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Don't buy the spin: The WTO talks in Nairobi ended badly and India will pay a price

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It didn't take long for the spin masters to begin working their magic on the latest dismal World Trade Organisation summit in Nairobi. WTO Director General Roberto Azevedo waxed eloquent about the "historic" agreement, stating in a post-meeting press conference that the agreement "will improve the lives of those who most need to benefit from trade, especially those in Africa".

But what really happened in Nairobi and what does it mean for future trade negotiations?

We've had the *Financial Times* declaring the Doha Development Agenda dead, if not buried. For those unfamiliar with the Doha Round, it has been the only negotiating platform to discuss the concerns of developing countries, particularly with reference to agriculture and farm subsidies, in the 15 years at the WTO.

While the claims of Doha death are, as Mark Twain might have said, premature, there is no doubt the development agenda has been undermined. Developing countries got very little in Nairobi, official press releases aside, and they are likely to get even less in a future characterised by Southern incoherence and Northern dominance.

Taking stock of the real development outcomes

Beyond the future of Doha, Azevedo and claimed major advances were made in Nairobi. They touted the "breakthrough" on export competition between countries, cited advances on the controversial issues of special import protection for the agriculture produce of developing countries, and the public stockholding of food. A permanent solution on the public stockholding issue would allow countries like India to buy food grains from farmers at the minimum support price and provide it to the poor under the provisions of the National Food Security Act.

While India has a "peace clause" that allows it to continue with the programme, till such time that a permanent solution is reached, developed countries like the United States, European Union and Japan continue to stall the permanent solution and have rejected every constructive proposal put forth by the developing countries.

In Nairobi, WTO leaders also pointed to the technology agreement and hailed market access agreements for the world's Least Developed Countries, which are home to some of the planet's poorest and most marginalised communities. And they claimed long-overdue action on cotton.

Sounds good, doesn't it? Don't believe the spin.

The technology agreement? It does not affect all countries, just the ones that opt in. China opted in. Kenya didn't. A win for developing countries? Nope: it's great for technology exporters. Not too many of those in Africa right now.

What about the LDC package? Surely, enhancing access to rich country markets for goods produced in LDCs is good for development? The agreements reached in Nairobi extend so-called "duty-free, quota-free" exports from LDCs, but not all exports are covered. Industrialised nations exclude "sensitive" tariff lines on products such as textiles to such an extent that more than 90% of LDC exports may be excluded.

Agriculture subsidies

The most misleading spin, however, concerns measures in agriculture, so oversold that one Kenyan paper headlined the end of rich country agricultural subsidies. Not by a long shot, in fact, they weren't even on the table.

What was agreed was an elimination of export subsidies and limits on other forms of rich country export promotion, such as food aid and subsidized export financing, practiced extensively by the United States. This is indeed a positive step – export subsidies are the most trade-distorting of all as they undercut markets in importing countries by defraying some export costs, which in turn makes products from the European Union and the US cheaper in foreign markets. Those products, and the companies that make them, get an unfair competitive advantage, and the WTO long ago agreed in principle to eliminate them.

But the Nairobi agreement really did little more than put a firm cap on existing practices. The EU had already stopped subsidizing its exports, and US resisted putting binding restrictions on most of its export promotion, so the Nairobi deal is unlikely to reduce export promotion much from current levels.

And other Northern agricultural subsidies? They remain untouched, removed from the agenda by the United States and other rich countries. These are indeed the most trade-distorting agricultural policies in rich countries today, as they are very large and encourage overproduction of crops, which then get exported cheaply to developing countries.

The 2014 US farm legislation, in fact, has been shown to likely result in subsidies in excess of the country's current WTO commitments and well beyond the commitments negotiated in the Doha Round before the US walked away from the negotiations in 2008. And that's one of the reasons the US walked away.

Spinning cotton

Kenya's Amina Mohamed put a particularly heavy spin on the cotton agreement reached in Nairobi, saying it "will contribute even more to economic growth in all countries, particularly the Cotton 4 (the four major cotton producing countries in West Africa – Benin, Burkina Faso, Chad and Mali, popularly known as the Cotton 4 or C4) which have been waiting for this outcome for many years".

But the much-touted cotton deal only gives preferred market access for some cotton products and expedites the elimination of export subsidies. It does not touch domestic subsidies in the United States, by far the greatest source of trade distortion.

So the C-4 can expect to see continued US cotton subsidies estimated at $1.5 billion per year, which will increase US exports 29% and suppress cotton prices 7%. This will cost the C-4 an estimated $80 million per year in lost cotton revenues. That is more than 300 times the gains last year from market access under US Africa Growth and Opportunity Act, which totalled just $264,000.

Jump-starting further negotiations?

Officials most hailed the Nairobi agreement for reinvigorating the WTO's negotiating function, and there is no doubt that reaching an agreement prevented the complete abandonment of the institution by rich countries.

But the agreement itself, by failing to reaffirm clearly the commitment to the Doha Round, eliminated any incentive for rich countries to negotiate. They can now condition further negotiations over "outstanding Doha issues" on the inclusion of "new issues", a huge setback for developing countries.

Developing countries won only vague commitments in Nairobi to resolve the public stockholding issue and to enable a safeguard mechanism to slow import surges that undermine domestic producers, a right rich countries have enjoyed for years. Expect no further progress unless developing countries are prepared to pay a price, such as putting public procurement that favours domestic industries on the chopping block.

After Nairobi, it is hard to imagine US negotiators even discussing reductions in its domestic farm subsidies. If they do, what will India need to give in return? Perhaps a WTO version of the kind of investment agreement that India has firmly rejected in bilateral talks with the US.

India caved in

At Nairobi, despite a valiant fight put up by Indian negotiators, in the final moments of the drafting of the ministerial declaration, the political leadership caved in and refused to seek amendments to it, or block it, as they could have done. Commerce Minister Nirmala Sitharamans' predecessors Murasoli Maran and Kamal Nath had done precisely this in past ministerial summits, protecting India's interests at the WTO.

But with little support from the political leadership at the highest level, Sitharaman, invited into the select group of five countries (with the US, EU, Brazil and China) to negotiate the final text of the Nairobi agreement, let the rich countries have their way. In the end, she merely expressed her "disappointment" at India's red lines being breached with no reaffirmation of the Doha Development Agenda in the final ministerial, no permanent solution on the public stockholding issue and just a promise to negotiate an unspecified safeguard mechanism for developing countries.

The price that India will pay for this in the years to come will be far higher than what the government is willing to concede now, as future generation of negotiators will discover.

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