The decade of 1990s witnessed a profound change in the international trading system. The conclusion of the Uruguay Round negotiations of the General Agreement on Tariffs and Trade (GATT) not only resulted in significant reduction in tariffs on cross-border exchanges of goods but also integrated trade in agriculture and that in services to a rules-based multilateral trading system. With the establishment of the World Trade Organization (WTO) in 1995, particularly with its dispute settlement system, developing countries started taking an increased interest in international trade as one of the major means to get more and more integrated with the rest of world.

A rules-based multilateral trading system is not just about protecting producers’ interest from cross-border exchange of goods, services and technologies but also about enhancing consumer interest in terms of greater choice of goods and services at more affordable prices. Pradeep’s visionary leadership captured this fact that consumer interests will be best served by understanding the realpolitik of the multilateral trading system. That is why CUTS has been working on trade and development issues since early 1990s and today it has established its credentials as one of leading voices from the south on this subject.

From the beginning Pradeep looked at this subject from his head as against looking at it through his heart. His first-hand experience as an entrepreneur in his early life (that too running a small industry) helped him practicing import-substitution policies.

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1. This article appeared in the Economic Times, New Delhi, on July 23, 2011.
of India and associated problems therein. In other words, in his journey as a consumer activist and a trade policy honcho, he always looked at issues objectively and that is how CUTS has been practicing its credo of ‘liberalisation yes but with safety nets’ for over two decades.

Trade is about relative competitiveness of competing products produced by different firms. Take for example, an Indian clothing product that is facing 10 per cent tariff in an export market and a Bangladeshi producer of a similar product facing 0 per cent tariff in that market. These tariffs are over the base price the producers would charge for their products. Even in that case, the Indian product could be more competitive if its other factors of competitiveness—capital cost, labour cost and other costs including trade logistics—can offset this difference in tariff.

This is particularly relevant in today’s world because countries have considerably reduced their import tariffs. Since the formation of the GATT, most developed countries have reduced their tariffs on most products to a single digit. Successive GATT-round negotiations helped that process. In fact, till the Tokyo Round that was launched in 1979, GATT negotiations were all about tariff cuts. With the advent of the Uruguay Round of GATT negotiations in 1986 and its conclusion in 1994, developing countries started following a similar path. For instance, India’s average applied tariff on agricultural products is reduced to about 40 per cent and that on industrial goods to about 15 per cent. This is a huge fall as compared to tariffs imposed in 1990s and earlier.

Given the low levels of applied tariffs, it is no longer impossible to counter trade-distorting effects of tariffs through other means of generating greater competitiveness. Some countries do it by simply manipulating their exchange rates regime. There are many other means, including camouflaging subsidies in a manner that either cannot be detected easily or they are non-actionable as per relevant rules of the WTO.

In today’s world, non-tariff measures (NTMs) are much more trade-distorting since they add to trade costs. Various efforts are being made to address the menace of NTMs, including converting
them to tariff-equivalence. Why do countries practice NTMs? Is it about favouring one producer—a domestic producer—over another—mostly a foreign competitor?

WTO Director-General, Pascal Lamy, argued in his Foreword to the 2012 World Trade Report of the WTO: “... a clear trend has emerged over the years in which NTMs are less about shielding producers from import competition and more about the attainment of a broad range of public policy objectives.”

While there are efforts at bilateral, regional and multilateral level to harmonise and minimise NTMs by adhering to a rules-based system, the emerging nature of international trade has a built-in mechanism to address them including attaining public policy objectives.

The world has moved on from simple intra-industry trade to a complex web of regional and global value chains. Given that producers in a value chain collaborate with each other to reduce trade costs, there is a possibility that they nurture their governments to address NTMs.

A 2011 study by the WTO and the Tokyo-based Institute of Developing Economies (IDE), “Trade Patterns and Global Value Chains in East Asia: From Trade in Goods to Trade in Tasks”, highlighted this point by stating: “The integrated factory floor, which had dominated manufacturing since the 19th century, has been replaced with a network of individual suppliers specialising in specific services or phases of production.”

Prof Richard Baldwin of the Graduate Institute of International Studies in Geneva described this as the second great unbundling where production is sliced and diced into separate fragments that can be spread around the globe. Indeed, it is so: the Boeing 787 Dreamliner is assembled—not produced—in the US; its parts are sourced from at least six other countries.

Over the last two decades, not only that many East Asian producers got integrated into regional and global value chains but also, and more importantly, they are facing less tariffs and NTMS as reflected in growing intra-regional and inter-regional trade vis-à-
vis East Asia. Their average share of vertical specialisation increased considerably as shown in the WTO-IDE study.

In computers and electronic equipment, the share of import contents of the US increased considerably, domestic content decreased and, yet, there was an increase in their export value. That led this study to look at bilateral trade balance differently. In 2005, the value added—including China processing trade—figure of US-China trade balance was 53 per cent less than traditional statistics; in 2008, it was 42 per cent.

If this is so, then why so much negotiating capital is being invested in bilateral or preferential and multilateral trade negotiations? While bilateral or preferential trade agreements are more due to political—as against economic—reasons, multilateral trade regime under the aegis of the WTO has other virtues. A major virtue of the rules-based multilateral trade regime is its ability to reduce differences between bound and applied tariffs—called water in tariff—so that there is less uncertainty in the system. It will reduce further, once the Doha Round is concluded.

These virtues are best exploited by East Asian countries to raise their share in vertical specialisation. This is the lesson that South Asian countries should draw to raise their share in vertical specialisation—fortunately, regional value chains are getting more academic and political interests in South Asia.

In future, the multilateral trade regime should devise rules in a manner that further encourages vertical specialisation. Tariffs are related to prices of products and they matter less in this new scenario because products—in vertical specialisation—are so specific that there is hardly a scope for product differentiation and, therefore, price competition. What matters most is the quantity of production—economies of scale through technological advancement and otherwise—and reduction in trade logistics.

Many public policy objectives including that of attaining full employment and raising standards of living can be achieved through a more open, rules-based multilateral trade regime which should facilitate regional and global value chains. And that should be based on the principles of fair trade, capacity building of poor countries,
balanced rules and good governance. These principles should form the core of a Geneva Consensus for trade and development. Otherwise, the already discredited Washington Consensus may make a comeback which may not augur well for the global community, particularly the poor.\(^2\)

\(^2\) The last part of this article is adapted from a presentation delivered by Faizel Ismail, Ambassador and Permanent Representative of South Africa to the WTO to UNCTAD Trade and Development Board Panel Discussion in Geneva on September 18, 2012.