

TRADE RELATED ACTION BY STATE GOVERNMENTS AND OTHER STAKEHOLDERS

A. WHY SHOULD STATE GOVERNMENTS BE AWARE ABOUT INTERNATIONAL TRADE

(a) In respect of certain WTO agreements, compliance with WTO obligations depends on action by State Governments. Agriculture and industrial subsidies are useful illustrations of this aspect. Further, State governments need to ensure that their policies and specific schemes do not violate India's WTO obligations.

(b) State Governments may need to be proactive if their producers/ manufacturers are to take advantage of rights under WTO/ FTAs.

(c) Department of Commerce regularly consults State Governments during WTO/ FTA negotiations. States which are more aware about issues related to international trade are in a better position to respond to DoC and to provide detailed inputs for protecting the interest of the State.

(d) There is considerable empirical evidence that exports boost the economy of the State through increased employment, higher wages and additional income generation. In this regard, a comprehensive study by UNCTAD suggested the following:

(i) Relative export orientation of a state may play a vital role in distributing the gains of overall trade in the economy;

(ii) It was found that a state's export orientation had a statistically significant impact on employment in different enterprises. This means that enterprises belonging to a state with higher export orientation generate higher employment.

(iii) Higher the export-orientation of a state, higher the wage rates paid by large enterprises in that state.

(iv) Export orientation of a state significantly influences employment as well as wage rates in the industry.

(v) The results showed that in states such as Punjab, Haryana, Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu garnered economic gains from exports, particularly for enterprises in the unorganized sector.

(e) Presence of export-oriented units helps the State's economy in other ways, including developing backward linkages through establishment of ancillary units supplying components and parts, improvement in quality of output and spill-overs from diffusion of best practices of supply management. Additionally, these backward linkages create a demand for trained manpower which also leads to establishment of better educational and training institutions. The level of sophistication in support industries such as banking, logistics, telecommunication services, etc. also responds to the additional demand placed on them, taking the economy to a higher level of expertise.

(f) During countervailing duty investigations, State Governments are often required to provide information on state subsidy schemes to investigating authorities in some of India's export markets. In case the State Government is unable to provide the requisite information, very high countervailing duty gets imposed on India's exporters.

B. WHAT IS REQUIRED OF THE STATE GOVERNMENTS AND OTHER STAKEHOLDERS SO THAT INDIA COMPLIES WITH ITS WTO/FTA OBLIGATIONS AND ALSO FULLY UTILISES THE RIGHTS

(a) National treatment

- (i) In matters of taxation and in respect of requirements governing sales, State Governments cannot discriminate between imported goods and domestically produced goods. E.g. in the case of India's dispute with EU and US on wines and spirits, State Governments need to examine whether any of their schemes or sale requirements would violate National Treatment obligations.

(b) Tariffs

- (i) State Governments need to identify products which would require tariff protection and determine the extent of protection needed for the Central Government to include these concerns in their negotiations.
- (ii) In respect of states close to international borders, States need to be vigilant about whether imports from FTA partners are having an adverse impact on the State's economy and also be watchful if the FTAs actually lead to inappropriate routing of products from third countries to take advantage of the FTA.
- (iii) State Governments need to identify products and markets of export interest to the State

(c) AoA

- (i) States should be able to identify the crops that would require high tariff protection
- (ii) While subsidies are routinely provided to agriculture in most states, the support needs to be notified to the WTO. State Governments need to prepare a comprehensive database on support provided to agriculture. The database should include information on name of the scheme, criteria that determines access to the scheme, criteria that

determines the amount of payment to a beneficiary and the annual payment/ revenue foregone under the scheme.

- (iii) If some State Government schemes fall in the Amber Box category, States may need to examine whether the schemes can be modified so that it becomes a Green Box subsidy.

(d) Anti-dumping

- (i) Dumping by trading partners can cause injury to the States' industries. Instruments exist to protect the domestic industry in the State against dumped imports. However, this would require the States to understand what would be the data requirements for initiating investigation as well as how to file a petition against dumping.
- (ii) Product-level associations can put into place a mechanism for monitoring the impact of dumped imports on the domestic industry in the State. In addition, product-level associations can assist in systematically collecting the data required for initiating an Anti-dumping investigation and establishing injury to the domestic industry on account of import surges.
- (iii) User of alleged dumped goods have an opportunity to present their views. This opportunity should not be lost, as imposition of anti-dumping duty on their imported inputs would raise costs of their final products.
- (iv) Industry Associations in specific products need to be made aware of the relevance of Anti-dumping instrument available as well as the mechanism to use them. State Governments can also create facilitation cells in this regard.
- (v) State governments can assist in putting in place mechanisms for annually collecting data on 15 factors required for establishing injury to the domestic industry.

(e) Subsidies

State Governments have to be careful not to violate established disciplines under WTO's Subsidies Agreement, while implementing subsidy schemes. This would entail identification of:

- (i) Types of subsidies that can be provided to industries without attracting counter action from India's trading partners;
- (ii) Subsidy schemes of State Governments that might be prohibited under WTO rules;
- (iii) Ways to modify some of the existing schemes to change their character from actionable to non-actionable (which is permitted under WTO provisions);
- (iv) Since all subsidy schemes being implemented by States need to be notified to the WTO, there is a mandatory need to identify all subsidy schemes being implemented by State Governments. State Governments need to prepare a comprehensive database on support provided to the industrial sector. The database should include information on

name of the scheme, criteria that determines access to the scheme, criteria that determines the amount of payment to a beneficiary and the annual payment/ revenue foregone under the scheme.

- (iv) State Governments need to have comprehensive information on state – level subsidy schemes, so that they can respond adequately to foreign investigating authorities in countervailing duty investigations.

(f) Safeguards

Governments are permitted under the WTO rules to adopt safeguards against surge in imports that may impact domestic industry adversely. This would require awareness of:

- (i) Available instruments to protect the domestic industry in the State against surge in imports by identifying and developing methods of generating data required for initiating investigation as well as how to file a petition against such an import surge;
- (ii) Product-level associations can put into place a mechanism for monitoring the impact of import surges on the domestic industry in the State. In addition, product-level associations can assist in systematically collecting the data required for initiating a Safeguard investigation and establishing serious injury to the domestic industry on account of import surges.
- (iii) During Safeguard investigations, users of imported goods have an opportunity to present their views. This opportunity should not be lost, as imposition of safeguard duty on their imported inputs would raise costs of their final products. In this regard, product level associations in the state can play an important role.
- (iv) State governments can assist in putting in place mechanisms for annually collecting data on factors that are required to be evaluated for establishing injury to the domestic industry.

(g) GIs

India is rich in products which carry within them a geographical context of quality and reputation. These products have the potential to become major sources of income if they are protected against misappropriation of names as well as misrepresentation leading to their qualities being dubbed as generic and not specific to the area of origin. In this regard,

- (i) State Governments can assist in awareness creation about GIs, help producer groups in forming consortium and filing GI application. In addition, State Governments can implement post-GI registration initiatives for commercially leveraging the GI as a State-specific brand.
- (ii) State Governments can play an active role in monitoring and surveillance against misappropriation or misrepresentation of State-specific GIs.
- (iii) Further, there is a major role for State Governments in promoting exports of GIs

(h) Mechanism for stakeholder consultations

No one understands the local business conditions better than the businessman. However, the tools to protect the local conditions may not always lie either with the businessman or the State Government. As such, there is always a need to have direct and indirect interface with the stakeholders in the States.

- (i) State Governments need to institutionalise a structured mechanism for informing stakeholders about trade negotiations and seeking their inputs. This would ensure that interests and concerns of the State are adequately articulated, with empirical and economic justification, before the Department of Commerce.
- (ii) State Governments can create network of product-level industry associations for exchanging information on international trade issues

C. OTHER ISSUES IN WHICH STATE GOVERNMENT'S INTERVENTION WILL FACILITATE EXPORTS

Testing laboratories

Quality and standards play an important part in trade in today's context. Many a trade barrier can be erected if compliance with the importers' standards are either not met or when met are not certified so adequately.

- (i) State Governments need to assess whether existing laboratories are adequate (in terms of infrastructure, number and distance from the main manufacturing/production hubs) for testing compliance of state's outputs with standards in main export markets. If the laboratories are found to be inadequate, there would be a need to establish new labs.

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