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Subir Gokarn: Development vs trade?

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The global system may depend on the expansion and success of regional agreements.

In the view of many observers, the failure of the Doha round of multilateral trade talks on July 31 represents a significant setback. To them, the benefits of integration are unambiguous, even if they may have been somewhat uneven across both space and time. However, there are others who see the end of the Doha Round as the inevitable consequence of a system whose reach exceeded its grasp. Its ambition to expand its control over more and more areas of international trade simply could not break down the resolve of countries, which saw this as an assault on their sovereign right to protect their domestic interests.

Regardless of whether one thinks that the inconclusive end of the seven-year-long negotiations is a good or a bad thing, it does raise a fundamental question. Given that "development" was the central focus of the round, does its end signify a challenge to the dominant paradigm in which freer trade and greater global integration are seen as necessary conditions for faster and, eventually, more inclusive economic growth?

The endurance of the global trading system and its evolution from a set of rules covering trade in products to one which covers services, capital and knowledge does point to its utility. No collective system can survive if it does not take into account the differences between participants and this has certainly been a hallmark of the trading system. Both the earlier GATT and its successor, the WTO, built in differential treatment clauses that provided comfort to countries that were worried about their domestic producers being swamped by more competitive producers elsewhere.

In fact, the logic of such a system dictates that both the nature of the differential treatment and the eligibility for it change over time, as countries which benefit from integration become more competitive. As long as the changes in the rules of differentiation are perceived as non-threatening by the countries which are affected by them, there is little resistance. It is important to recognise that the threat perception itself is largely based on experience; if a pattern of past changes is seen as broadly beneficial its continuation will be acceptable. However, making a bold leap into the unknown, which involves many participants giving up the security of the current provisions, is another matter altogether.

Let's look at it from the Indian perspective to make the point. There is no question that, from the beginning of the Round in 2001 till today, the significance of the Indian economy in the global marketplace has increased enormously. Its attractiveness as a market, the aggressive global strategies of its large companies and its status as the pre-eminent off-shoring location for both low-end and high-end services, among other things, have hugely raised its profile and, consequently, its bargaining power in the global economic game.

However, its persistent vulnerability has been its inability to significantly reduce the proportion of its workforce that is dependent on agriculture. Even as the share of agriculture in GDP has shrunk dramatically, to about 17 per cent today, the reduction in the corresponding workforce has been much slower. This is estimated to be still around 57 per cent of the total. Even after allowing for significant differences in productivity and competitiveness across the country, the domestic political economy of this high proportion is entirely predictable.

Against this backdrop, India's insistence on extensive safeguards against agricultural imports may have been against the interests of free trade — meaning, those of the groups, both inside and outside the country, which would have benefited from it. But, if the concept of "development" encompasses the provision of some minimal assurances of livelihood, the Indian position surely cannot be viewed as anti-development. It is a different matter that India's being in this position is itself a result of a failure to accelerate and sustain the transition of the workforce from agriculture to industry and services.

As much as one might lament this great failure in the otherwise commendable Indian growth story, it cannot but determine India's position in agriculture trade talks. Negotiations can only take place on the basis of "what is", not "what might have been". But, this is not an India issue alone. To a greater or lesser extent, many other countries, in Asia, Latin America and, particularly, Africa, are very much in the same situation. Domestic policy regimes have been designed to protect the rural population from volatile incomes; it would be naïve to expect them to be sacrificed for an agreement that heightens the risks of precisely that happening.

In short, realistic expectations of an agreement on agriculture should be based on the ability of a high proportion of affected countries achieving the required structural change in their workforces. India is at the tail end of the process, so it could well be amongst the last to reach a point of convergence with the large food exporters. However, this is hardly the end of the world as far as expanding trade and integration are concerned. In both India and other economies that have been growing rapidly, the realisation has dawned that larger markets and greater access to cheaper inputs contribute significantly to better performance. A virtuous circle has emerged, in which the benefits of greater integration are realised more quickly as the participant economies grow faster.

It is in this context that the proliferation of regional agreements must be seen. The well-known efficiency arguments that favour global arrangements notwithstanding, the diversity of domestic structure, vulnerability to shocks and difference in performance introduce uncertainties about both the quantum and the time lags in the benefits realised by participating countries. On the other hand, agreements within smaller groups of countries, most or all of which are operating within a similar environment and performing at comparable levels, reduce both uncertainties. As unpalatable as it may be to the purists, the survival and expansion of the global system may actually depend on the expansion and success of regional agreements.

The failure of the Doha Round, therefore, is not necessarily a challenge to the trade-for-development paradigm. It simply highlights the fact that the conditions in which the trade reinforces the development process are not to be found everywhere. As long as these conditions exist, countries will find ways to take advantage of greater integration. The durability of the global trade system will depend on how effectively it recognises and accommodates the boundaries within which these conditions prevail.

The writer is Chief Economist, Standard & Poor's Asia-Pacific. The views are personal