CHINA, WTO AND ITS IMPACT ON INDIA

Jairam Ramesh

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Foreword

In the aftermath of the phasing out of the QRs on the imports into India, there has been enhanced perception of the threat of competition from China. While there is a great deal of concern about “dumping” from China, there is also a need to comprehend the lessons of that country’s entry into the WTO for India. Mr Jairam Ramesh was invited by the Government of China to visit China and interact with the different stakeholders in that country. In this lecture that he delivered at ICRIER, Mr. Ramesh shared his assessment of the likelihood of China’s entry into the WTO, and the lessons that it has for India.

The perspectives provided by Mr Ramesh should help us in India to address the WTO-related issues with a degree of rationality and vision.

Isher Judge Ahluwalia
Director & Chief Executive
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Introduction

The focus of my presentation is the current status of negotiations as far as China's entry into the WTO is concerned. I will also spell out the implications of this for the international trading system in relation to China, now the tenth largest trading nation.

It is important to note that China along with India was among the founding members of GATT, but in 1950, due to Taiwan’s unilateral withdrawal, China ceased to be a member of GATT. Negotiations for China’s entry began in July 1986. Fifteen years is a very short period by Chinese standards. It reminds me of the story of Nixon who asked Chou en Lai in 1972 what he thought of the French revolution. Chou en Lai is known to have replied 'too early to say'.

Negotiations, begun in 1986, broke off as a result of the Tiananmen Square incident in June 1989, but resumed in 1993. In 1999, negotiations were stalled again because of the bombing of the Chinese embassy in Belgrade, but resumed subsequently. It has been a roller-coaster ride over the past fifteen years. The expectation now is that China will formally become a member of the WTO by November 2001 when the next Ministerial meeting of the WTO takes place at Doha in Qatar. This is the expectation of both the Chinese and the WTO secretariat but there are several 'ifs' and 'buts'.
**The Chinese Economy**

In 2000, China’s international trade was over US$ 470 billion. This is roughly 38 to 40 per cent of Chinese GDP and about five times that of India's trade value. As Suresh Tendulkar has shown in his recent paper for ICRIER, in 1980, value of Chinese trade was twice that of India, but by 2000, this had grown to five times India’s. Tariff reductions in China in the last ten years have also been faster than in India. According to the latest World Development Indicators published by the World Bank, the weighted mean tariff of all products is approximately 15 per cent in China whereas that in India is approximately 29.5 to 30 per cent. For manufactured products the comparison is worse. However, the reduction in tariffs has not been accompanied by reduction in non-tariff barriers in China, which remains a big constraint.

As Ashok Guha and Amit Shovan Ray have shown in their study for ICRIER, there has been a very close link between FDI and exports from China in the nineties. Around 35-40 per cent of China's exports is accounted for by what the Chinese call Foreign Investment Enterprises. It is much more in Guan Dong province, where the proportion is almost 60 per cent. These foreign investments are basically by overseas Chinese- originally from Hong Kong and now increasingly from Taiwan- re-locating labour-intensive manufacturing enterprises in China. And these foreign investments have been a very important driver of Chinese exports in recent years. This, however, is not possible in India because of the government policy of reservation for the small-scale sector in most labour-intensive manufacturing activities.
**Why does China want to join the WTO?**

China may be a “rogue trader” according to the US, but being the world's tenth largest trading nation with over US$ 470 billion of international trade, why should China seek entry into the WTO at all? There are many people in our political parties too who think that by remaining outside the WTO, India can replicate the Chinese miracle in terms of international trade!

There are some very important political and economic reasons behind the Chinese desire to join the WTO.

1. The Chinese move for joining the WTO is an integral part of the internationalization of the Chinese economy first enunciated by Deng Xiaoping in 1978. China is a member of most international organizations, particularly those in the economic and financial spheres. WTO is the only exception. Entry into the GATT/WTO is part of their modernization programme which saw China become member of the World Bank and the IMF. Due to the protracted negotiating process in the WTO, the Chinese have not been able to become a member so far.

2. The WTO card is being used very creatively by Zhu Rongji and his colleagues to carry out massive domestic policy reforms. The Chinese have creatively used the WTO compulsion to carry out a lot of changes domestically, in the political sphere, in the legal sphere as well as in the economic sphere,
particularly in areas of domestic taxation and value added taxation. They have also used the WTO card for carrying out very significant domestic changes in economic rules and regulations.

3. China's PNTR (Permanent Normal Trading Relations) status hinges on annual certification by the US of their domestic policies. The Chinese are subjected to pressure by the U.S.A. on issues relating to prison labour and human rights violation. The Chinese are keen to get away from the annual certification of domestic policies and from the conditional MFN negotiations and work instead for membership of the WTO.

4. The economic relationship between Taiwan and China is growing. Taiwan today accounts for approximately 15 per cent of world's semiconductor production. The Chinese see Taiwan as a very important element of their efforts toward global domination in the knowledge based IT industry. Taiwan's hardware capability together with the Chinese software capabilities could be exploited for global preeminence in the field where India certainly has an edge. Immediately following the Chinese entry into the WTO, Taiwan too is likely to become a member of the WTO. The Chinese are hoping that by joining the WTO, the Taiwanese reluctance for closer economic interactions with China on a very overt basis will be overcome and there would be formal linkages between China and Taiwan. The Chinese are laying out the red carpet for Taiwanese investors and are desperately wooing investment from Taiwan. Almost 20 per cent
of the investment in China in the last five years has come from Taiwan. Most of the Chinese overseas investment in Chinese hi-tech industries in Fujian province particularly is coming from Taiwan.

**Current Status of Negotiations**

Accession to the WTO is a two-track process. The bilateral agreements have to be concluded and deposited with the WTO secretariat as a first step. These then need to be accepted by all WTO members, and upon acceptance, automatically get multilateralized. Simultaneously, the second track of multilateral agreement also has to be negotiated to the satisfaction of all member countries. Only after that, the accession by consensus takes place. If any member country raises an objection at any stage of negotiation, the membership cannot be granted.

As regards the current status of negotiations for China, a total of 45 bilateral agreements are to be concluded before China gets an entry into the WTO. Out of these, 36 have been signed, chiefly triggered by the November 1999 agreement between the U.S.A. and China. Out of the remaining nine, the three most important ones that have not been signed are with New Zealand (dispute over kiwis, oranges and fruits), Israel and Mexico. The Chinese believe that the Mexicans have been put up by the Americans to make life difficult for them. The issue at stake between China and Mexico is the grandfather clause on anti-dumping duties. According to this clause, all the anti-dumping duties imposed by Mexico would be withdrawn once the bilateral agreement is concluded. The Mexicans however, want the duties to be retained.
It is worth noting that at present there are 29 countries waiting in the wing to join the WTO. The most recent entrant was Moldova and that was done fairly recently. Russia is an important non-member and the Russian entry into WTO is seen at least 10 to 12 years ahead. Iran wants to join the WTO but again serious negotiations have not taken place with Iran. However, Chinese entry into the WTO would be a critical test not just for Chinese ability and willingness to become a member of the WTO, but also of how robust the WTO accession process is.

**China and the WTO- Five Points of Disagreement**

There are certain fundamental issues that still divide China and the WTO working party in the context of multilateral negotiations.

A major issue relates to China's stand that it should be treated as a developing country, since their per capita income at $790 is below the threshold. On the WTO Agreement on Agriculture, this has bearing on how the AMS (aggregate measure of support) is determined. The AMS calculations for China, however, reveal that in 2000 the AMS was about 2 per cent of the value of production. This is within the de minimus level irrespective of whether China is treated as a developing or developed country. Since the flexibility that the Subsidy and Countervailing Measures Agreement (in WTO) gives to developing countries is much more than for developed countries, this is another reason the Chinese want to be treated as a developing country. The Europeans, Americans and the
Japanese, however, are worried about dumping from China. Hence they do not want China to be accorded the status of a developing country.

Another important difference relates to technical agreements with respect to the use of safety, assessment, and certification processes. Chinese regulations exist only on paper and are pretty non-transparent. According to article X of the erstwhile GATT, transparency is a very essential element of the accession process. This is the Achilles heel of the Chinese entry into the WTO since there is virtually no transparency. This is particularly true for technical barriers to trade.

Trading rights are not available to foreign firms in China. A Chinese firm can import for local distribution, but foreign firms cannot. The Chinese law distinguishes between Chinese firms, Chinese firms with foreign equity and wholly owned foreign firms. Only wholly-owned Chinese firms can import for trading, i.e., for local distribution. Other two categories also are allowed to import, but only for use in their own manufacturing process. The Europeans, the Americans and the Japanese are insisting on market access for trading firms in non-wholly owned enterprises, whereas the Chinese are reluctant to grant trading rights to foreign firms.

A related issue is that there is no national law in relation to trading rights of foreign firms in China. Shanghai may have its own regulations, which might be different from that of Beijing which is an independent municipality. Since the WTO accession requires a single
point access to all these regulations in a transparent manner, national regulation is important.

Finally, there are some technical issues relating to services sector offer, particularly in relation to insurance and financial services, where the Americans are not happy with the national treatment provisions that the Chinese have put in. Incidentally, the Chinese offer on services is far more liberal than that of India. In telecommunications India has still not offered 50 per cent foreign equity directly in basic telecommunication services, whereas the Chinese have done so. In Insurance, by law, we do not permit more than 26 per cent, whereas China is much more liberal. They are much more liberal in banking as well as in most other services like accountancy and legal professions. This may well be because they do not have a large enough base of domestic accountancy firms and domestic law firms. The Americans and the Europeans, however, feel that the Chinese offer does not go far enough, particularly so far as national treatment is concerned.

*Is Chinese membership of the WTO likely by November 2001?*

With most of bilateral agreements in place and with the multilateral agreement now in its concluding stages of negotiation, the expectation is that China would join the WTO by the time the next Ministerial meeting takes place at Qatar in the first week of November. There are impediments, however.

There is a general weakening in the US-Chinese relations. China has shifted from being a strategic partner
of the US to its strategic competitor. Besides, China does not figure at all in President Bush's legislative agenda for 2001 which includes a global round of negotiations, a regional round of negotiations for the free trade agreement for the Americas by January 2005 and a bilateral route for negotiations. In the bilateral route, three countries- Jordan, Singapore and Chile -have been identified for further bilateral negotiations towards a free trade agreement in addition to a bilateral preferential trade agreement with Vietnam and Laos. This is unlike during the Clinton administration when China's entry into the WTO was seen to be a major achievement for the US.

There is also a technical problem. The US Congress extended PNTR to China in 1999 and then subsequently in May 2000 on the condition that the US President would certify to the Congress that the WTO multilateral agreement is as beneficial to the Americans as the bilateral agreement that China and America had signed in 1999. The last date for fulfilling this condition is June 3, 2001. The multilateral agreement however, has not been concluded yet. If this certification does not take place by June 3,

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1 There was a provision in last year’s (2000) legislation approving PNTR that China join the World Trade Organization by June 2001. Because China failed to meet that deadline, US lawmakers had been preparing for another PNTR vote. But on June 11, 2001, US and Chinese trade negotiators reached an agreement on key outstanding bilateral issues. “It now appears that Congress need only one last time - for the span of just a few months – before China becomes a full member of the WTO.” China has now completed all of its bilateral talks on WTO entry except for Mexico and Central America.

China loses its PNTR status with the US. It reverts to a conditional MFN regime which then means Dalai Lama, prison labour, 'three gorges project' etc. All the non-trade issues come into the fore during negotiations for the MFN renewal. As of now it appears that the June 3 deadline is unlikely to be met which means that the negotiations on the multilateral agreement would slip. In that event, China's entry into the WTO will certainly not take place in November 2001. It would slip, if not till the next Ministerial in 2003, then certainly until sometime towards the latter part of next year. As of now it does look that Chinese entry into the WTO is not on the cards in November 2001.

**Opposition to WTO in China**

I went to China at the invitation of the National People's Congress which is their equivalent of the Indian Lok Sabha. My interlocutors were Members of provincial Congresses and the National People's Congress. I saw that there is opposition to the WTO membership in China as well. Zhu Rongji is a great moderniser. He is the man spearheading Chinese membership of the WTO. He gives up his office of Premier in May 2002. He wants to go down in history as the man who got China into the mainstream of international trade and international economics, exemplified by the WTO. Jiang Zemin, unlike Zhu Rongji, is much more lukewarm. He has never come out openly in favour of China joining the WTO. Li Peng is a hardliner. He is the third most important man in the Chinese hierarchy. He is the Chinese counterpart of the Lok Sabha Speaker. He was the prime mover in the Tiananmen Square incident.
The National People's Congress would not be unhappy to see the delay in China's entry into the WTO. They are aware of the fact that China has become the world's tenth largest trading nation, with international trade at US$ 470 billion constituting 40% of GDP. China has also cornered the world market for garments, for plastics, for toys and for semi-conductors. And all this was achieved while remaining outside the WTO. Then, why enter the WTO and be subject to Anglo-Saxon nuisances like transparency laws? There is a very strong lobby in China which would not be unhappy – although they are not actively opposing the WTO - if there is a delay in the WTO entry process. But Zhu Rongji and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) have made China's entry into the WTO almost a prestige issue.

It is remarkable how proactively the Chinese political leadership is talking about the benefits of China's entry into the WTO and what it means for China. The day I landed in China there was a big trade war between Japan and China. Japan imposed 300 per cent duty on the import of Chinese spring-onions which the Japanese felt was flooding their market. Chinese political leadership seized this opportunity to publicly talk about the benefits of WTO membership. On State-owned television, Zhu Rongji's people were seen talking that such unilateralism by the Japanese would not have been possible if China was a member of the WTO! It was a remarkable expression of aggressive intent on the part of the political leadership to come out and say that there are benefits of WTO membership. The government is continuously reinforcing this message through print media that to sustain China's 8 per cent plus economic growth...
performance, its extraordinary export performance and its FDI drive, WTO membership is a sine qua non.

Interestingly, India views the WTO largely in the context of international trade but Chinese view it complementarily with investment because of the intimate nexus between Chinese trade and foreign investment. When they talk about WTO they talk about not just international trade but also about creating a hospitable environment for foreign investment. Here is a country that is getting US$ 40 billion plus of foreign investment every year and is talking about creating a hospitable environment for foreign investment. They realize that getting US$ 40 billion is not enough and they need much more. My interlocutors at China were from provinces and they advanced arguments which are similar to those advanced in India. These provinces were as opposed to the WTO as my colleagues in the Congress party or many colleagues in the BJP and CPM.

The federal map of China is being re-drawn. China is moving from being a decentralized dictatorship to a centralized democracy. This is one of the great paradoxes of political economy. We tend to think that democratic India is more decentralized than dictatorial China. All fiscal indicators in China indicate that China is much more decentralized. For instance, the Centre's share of revenue collection is about 62.5 per cent in India, whereas in China the Centre's share of revenue collection is 40 per cent. India has been more of a centralized democracy and China has been more of decentralized dictatorship. But in the last five years the WTO has been used creatively by Zhu Rongji and others to take power away from the provinces and the
municipalities and vest it with the federal government. China, for instance, has only one rate for value added tax (VAT). Even though this was opposed by the provinces as well as by people in the National People's Congress. The unstated principle in the discussion was that the Chinese would like to see an increasing share of revenue being collected not by the provinces but by the Central government. It is interesting that India is consciously moving in the opposite direction.

One of the requirements of article X of GATT is transparency. China does not have one law. There are provincial laws and municipal laws. The Mayor of Shanghai is more powerful than perhaps even the Prime Minister of India. With the WTO membership the provincial powers would be curtailed. They would be subjected to some centralized bureaucracy. This is a big fear in the provincial Congresses, although they are all part of the Communist party.

It is also worth noting that although it is a one party system in China, the Chinese Communist Party is more democratic than the Congress Party and the BJP put together. Neither the Congress nor the BJP would ever have the courage to pass a resolution and say Jawaharlal Nehru or Deen Dayal Upadhyaya were 60 per cent right and 40 per cent wrong! This is precisely what the Chinese communist party did in 1982. They passed a resolution saying that Mao was 70 per cent right and 30 per cent wrong. It is called the 70-30 rule. In China, despite a one party system, the level of discussion and debate that takes place is of a very high order. It is a plurilateral system of
discussion. Once the discussion is over and a decision is taken, the implementation and enforcement is easier.

One important feature of China which cannot be ignored is that the politics of China is changing. China is growing from being a fiscally decentralized conglomerate to a fiscally more centralized system of political management, and what this does to province-centre relations time alone will tell. But it is certain now that the dice is heavily loaded in favour of the federal government. The provinces which have enjoyed great fiscal autonomy are now beginning to react negatively, and they are now forming a phalanx of opposition to the WTO.

The WTO and Law

In India, there are many trade experts, and only a few lawyers, dealing with the WTO issues. The Chinese have realized that the WTO is increasingly about law, and have sought German assistance in building up their legal system. The Chinese feel more comfortable with the Germans, and are not too happy with the Americans.\(^2\)

Perhaps because Germany is seen to be one of the very few countries that did not impose their will in pre-Communist China. The Japanese occupied China, the British put the treaty of Nanking and the opium trade and the Americans had their own protestant missionaries.

\(^2\) Sixty per cent of all cars sold in China are volkswagen cars. So there is a special relationship. Germany gets treated differently in China and there is a great respect for Germany.
Germany is seen to be much more friendly. The Germans have a big project with China for redrawing their entire legal apparatus.

There are three pillars of law, viz., the law itself, the enforcement of the law and the conflict resolution mechanism available in the law. The Chinese have laws covering everything. The enforcement of the law and the conflict resolution are big question marks. For example, they have intellectual property rights protection; they have trade mark laws; they have patent laws. But it is common knowledge that they are the largest software piracy market in the world. In fact, the story in the IT industry is that copyright means right to copy! And the Chinese have mastered that.

In China, the distinction between administrative regulation, internal directive and law is very thin. A transparent set of regulations which are enforceable and which are contestable judicially are steps in the legal process that the Chinese have yet to take. And this is actually becoming a big constraint to them in their WTO accession. It would remain a constraint even after they have entered the WTO. Chinese would absorb a large share of WTO’s dispute settlement time.

India too cannot boast of its legal system. India has laws, but the enforcement remains weak. And the conflict resolution in terms of WTO laws remains to be tested. India certainly has more lawyers than China has. But it is contestable if India has far greater body of trade law than China. However, India does score over China in terms of
having greater experience in the enforcement machinery through the court system.

Lessons from China

1. The most important lesson to be learnt from the Chinese experience is their thrust at public education on benefits from WTO membership. Occasionally, Mr. Vajpai does show signs of taking the bull by the horns and assert that reforms have worked in India, poverty has come down and that labour must adjust. The Chinese political leadership, on the other hand, is pro-actively pushing WTO's entry as not just an economic signal but also a political signal. It is not entry by stealth. It is entry frontally, taking on the issues and acknowledging the likely pains of transition. I was invited to China to share with the legislators how India has managed to overcome (they are entitled to have their own illusions!) opposition to agreements on agriculture and intellectual property rights. Specifically, to share with the Chinese how India has built this great domestic consensus on intellectual property and on agriculture.

2. The strong pro-WTO statements emanating from the political leadership have sent a very clear signal that China wants to enter the WTO. There have been very strong political statements in favour of WTO from the Premier as well as MOFTEC. In India, this is missing even though we are a Member of the WTO.

3. There is a great emphasis on legal infrastructure in China. Most WTO related meetings in India are
attended only by retired civil servants, retired ambassadors to GATT and economists talking about trade. Lawyers- let alone trade lawyers- are completely absent. The Chinese, on the other hand, have recognized that the expertise in trade law is critical to get benefits of the WTO membership.

Patent administration is one example. In India, we have looked at Patents, the whole area of intellectual property rights, have passed laws and have had a big debate for last ten years on product patent, process patent, compulsory licensing and national interest. One visit to Karol Bagh Patent office would shatter all dreams of Indian leadership in patents. Is this tottering and shabby Patents office going to spearhead India's entry into the knowledge-based economy in which we have a competitive advantage?

The ten-storey patent administration office in China built with German assistance is just mind boggling. The Chinese have recognized that administration is as important as the economics of law. The Chinese may curse the world but they have gone out to get assistance. Besides assisting China in building this modern Patent Office, the Germans are also involved in several other projects. The European Union too is involved in a large number of projects. The whole drive is towards creating a major legal expertise so that the legal foundations of China's WTO entry are strong. Of course, it could be argued that the Chinese have mastered rule through law, and still they do not know rule by law. It is legal formalism, they want laws, laws and more laws, they want lawyers, lawyers and more
lawyers. But are they prepared for rule by law? Be that as it may, there is little doubt that the Chinese have taken the first step by building the legal expertise.

**Conclusion**

Two greatest fears the Chinese have are in respect of agriculture and TRIPS. What would the WTO agreement do to agriculture? This is much the same fear that has been expressed even in India. What would TRIPS do to Chinese expertise in this area?

The day I landed in China the pharmaceutical companies, who had taken the South African government to court over what they felt was patent infringement by the South African government on AIDS drugs, actually withdrew their petition. This is a major victory for those who believe that there is a balance between the interest of the consumers and the producers of knowledge. Just four days ago, Robert Zoellick, the US trade negotiator, has given a speech where, for the first time in fifteen years, an American trade negotiator has said that there is a public interest angle in intellectual property. When it comes to public health emergencies like AIDS, intellectual property must give way to consumer interest. The notion that there is balance between the consumer interest and the producer interest is now sinking in. This is one of the reasons why the Americans did not take part in dispute settlement over TRIPS and the Americans are foot-dragging over taking Argentina into dispute settlement over their patent laws. The Argentinians and the Brazilians have gone very far in introducing public interest provisions in their patent legislation. This is of great interest to China.
The Chinese are also of course very concerned with the great Indian leadership in IT. Their concern is not border dispute or Aksai Chin or NEFA, it is the Indian leadership in IT. In the calendar year 2000, India's software exports of IT were $6.2 billion, China's exports were $600 million. The Chinese now realize that the reason for Indian leadership in IT is India’s investment in technology and higher education. They are now planning to build 100 IITs in the next 5 to 10 years. One of the consultants for them is McKinsey, and the consultants from McKinsey are Indian IIT alumni! There is an interesting irony here also. The people who could not get time to see the Planning Commission and the Prime Minister in India, are now going to China to advise the Chinese as to how to replicate the Indian success in the IT field!

The Chinese are worried about the Indian edge in IT. This too explains their great desire for closer economic and technological integration with Taiwan. They believe that combining Taiwan's expertise in hardware manufacturing and Chinese expertise in low-cost, internationally competitive labor would give them a tremendous edge over India. Unlike India, China realizes that IT success has to be both in software and hardware. They are laying as much stress on hardware as on software.
Summary of Discussion

The presentation by Mr. Jairam Ramesh was followed by a lively discussion, which encompassed a wide variety of subjects related to China and the WTO.

On the issue of Chinese accession to the WTO, some participants mentioned that, due to the predominantly nontransparent structure of the Chinese economy, China’s entry into the WTO would result in a significant increase in disputes between WTO members on the one hand and China on the other. This would considerably increase the burden on the WTO’s dispute settlement body. It was widely felt that China would take a long time to comply with the transparency requirements of Article X of the WTO. It was also pointed out that China has to undertake what are called WTO Plus commitments i.e., commitments in addition to those undertaken by other WTO members. Moreover, China has not been accorded the benefits that are due to developing country members under the Subsidy and Countervailing Measures Agreements and the Agreement on Agriculture (AoA) despite its per capita income, at US$ 790, being less than US$ 1000. For instance, under the Subsidies Agreement, Annex VII countries (countries with per capita income less than US$ 1000) are exempt from prohibiting subsidies contingent on export obligation. China does not enjoy this concession. In AoA, an AMS of upto 10 per cent (de minimis) is allowed for developing countries. In the case of China, however, the Americans are insisting on reducing this de minimis level to 5 per cent.

Further, during investigations in all anti-dumping cases against China, China will be treated as a non-market
economy for the purpose of determining the ‘injury margin’ until otherwise proved in each case of anti-dumping. Then, Americans have imposed on the Chinese what is called Transitional Product Specific Safeguard. Safeguard normally is applied on a multilateral basis, and is not country specific. In the case of China, however, US can impose a measure specific to China if there is a surge in imports originating from China. This facility is available to the US for 14 years beginning from the accession date. Finally, Transitional Textile Safeguard, which is available to WTO members under the Agreement on Textiles and Clothing until only 31 December 2004, would be applicable to China until December 2008.

On the issue of WTO being more about law than trade, Dr. Isher Ahluwalia pointed out that her experience with Indian lawyers had not been encouraging as they spoke ‘like Indian industry in the 1970s’. Dr. Jairam Ramesh and a few other participants held the opinion that while, for instance, the Indian lawyers could set up offices in the US, they could not advise the American clients on American law; they could do it only on Indian law. Mr T. N. Chaturvedi was more optimistic about the building up of WTO related legal expertise. He pointed out that a beginning had been made in respect of WTO related legal education in the country, even though a sense of urgency was missing.

In the realm of need for public education, Dr. Surjit S Bhalla lamented that the entire political class consisted of laymen driven by powerful lobby groups. The issue, therefore, was more of electing the proper political leaders, rather than educating the public. While disagreeing with
Dr. Bhalla, Mr. Ramesh clarified his point about the need for public education. He mentioned that the need of the hour was to create an information base. For instance, he said that several people in India hold the opinion that a minus 34% AMS in Indian agriculture would mean that India can actually increase its subsidy from minus 34% to plus 10% and still be under no obligation to reduce AMS! He also gave the example of how many people think that from 1 January, 2005, when Agreement on Textile and Clothing expires, there would be quota free as well as zero-tariff trade! Mr Chaturvedi agreed with Mr. Ramesh on this issue, and added that the NGOs have played a negative role by not critically enunciating the ‘alternative’ views on the subject, except occasionally and through government machinery. Mr. Arun Shourie too agreed and mentioned about his experience wherein he found even the Chief Ministers completely ignorant on WTO issues. He therefore stressed the need for consensus building between those who are in office – irrespective of their political party affiliations- and those outside the office. He wished that everyone inside office spoke in one voice- as in China- and stood with each other to fight against vested interests who are stalling the reform process in India. The chairman-Prof. Anwarul Hoda- emphasised the urgent need for public education on sector-specific issues.

The issue that drew maximum attention and participation was, expectedly, the industry competitiveness of China vis-à-vis India. An industrialist Mr Garodia raised this issue. He narrated his experience of visiting a Chinese toothbrush factory, where he noticed that despite the Chinese technology being at least one generation behind that of India, and their labour-intensity actually higher than
that of Indian factory, the Chinese sold their product at a price that was much less compared to a comparable Indian factory product. He found the reasons for this in the grossly underpriced input costs in China. Mr. Ramesh agreed and pointed out that the difference stemmed from the Indian laws that discourage vertical growth and promote horizontal proliferation. Whereas the Chinese encourage factory employment, Indian laws discourage this, leading to poor scale economies and higher prices in general. In fact, Mr. Ramesh also used this fact to exhort India to facilitate entry of China into the WTO since such non-transparent and non-market based practices that are prevalent in China (as implied by Mr Goradia’s experience) could at least be countered in the WTO dispute settlement forum. Mr Goradia also pointed out that the issue of dumping from China was a reflection of the porous border that India has with Nepal and the problem with Indian customs.

Dr. Montek Singh Ahluwalia made some specific comments and raised a few pertinent issues in connection with India’s competitiveness vis-a-vis China. He mentioned that with weighted mean tariff of over 30% for manufactured input materials in India, compared to only 5% in China, the Indian industry cannot compete. The tariff levels therefore have to be brought down to competitive levels. He outlined the agenda for the government in this context: to be honest about what they could provide to the industry in terms of infrastructure support and over what period of time, so that industry could plan accordingly for key input requirements. Dr. Ahluwalia indicated that grant of greater protection due to generalised infrastructure constraints actually helps the domestic players at the cost of exporters. Such economy-wide constraints could be
rectified only through exchange rate adjustments. Economists and the government would need to sit together with the industry to find a solution to this problem.

Mr. Bimal Raizada, based on his experience of operating in China, mentioned a series of non-tariff barriers that exist in China, which in his opinion, was not adequately discussed. He gave examples such as having to raise foreign currency loans for investing in China since the domestic currency market is not accessible to non-Chinese enterprises, or prices being negotiated and fixed by the government agencies on the ability and willingness to pay principle etc. He concluded by mentioning that the enforceable law in China is just good faith, and no written agreement could substitute for this.

On the issue of implications of China’s WTO membership for India, Mr. Ramesh mentioned that India stands to gain from China becoming a member of the WTO, if only due to the WTO rules enforcing commercial accountability on Chinese business. The chairman concluded the discussion by mentioning that China already has a bilateral MFN agreement with a large number of countries including one with India. Hence their joining the WTO would not put any further competitive pressure on India, while it would benefit India by enabling greater scrutiny of their business practices.
About the Author

Mr. Jairam Ramesh is Deputy Chairman of the Karnataka State Planning Board and Secretary, Economic Affairs Department of the All-India Congress Party. He is also closely associated with economic policymaking processes of other state governments. He has served in various key positions in the Government of India in the 1980s and 1990s including in the Prime Minister’s Office. He was advisor to the Finance Minister and worked earlier as consultant to the BICP, Ministry of Industry, and advisor, Planning Commission. He writes a weekly column on economic issues in India Today. He has studied at the Indian Institute of Technology, Mumbai, Carnegie-Mellon University and MIT.