

**hindustantimes****Kishore Mahbubani**  
September 26, 2008First Published: 20:40 IST(26/9/2008)  
Last Updated: 14:51 IST(2/4/2009)

## Learning to trade in lies

What derailed the Doha round of trade talks? The Economist seems to think that India and China are primarily to blame, saying "Just over a month ago, India dealt the multilateral trading system a blow by saying 'no'.ho Kamal Nath, India's trade minister, helped kibosh a breakthrough in the Doha round of global trade talks by refusing to compromise over demands for safeguard tariffs to protect more than 200m Indian farmers." Trying to unravel the truth in trade reveals a remarkable trade in truth among all the key players. As soon as a round of talks breaks down, the Americans and Europeans, being the most experienced spin masters, are the quickest off the block and are most likely to buy the spin on foreign policy issues, as demonstrated by The Economist's ready willingness to blame India without probing further.

It is a fact that the tense trade talks in Geneva failed because India and China refused to compromise on the Special Safeguard Mechanism (SSM). India and China had demanded the right to raise tariffs if there was an import surge of agricultural goods, of more than 10-15 per cent at a three-year moving average, which would hurt their farmers. The US and Europe insisted that this should only happen if the surge was greater than 40 per cent. The Western media, while highlighting the concessions made by the US and Europe, blamed what they called India and China's unreasonable position on safeguards.

It is true that the US offered to cut farm subsidies by 60 per cent, and cap its trade distorting farm subsidies at \$15 billion, while the EU offered to cut its tariffs on farm produce on an average by 60 per cent. However, less reported in the Western media was the fact that even if India and China had relented, the West Africans would have scuttled any deal devoid of American concessions on cotton subsidies. In an election year, such a concession would have been suicidal for any American negotiator. So, since America was unwilling to scuttle the Geneva talks over an issue that had destroyed the livelihoods of millions of poor African cotton farmers, the Americans preferred to lay the blame at the door of Indian and Chinese obduracy.

It can be argued that India and China walked into a trap set for them by refusing to compromise on the SSM issue. It might have been tactically wiser to allow the Americans to take the blame for scuttling the talks on the cotton issue — a cynical response to a cynical American ploy, but one which wouldn't have changed the outcome one whit.

Here it is vital to recognise that both India and China face an even bigger danger in the realm of trade. Both are emerging as the biggest beneficiaries of the post-World War II open multilateral trading system. China began liberalising its economy in 1978, increasing its share of world trade from less than 0.6 per cent to about 8 per cent today. India began in 1991, increasing its share from 0.5 per cent then to 1.5 per cent in 2006 of world trade.

Total world trade has also exploded in recent decades. Global exports have grown from just under \$1 trillion (in 2000 dollars) in 1970 to nearly \$10 trillion in 2004, an annualised growth of some 5.5 per cent per year. World trade is clearly outpacing global output, which increased at some 3.1 per cent per year over the same period. Between 1970 and 2004, the share of exports relative to global output has more than doubled and is now over 25 per cent.

Professor Paul Samuelson, in a 2005 article in the Journal of Economic Perspectives, illustrates a change in the common global consensus that an open global economy was good for all. He says, "sometimes free trade globalisation can convert a technical change abroad into a benefit for both regions; but sometimes a productivity gain in one country can benefit that country alone, while permanently hurting the other country by reducing the gains from trade that are possible between the two countries". Paul Krugman says, "it's hard to avoid the conclusion that growing US trade with third world countries reduces the real wages of many and perhaps most workers in this country. And that reality makes the politics of trade very difficult." Indeed, more and more people in America and Europe believe that it would be foolish for their countries to push any more for trade liberalisation, which might lead to a loss of jobs to Indians and Chinese.

There are at least three things that India and China will have to do to take over the custodianship of the open global trading system. First, they have to assume leadership, which requires strategic trade concessions, something that the two have successfully done in their negotiations with Asean. Second, they have to develop the intellectual resources to bolster their negotiating positions. Here, surprisingly, China, though a politically closed

society, is better prepared with its many first-rate universities and think tanks. Thirdly, they will have to develop global media channels to counter the Western media — which is all too happy to sanctify Western spin — and can learn from the experience of Qatar's Al-Jazeera.

India and China have so far been free riders on a benign global trade regime created by the West. But now as they are being perceived as the primary beneficiaries, neither can walk away from their new responsibilities.

*(Kishore Mahbubani Dean, Lee Kuan Yew School of Public Policy, Singapore, and author of The New Asian Hemisphere)*

<http://www.hindustantimes.com/StoryPage/Print.aspx?Id=806ae9fa-e45e-4e53-891a-746b533506fo>

© Copyright 2009 Hindustan Times