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Outlook for World Trade Growth

An LKI Roundtable with Dr. Harsha Singh
Executive Director of Brookings India

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Three key takeaways from the round table discussion with Dr. Harsha Singh -

- 1. The global trade outlook for 2017 has improved with somewhat faster global trade expected in 2017 compared with 2016.**
 - 2. There is a need to separate the rhetoric in the political sphere and the ground reality when looking at the mechanics and application of US trade policy.**
 - 3. The World Trade Organization (WTO) remains the most hopeful normative framework on trade, particularly for smaller countries such as Sri Lanka, to negotiate better trade partnerships.**
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Introduction

- Dr. Harsha Singh, Executive Director of Brookings India, addressed a Foreign Policy Round Table at LKI on “The Outlook for World Trade Growth, US Trade Policy, Asia, and the WTO,” on 26 July 2017.
- The roundtable was attended by Hon. Ravi Karunanayake, Minister of Foreign Affairs and Chairman of LKI, the High Commissioner of Bangladesh, and representatives from the Prime Minister's Office, the Australian High Commission, the Department of Commerce, the World Bank, the Central Bank of Sri Lanka, Harvard Centre for International Development, and the International Finance Corporation, as well as heads of think tanks, academics, and the private sector.
- The roundtable was moderated by Dr. Ganeshan Wignaraja, Chair of the Global Economy Programme at LKI.

Takeaways from Dr. Harsha Singh’s Presentation:

Outlook for world trade growth: global trade slowdown abating?

- Since the financial crisis of 2008, global trade has slowed significantly. Prior to the crisis, the growth rate of global trade was approximately twice that of global GDP growth.
- Global trade growth in 2017 is forecast to improve relative to 2016, led by several Asian economies including India, China, the Philippines, and Thailand.
- Global trade has slowed down following the 2008 global financial crisis, due to a combination of cyclical and structural factors. Additionally, several countries are adopting more protectionist policies.
- Despite the turn towards protectionism, the rate of new trade restrictions brought forward by countries in 2016-2017 appears to have reduced somewhat.

The relevance of the WTO

- The stalled WTO Doha Development Round of multilateral negotiations continues to impede the effectiveness of the WTO’s trade negotiation function.
- However, the WTO remains relevant as it contributes towards making trade rules and has a valuable dispute settlement mechanism for addressing trade grievances and disputes.
- The WTO could usefully become a forum for negotiating sector-specific plurilateral agreements between member countries to overcome the challenges in negotiating multilateral agreements.

- If formal trade systems become weaker, it can lead to informal trade relations, which can create further complications such as the overt linking of security issues and trade issues.

US Trade Policy

- The US employs the language of protectionism as a domestic political tool but still wants access to other global markets such as the EU and China.
- The US has stated that it wants to renegotiate current iterations of FTAs such as KORUS (US-Korea Free Trade Agreement), and the North America Free Trade Agreement (NAFTA), and withdrew from the Trans-Pacific Partnership (TPP). However, the US is using features of the TPP as a model for new negotiations.
- US officials have stated that trade deficits with countries from which the US imports commodities such as petroleum are acceptable but are warier of maintaining trade deficits with countries that it believes hinder US exporters.

India's Free Trade Agreement (FTA) strategy and the WTO

- India is emphasising building competitiveness and is reforming several 'behind the border' issues (e.g. the implementation of an Indian-wide goods and services tax).
- India is expected to become one of the largest global consumers; this has stimulated the need for better connections with outside markets through FTAs.
- India is not a high tariff country today; rather, India has "tariff peaks" for some sensitive sectors.
- Despite domestic aversion to openness, evaluations indicate India's FTAs have brought net benefits to Indian firms. Nonetheless, firms say that non-tariff barriers in overseas markets continue to pose challenges to expanding trade.

Evolution of trade: global value chains, trade facilitation, and technology

- Foreign Direct Investment (FDI) through multinationals has advanced global value chains (GVCs), and services have become a major component of GVCs.
- Trade facilitation has become important in reducing trade costs for participation in GVCs.
- Technologies (such as machine-to-machine communication) are changing the nature of trade, and countries must be prepared to absorb and implement those changes.

Key Points from the Round Table Discussion:

Sri Lanka's role in the WTO and asymmetric power relations

- Sri Lanka does not have the negotiating power to set agendas in the WTO. However, Sri Lanka should not detach itself from significant trade developments, and should remain an active player through diplomatic relations.
- Plurilateral agreements will benefit Sri Lanka in the same manner that they have benefited other developing countries like Chile and Vietnam.
- When negotiating trade agreements, Sri Lanka must present strong arguments related to flexibility and differential treatment.

WTO and its relevance

- The Doha Round has stalled because of Non-Agricultural Market Access (NAMA)¹, rather than agriculture per se.
 - The US, for instance, has requested India and China to open large parts of their market.
- The WTO should develop an innovative mechanism that improves flexibility to solve such issues.

India: global trade and bilateral agreements

- India is investing in trade facilitation initiatives such as logistics infrastructure upgrades, capacity building, and the possible implementation of a GST, to streamline tax structures in India and increase the efficiency and volume of domestic trade.
- India's trade deficit with China is a concern to business, and the current model of increasing internal investment and exports to China has not delivered the desired results.

Suggested Readings:

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