's recent writings as supporting protectionism and had even called for a moratorium on trade liberalization. Mindful of the fact that a pro-trade stance would be a handicap in getting Democratic support for another election bid, she never recanted on her anti-trade folly. And mindful

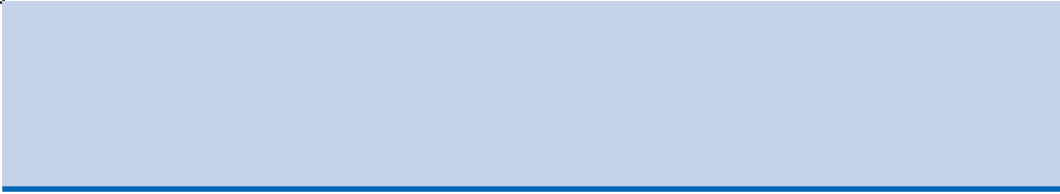




of this, President Clinton has also studiously avoided endorsing freer trade.

In consequence, President Obama steadily retreated into a policy of keeping Doha at arm's length. In fact, he had drifted into not even mentioning Doha in his major policy speeches. This prompted me into the witticism at Davos that perhaps the most comforting explanation of this omission was that President Obama wished to bring civility into the acrimonious political discourse in the US and therefore did not wish to utter a four-letter word!

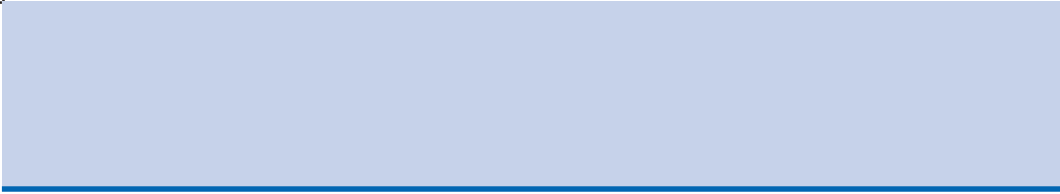
The Obama administration was clearly determined to sideline, to shelve, the Doha Round even as statesmen around the world tried to bring pressure on Obama to go the extra mile to close the Round in its tenth year. I witnessed this personally when Prime Minister Singh dispatched the new Commerce Minister Anand Sharma to meet with the new USTR Ron Kirk. Both were more affable and their chemistry was calculated to be more favourable than the hostile relationship that had developed between their predecessors Kamal Nath and Susan Schwab. But I was saddened that



Minister Sharma and the Indian Ambassador in Washington told me that the Obama administration had indicated to them that movement on Doha was not the US desire. I witnessed the calculated indifference, indeed contempt that Susan Rice, the US Representative to the UN, displayed when the Indian Ambassador to the UN had organized an event on trade for Mr. Sharma to speak about trade and Doha. I was the only non-diplomat invited to it and found that, while virtually every important country had sent its UN Ambassador to the event, Susan Rice had sent an undistinguished ECOSOC official to the meeting.

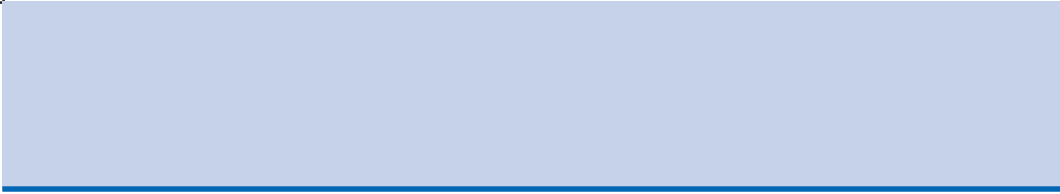
In fact, the American objection to settling Doha had become such an obsession that it was rumoured that there was great unhappiness with Mr. Pascal Lamy who, as Director General of the WTO, naturally wanted to settle Doha on his watch. His term was at risk, he had allegedly been warned: after all, US dissatisfaction with UN Secretary General Boutros Ghali had led to his term not being renewed.

The effect of US propaganda against Doha had corroded also the usual media support for Doha. A



major casualty was the Financial Times which, a long-standing supporter of free trade and of multilateral free trade to boot, had not merely expressed skepticism about Doha but had turned hostile to it, going so far as to editorialize against trying to close Doha. Like Lester Thurow's celebrated pronouncement that "GATT is Dead", this eminent newspaper repeatedly argued that "Doha is dead". Since this newspaper is read by the elites of this world who derive their opinions from it on issues where they are not expert, many of us were distressed that it abandoned Doha hastily and unceremoniously even as the leading trade scholars of the world were trying to close it.

But the US position seems to have worked insidiously on the Indian actions, or inaction, on behalf of Doha. As part of the effort by leading governments, Chancellor Angela Merkel of Germany and Prime Minister Cameron of UK decided to form an Expert Group on trade issues and asked me and Mr. Peter Sutherland to co-chair it. They were keen that India also co-sponsor the Group. The British bureaucrat who served as a Sherpa for G-20 meetings for the British government then approached his counterpart, the

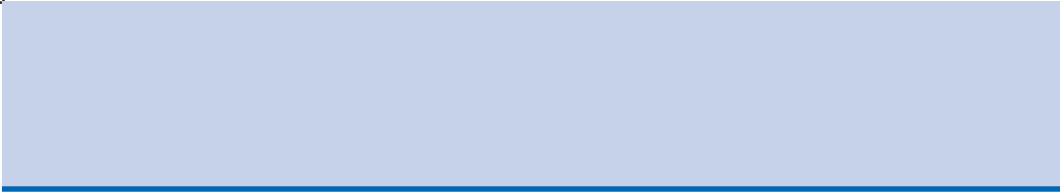


Indian Sherpa for the G-20 meetings. The end result was that Indian co-sponsorship of this Group was scuttled, based on spurious arguments which I refuted to no avail. I doubt if this was because of a standard turf battle by our Sherpa. It is more likely because joining such a Group to push for Doha would have met with US disapproval and the wish to bow to US will was a major strategic concern of India. In the end, the Group would up being co-sponsored by Indonesia and Turkey. And India had foolishly failed to join forces for Doha. It would seem that the Indian government also took the hint and backed off from pursuing Doha.

## **II: Post-Doha: What to do Now?**

A weakened multilateral regime should be of concern to India. So, now that Obama is re-elected, India should explore the possibility of the US returning to the negotiating table. But the US is stuck in the anti-multilateral quagmire of its own making, so it is hard to be optimistic that enlightenment will strike the re-elected President.

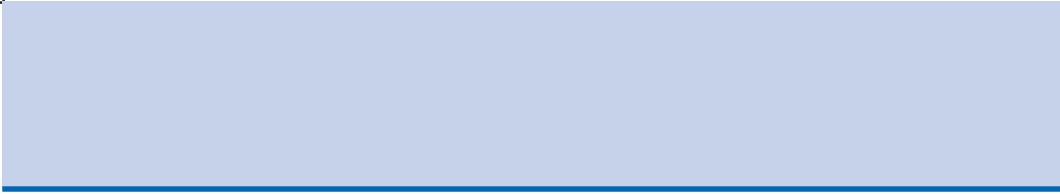
So, we must take a “second-best” approach to the problem. In short, we must ask: what does the virtual



end of multilateral trade negotiations (MTN) like Doha mean for the WTO and the principles it embodied? And what can we do to reduce the damage?

The WTO as a Tripod: To answer this question, it is important to see that the WTO is essentially a tripod: one leg is about multilateral trade liberalization (as was Doha), another about rule-making (e.g. anti-dumping rules and subsidy codes, which are usually negotiated at the MTN Rounds), and one about Dispute Settlement Mechanism (the crown jewel of the WTO).

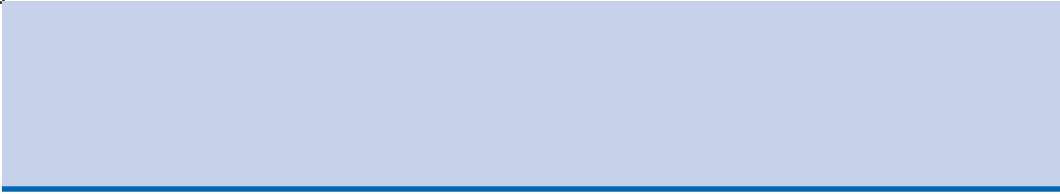
When the first leg is weakened or smashed, as with the near-demise of Doha, the Preferential Trade Agreements (PTAs) become the ONLY game in town, instead of co-existing with the MTN. So, we will weaken the second leg as well: rule-making will shift to these PTAs. And so will the third leg wobble: increasingly disputes will be settled in bilateral Dispute Settlement bodies where hegemonic powers like the US will exercise disproportionate power and influence, with no access to representation by other WTO members with an interest in the issue at hand.



India therefore needs to highlight the importance of ensuring that PTAs are designed to avoid these deplorable outcomes that would undermine the spirit and letter of WTO design, and safeguard the interest of the developing countries.

India, which sadly rejected the idea of co-sponsoring the Bhagwati-Sutherland Commission, now must take the lead in establishing a high-level Expert Group, of eminent trade experts and prominent trade administrators — Dr. Supachai of WTO and then UNCTAD comes to mind — which will examine precisely these questions so the demise of MTN does not lead, by neglect or through incomprehension, to deplorable outcomes on the other legs of the WTO tripod.

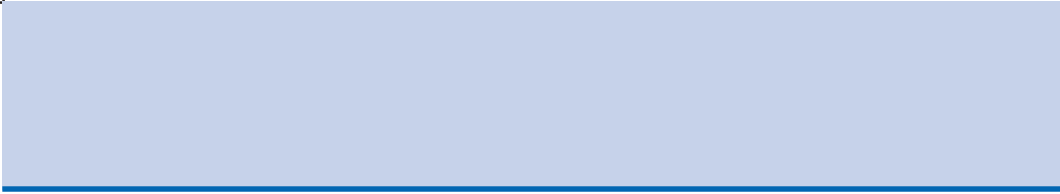
Plurilaterals: Yet another consequence of the MTN demise will be the revival of “plurilaterals”, i.e. agreements among less-than-total-membership, as a way to negotiate liberalization other than through MTN or PTAs. This is sometimes referred to as “sectorals” negotiation.



Thus, there is a powerful move to pursue trade liberalization in services in the services sector in this way and to incorporate the sectoral agreement into the WTO. But this sectoral agreement is likely to be confined mainly to liberalizing financial services: it reflects the powerful lobbying interests of banks and financial institutions.

This is, however, astonishing since today, post 2008 crisis, it is impossible to do this without raising serious reactions from NGOs and concerned regulators. India must play a role in ensuring that this is not the case: it tends to go along too much with think-tanks like the Petersen Institute that tend to reflect Washington lobbying interests and the Congressmen who reflect the interest of these lobbies.

In addition, it is now clear that services transactions across borders must include the transactions in medical services where India enjoys enormous potential. My own work just prior to the GATS agreement on services led to breaking down of the modes of such transactions into four modes: where supplier and user do not have to be in physical

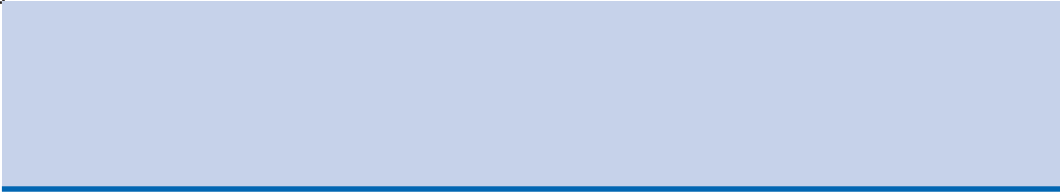


proximity; and where they do, which then breaks down into doctors going to patients, patients going to doctors, and where hospitals etc. are set up with minimal investment abroad. There are enormous gains to be made by India through opening up these transactions; also healthcare costs can go down, and availability of medical personnel increased, to make Obamacare type reforms feasible. Why can we not ask the Obama administration to set up a joint Expert Group — please, let the scholarly experts examine these issues, not politicians or bureaucrats — to see who we can take this area further and build it into a future Services sectoral.

### **III: Obama’s Fallacies on Outsourcing: Why India Needs to Worry and what India should do now**

Finally, let me turn to the Obama administration’s continual condemnation of outsourcing. It turned into a refrain as the President’s political handlers thought that this was a convenient way to demonize Mitt Romney; and the fact that it would also demonize India — ask any average person in the US and you will find that outsourcing means India whereas exchange rate



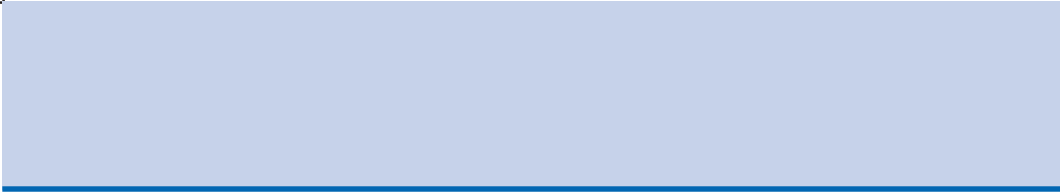


manipulations and copyright and patents “theft” mean China — was of no concern to these handlers and the Democratic insiders like Senators Schumer, Pelosi and Boxer.

The Indians in the US are as indifferent to realities as they are at home. Most have been complacent; many will trade in the interest of India for a photo op with those in power. But Government of India (GOI) cannot be so indifferent.

It is time for our Prime Minister to tell President Obama that, while we can understand that politics means that sometimes people will hit below the belt, now that his re-election is out of the way, we expect more responsible behavior from President Obama and his trusted associates. Or, as the Chinese admirably demonstrate, we can play tit for tat in several ways. Again, we ought to propose that a High-Level Expert Group, headed by world-renowned scholars on both sides, examine the issue of Outsourcing and hopefully bury the rubbish for what it is.

I, among others, have written extensively about the fallacies in the complaints about Outsourcing; these

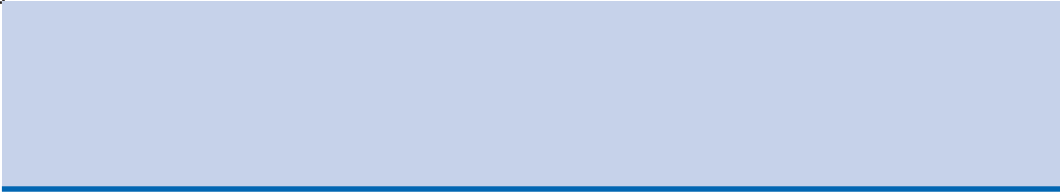


writings are available freely in writings on the Internet, if GOI wants to know what the issues and arguments are. GOI needs to have real experts sift through the arguments and prepare for its confrontation-collaboration with unimpeachable scholars of repute on the other side.

**IV: PTAS: Why US is wrong in the way it is pursuing them now, as with the Trans-Pacific Partnership**

Finally, we must disagree firmly with the way several US lobbies are piling on their “trade-unrelated” demands on to the PTAs that the US is beginning to proliferate.

GOI, President Lula, China and other leading developing countries correctly accept the notion that these demands vitiate the PTAs and also tend to fragment the world trading system in a profound way. Thus, labor standards belong to ILO, not to trade agreements for reasons which have been elaborated by scholars such as myself at great length. The best Intellectual Property protection also cannot be assumed to be the maximal one as IP lobbies and hence USTR want.

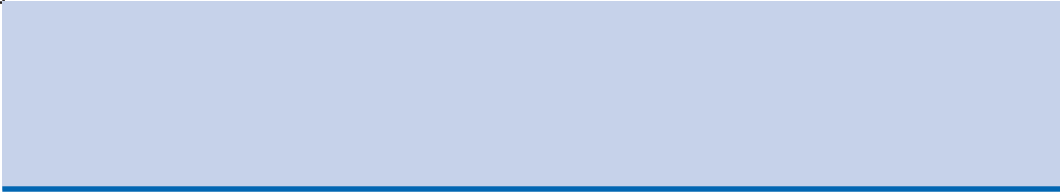


I have discussed these demands and how they turn a “trade game” into a “shell game” in my 2009 book, *Termites in the Trading System: How Preferential Agreements undermine Free Trade* (Oxford).

India has insisted on rejecting PTAs that include such “extraneous”, lobbies-led demands from PTAs: thus the EU is working on stripping the FTA with us of such demands and leaving the FTA to concentrate on trade liberalization issues alone.

But we need to be far more pro-active. We need to establish a template of our own, with like-minded countries, where FTAs are confined to trade issues. ASEAN plus Six may well be the forum that does this, while insisting that the US can join only if none of the extraneous, non-trade issues are left out. TPP, pushed by the US, does exactly the opposite. So we would have 2 rival templates in the region.

I would even say that, even the TPP should be changed by its members, to allow for joining by new countries even if they do not sign on to these extraneous conditions. Thus, if I want to join a golf club, I should

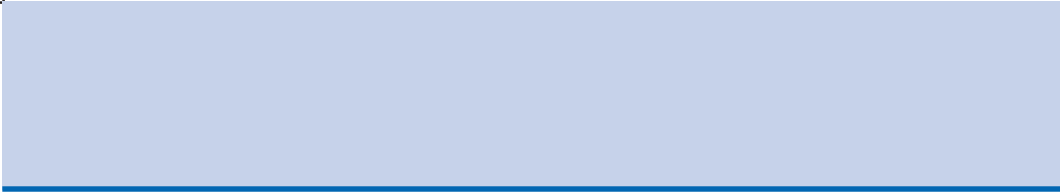


know how to put little balls into little holes. But should membership require that I go to church on Sundays and sing madrigals? If we allowed countries to join TPP purely on trade liberalization agreements, that would be true Open Regionalism.

Will GOI get out of its pusillanimous, we-will-not-upset-the-US attitude on trade questions and do most or all of what I have suggested above? We can earn respect by asserting our views, if they make more sense, than by going along.



Prof. Jagdish Bhagwati is University Professor of Economics and Law at Columbia University and Senior Fellow in International Economics at the Council on Foreign Relations. Jagdish Bhagwati has been Economic Policy Advisor to the Director-General of GATT (1991-93), Special Adviser to the UN on Globalization and External Adviser to the WTO. He has served on the Expert Group appointed by the Director-General of the WTO on the Future of the WTO and the Advisory Committee to UN Secretary-General Kofi Annan on the NEPAD process in Africa, and as a member of the Eminent Persons Group under the Chairmanship of President Fernando Henrique Cardoso on the future of UNCTAD. Currently, he is Co-Chair with President Tarja Halonen of Finland, of the Eminent Persons Group, appointed by Dr. Supachai Panitchpakdi. He was also Adviser to Dr. Manmohan Singh on India's economic reforms when Dr. Singh was the Finance Minister of India in the 1990s.



Professor Bhagwati is described as the most creative international trade theorist of his generation and is a leader in the fight for freer trade. His most recent book *Termites in the Trading System* (Oxford University Press, 2008) discusses the deleterious effects of preferential trading agreements. His previous book *In Defense of Globalization* (Oxford University Press, 2004) attracted worldwide acclaim. Five volumes of his scientific writings and two of his public policy essays have been published by MIT press. The recipient of six festschrifts in his honor, he has also received several prizes and seventeen honorary degrees, and awards from the Governments of India (Padma Vibhushan) and Japan (Order of the Rising Sun, Gold and Silver Star).

A native of India, Professor Bhagwati attended Cambridge University where he graduated in 1956 with a first in economics tripos. He then continued to study at MIT and Oxford returning to India in 1961 as professor of economics at the Indian Statistical Institute and then as professor of international trade at the Delhi School of Economics. He returned to MIT in 1968, leaving it twelve years later as the Ford International Professor of Economics to join Columbia.



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