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Fight Over Comma Sank WTO Deal as Modi Defends Subsidies

By Unni Krishnan, Kartikay Mehrotra and Andrew MacAskill August 01, 2014

A fight over a comma in a 65-page document helped spark the collapse of the biggest trade deal in the World Trade Organization's 19-year history.

Indian Prime Minister Narendra Modi's three-month-old government blocked part of the deal his predecessor helped reach in Bali last year as a midnight deadline passed. India wanted changes to the text that would guarantee it could indefinitely protect the world's biggest food subsidy program, according to two senior officials in Modi's government who asked not to be identified because the discussions are private.

"The lack of flexibility on India's part may have been engendered by a fear that backing off from its position could weaken India's hand in future negotiations," Eswar Prasad, a former International Monetary Fund economist who teaches economics at Cornell University in Ithaca, New York, said in an e-mail. "But it comes at a significant cost in terms of India's credibility given the broad perception in the international community that India was seeking to reopen a modest deal that had already been agreed upon by all countries."

The failure is a setback for the global trade talks and throws into question the WTO's ability to arbitrate disputes and serve as a forum for international accords. The U.S.'s envoy to the WTO last week said a failure to agree would be tantamount to killing an accord that the global body estimates would stimulate the world economy by \$1 trillion.

"The United States regrets that a handful of members have decided not to adhere to their commitment," U.S. Trade Representative Michael Froman said in a statement. "We will consult with our trading partners on potential paths forward."

Comma Dispute

The Bali agreement would shield India's stockpiles for food security from a legal challenge even if the program distorts trade and exceeds India's agreed subsidy limits, according to the WTO. India last year allocated 1.25 trillion rupees (\$20.8 billion) for its public food distribution system to help more than two-thirds of its 1.2 billion people who eat less than the minimum target set by the government.

India sees the language in the present text as vague, arguing that it doesn't explicitly say an interim agreement on food stocks will continue beyond a 2017 deadline to reach a permanent solution, the Modi administration officials said. In particular, they said, India wanted a comma replaced with

“or” in a section dealing with food stockholdings, as well as a guarantee the interim agreement would continue.

“India as a developing country has challenges and a responsibility to ensure food supplies to all its people,” Syed Akbaruddin, a Ministry of External Affairs spokesman, told reporters in New Delhi today. “That is reflected in our stance.”

No Changes

While some countries wanted to reassess the Bali decisions, others said they “cannot be changed or amended in any way,” WTO Director-General Roberto Azevedo said in a statement last night, without naming specific countries.

“We have not been able to find a solution that would allow us to bridge that gap,” Azevedo said. “We tried everything we could. But it has not proved possible.”

Negotiators were trying yesterday to agree on a technical provision of the trade deal, which would allow nations to begin steps to ratify the accord in their own countries. An accord to smooth commerce at borders, negotiated by all 160 WTO members, is an increasingly unlikely option, according to a person familiar with the talks, who spoke on condition of anonymity.

WTO members are now talking informally about moving ahead without India, and may use the already negotiated text as the basis for those discussions, according to the person.

“Today’s developments suggest that there is little hope for truly global trade talks to take place,” Jake Colvin, vice president for global trade issues at the National Foreign Trade Council in Washington, said today in an e-mailed statement.

Political Calculation

U.S. officials had seen the WTO agreement as a test of Modi’s intent to boost growth, which has slowed in recent years, and as a way to revive relations between the world’s largest democracies. Secretary of State John Kerry and Commerce Secretary Penny Pritzker pressed Indian officials yesterday to advance the accord during a visit to New Delhi for U.S.-India strategic talks this week.

Kerry told Modi in a meeting today that the failure of the talks sent a confusing signal on his intentions, according to a senior State Department official who asked not to be identified to speak about diplomatic matters. Modi restated India’s concerns on food security, the official said.

“The government is more interested in sending signals to its own people than an international audience,” Mohan Guruswamy, chairman of the Centre for Policy Alternatives in New Delhi and a former finance ministry official under a previous government led by Modi’s party, said by phone. “The economic logic is it is all politics in the end. If you lose your political base you are going to be wiped out.”

Election Win

Modi's party in May won the biggest Indian election mandate in 30 years on a promise to bring economic development. His first budget since his election win was seen as a missed chance to take tough measures on subsidies by economists at banks including Deutsche Bank AG and Nomura Holdings Inc.

Finance Minister Arun Jaitley announced plans to "overhaul" food and fuel subsidies to narrow the fiscal gap to 3 percent of gross domestic product in 2017 from 4.5 percent in the last fiscal year, without providing details.

"India does not gain anything by this move," said Surjit Singh Bhalla, a former World Bank economist and chairman of Oxus Research and Investments in New Delhi. "It hurts Modi's reform and globalization credentials."

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