

# Preparing for a new trade regime

**A**S per the commitments under WTO, all pending quantitative restrictions (QRs) have to go by April 2001. The government can, however, impose tariffs which cannot exceed specified ceilings known as "bound rates". Already notified to WTO, the latter range from a high of 300 per cent on edible oils, 100 per cent on wheat to a low of 5 per cent on DAP. The rate applicable to rice is nil. Until now, the import tariffs did not have much relevance (sans impact on government revenue) as it was possible to protect indigenous industry through QRs. However, following the removal of QRs, these have been catapulted to the centre stage. In fact, the load of affording reasonable protection to indigenous producers will fall primarily on tariffs.

For items on which bound rates are already high, there should not be much of a problem as duty can be raised to the desired level and yet remaining well within the ceiling. In fact, the government has already tried this in case of sugar wherein the existing rate, after the recent hike, is 60 per cent. At this level, it continues to be lower than the bound rate. In some quarters, lowering of bound rate is being suggested (a ceiling of no more than 25 per cent on industrial raw materials/intermediates and 40 per cent on finished products) simply because until hitherto, actual rates have been low. Such temptation should be avoided as in the medium- to long-run when higher rates would be needed to ensure reasonable protection to domestic industry.

There are commodities in respect of which the bound rate has not been declared so far, e g urea. These cases should not present any difficulty as bound rate can be notified at the desired level. While determining the rate, due cognizance should be taken of extreme situations of low international prices. A fair idea about the latter can be formed by looking at the past trends in prices and likely global demand-supply in the future.

In respect of commodities wherein bound rates are at a low level, WTO provisions allow for the possibility of increase. Towards this end, Gol has to enter into a dialogue with countries possessing initial negotiating rights (INR) (essentially, they are major trading partners in concerned commodities). The process can be tedious and long-drawn as has been experienced in case of rice.

The process of getting the bound rates hiked in the concerned commodities needs to be pursued vigorously. Much will depend on our willingness to offer reduction in other areas of interest to the INR countries. The approach has to be sufficiently flexible. During the interregnum, we need to focus on other mechanisms to prevent sudden surge in imports, for instance, levy of safeguard duty.

Under the erstwhile GATT regime, the developed countries had built up a strong protective cover, particularly of agricultural items. Fearing sudden surge of imports under the new dispensation of WTO, the provision for safeguard duty was incorporated. This was primarily at the instance of developed countries. We can make use of this weapon to protect our industries until such time as the bound rates of duty are raised to reasonably high levels.

In the years to come, there will be very many cases of suppliers from abroad selling in India at prices much lower than fair market prices/reasonable production costs, thereby posing threats to domestic industry. In view of this, need for strengthening the anti-dumping machinery cannot be overstressed.

In highly sensitive areas like agricultural products, fertilisers, commodities reserved for small-scale sector (SSI), a scare is being generated that the existing domestic support systems, viz reservation for SSIs, etc will have to go. We need to be on guard. Removal of QRs, in no way, implies that these regimes are necessarily inconsistent with our obligations under WTO.

The above are potent instruments of macro-economic policy. In fact, even developed countries run similar support systems on a much larger scale. Agricultural subsidies in India are peanuts in comparison to monumental subsidies given in USA, EEC and Japan. If the latter are not incompatible with WTO, how can the former be perceived to be so?