

Unit-5

Learning Objectives

- Understand the nature of the marketing environment and why it is important to marketers.
- Describe the major components of the social environment and how trends in the social environment affect marketing.
- Understand how the economic environment affects marketing.
- See how the political/legal environment offers opportunities and threats to marketers.
- Appreciate the importance of the technological environment to marketers.
- Understand differences in the competitive environment.
- Know how changes in the institutional environment affect marketers.

Scanning International Environment

- Business environment is a very important determinant of business strategy.
- It is the difference in the marketing environment which make the international business strategy different from domestic one.

Environmental Scanning

- Environmental scanning is a process of gathering, analyzing, and dispensing information for tactical or strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or considering entering

Kinds of environmental scanning

- Ad-hoc scanning - Short term, infrequent examinations usually initiated by a crisis
- Regular scanning - Studies done on a regular schedule (e.g. once a year)
- Continuous scanning (also called continuous learning) - continuous structured data collection and processing on a broad range of environmental factors

- Environmental scanning usually refers just to the macro environment, but it can also include industry, competitor analysis, marketing research (consumer analysis), new product development (product innovations) or the company's internal

Environmental scanning

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graph TD; A[Environmental scanning] --> B[External analysis]; A --> C[Internal analysis]; B --> D[Macro environment]; B --> E[Micro environment]; D --> F[PEST analysis]; E --> G[Five force analysis];
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The diagram illustrates the Environmental Scanning process. It begins with 'Environmental scanning' at the top, which branches into 'External analysis' and 'Internal analysis'. 'External analysis' further branches into 'Macro environment' and 'Micro environment'. 'Macro environment' leads to 'PEST analysis', and 'Micro environment' leads to 'Five force analysis'. All steps are contained within yellow rectangular boxes, and the flow is indicated by blue arrows.

External analysis

Internal analysis

Macro environment

Micro environment

PEST analysis

Five force analysis

PEST Analysis

- Political Factors
 - Tax policy
 - Employment laws
 - Environmental regulations
 - Trade restrictions and tariffs
 - Political stability

- Economic Factors
 - Economic growth
 - Interest rates
 - Exchange rates
 - Inflation rate

- Social Factors

- Health consciousness

- Population growth rate

- Age distribution

- Technological Factors
 - R&D activity
 - Automation
 - Technology incentives
 - Rate of technological change

Five force analysis

- Threat Of New Entrants
- Threat Of Substitutes
- Bargaining Power Of Buyers
- Bargaining Power Of Suppliers
- Rivalry Among Existing Firms

The Marketing Environment

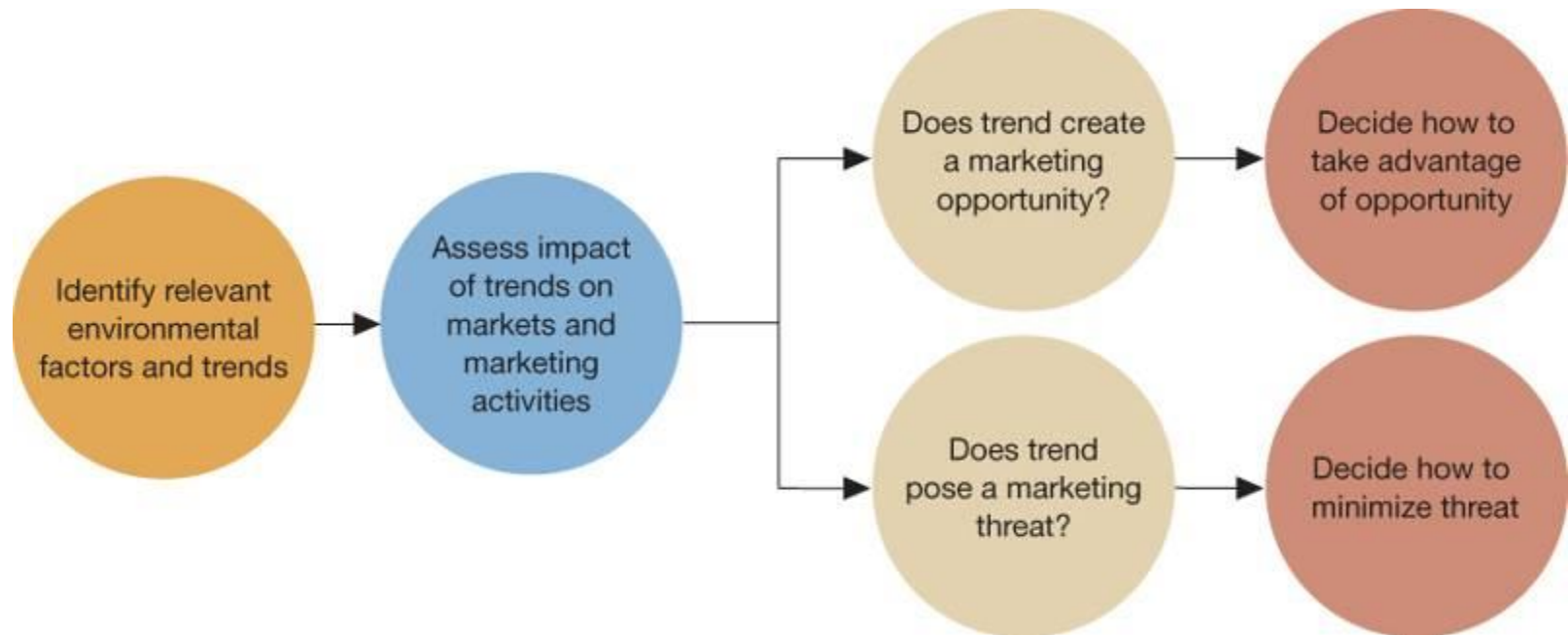
- The **marketing environment** consists of all factors external to an organization that can affect the organization's marketing activities.

Exhibit 2-1



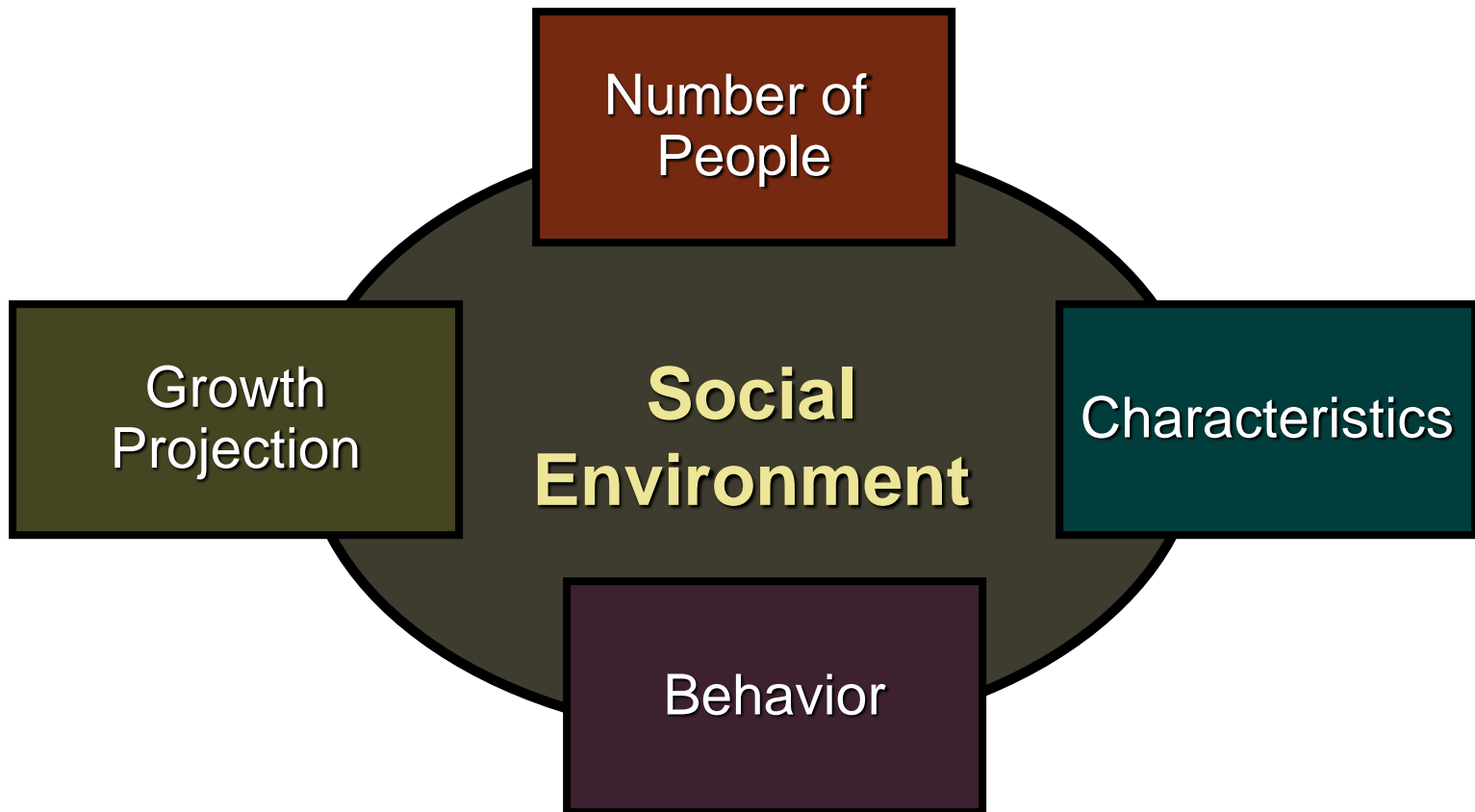
Identifying Market Opportunities and Threats

- Many firms use **environmental scanning** to identify important trends and determine whether they represent present or future market opportunities or threats.
- *Exhibit 2-2*



The Social Environment

- The **social environment** includes all factors and trends related to groups of people, including their number, characteristics, behavior, and growth projections.

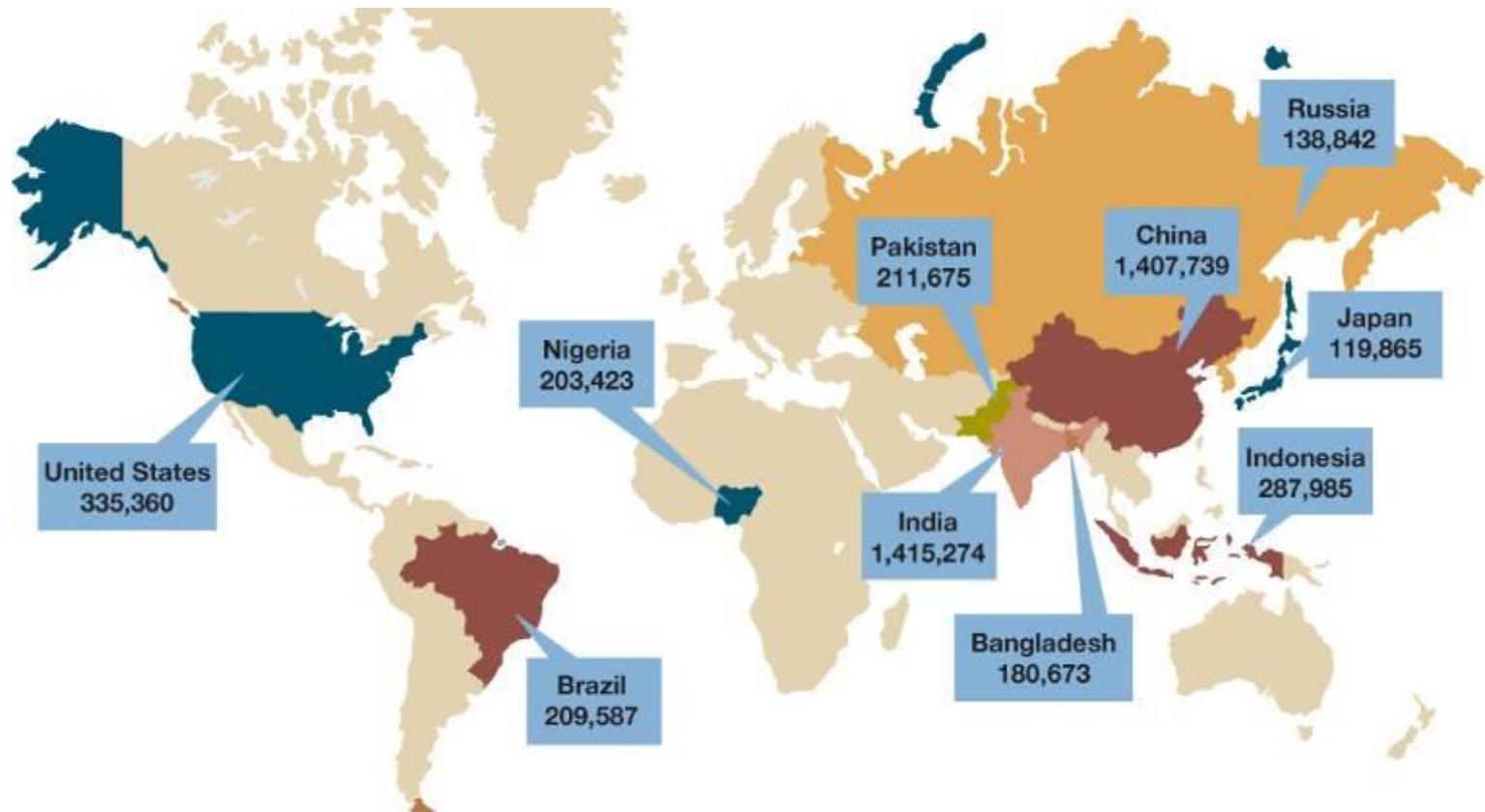


The Demographic Environment

- The **demographic environment** refers to the size, distribution, and growth rate of groups of people with different characteristics.
- The demographic characteristics of interest to marketers relate in some way to purchasing behavior, because people from different countries, cultures, age groups, or household arrangements often exhibit different purchasing behaviors.
- A global perspective requires that marketers be familiar with important demographic trends around the world as well as within the United States.

Population Estimate —Year 2025

Exhibit 2-3



Demographic Trends

- World and country population statistics are important, but most marketers target subgroups. Trends in population subgroups are typically the most useful to marketers, for example, the growth of the urban population.

Exhibit 2-4

The world's largest cities

City	2000 (in thousands)	2015 (est.) (in thousands)
1. Tokyo, Japan	34,450	36,214
2. Mexico City, Mexico	18,066	20,647
3. New York, U.S.	17,846	19,717
4. São Paulo, Brazil	17,099	19,963
5. Mumbai (Bombay), India	16,086	22,645
6. Kolkata (Calcutta), India	13,058	16,798
7. Shanghai, China	12,887	12,666
8. Buenos Aires, Argentina	12,583	14,563
9. Delhi, India	12,441	20,946
10. Los Angeles, U.S.	11,814	12,904

Demographic Trends

- Another interesting trend is the aging of the population. The aging of the population is especially evident in Italy, Japan, Britain, and the United States.

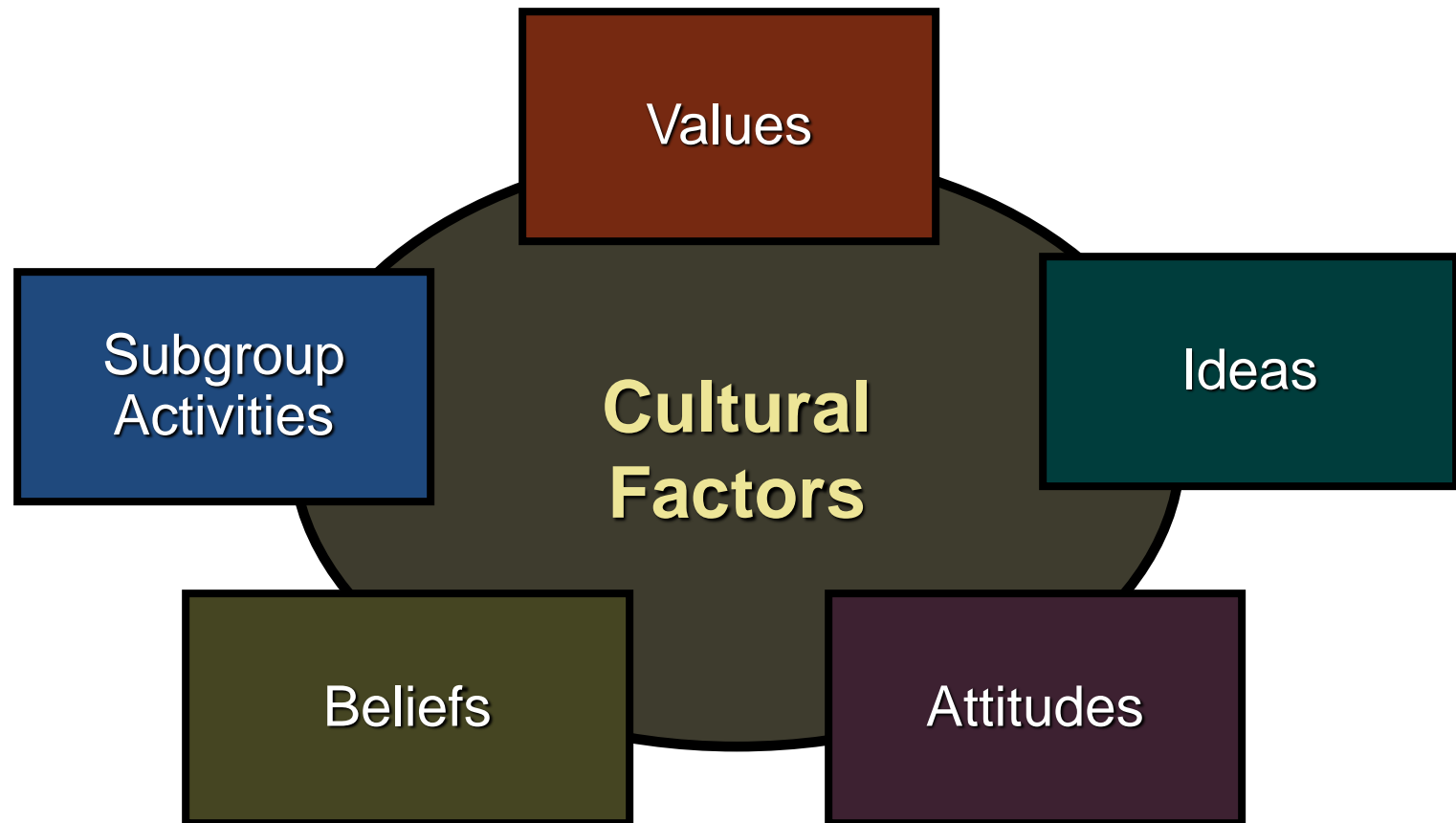
Exhibit 2-5

Median age in selected countries

Country	Median Ages Past and Projected	
	1990	2010
Italy	36.2	42.4
Japan	37.2	42.2
Britain	35.7	40.0
U.S.	32.9	37.4
Korea (North and South)	25.7	34.4
China	25.4	33.9
Brazil	22.9	29.2
Mexico	20.0	26.5
Nigeria	16.3	18.1

The Cultural Environment

- The **cultural environment** refers to factors and trends related to how people live and behave.



Cultural Diversity

- Cultural differences are important in both international and domestic markets.
- Much of the population and buying power growth in the United States is and will be from multicultural groups.

Exhibit 2-6



Changing Roles

- As more women enter the workforce and household compositions change, typical household roles are altered.
- Tremendous market opportunities exist for firms that can develop effective strategies for appealing to these changing roles.



Earla A. Arnold, President, L&L Support Systems, Inc., Distribution Engineering Services; Rochelle Paulkirk, President, Rockford Land Clearing, Inc.; Shirley and Regis of Way Crossing; Rebecca Stewart, President, Moore Associates, Inc., Engineering and Research Development; Elizabeth Galt, President, Day Enterprises, Inc., Commercial and Industrial Supplies Distribution

YOU MIGHT BE SURPRISED WHAT THEY CONSIDER WOMAN'S WORK.

These businesswomen have prevailed in nontraditional fields because they met challenges head-on and took advantage of opportunities that came their way. Opportunities like becoming a vendor for Southern Company, the South's premier energy company. Through our Supplier Mentor Program and other diversity initiatives, we have assisted qualified female and minority-owned companies acquire the experience, knowledge, and contacts to help grow their businesses. At Southern Company, we believe that their success will contribute to the economic success of all the communities we serve. To learn more visit us at southerncompany.com/suppliers/diversity.asp. | NYSE:SO

SOUTHERN COMPANY
Energy to Serve Your World™

Alabama Power · Georgia Power · Gulf Power · Mississippi Power · Savannah Electric

Emphasis on Health & Fitness

- The pursuit of a more healthful lifestyle includes:
 - eating more nutritious foods
 - exercising regularly
 - participating in various sports activities
 - focusing on wellness.
- This translates into potential market opportunities for firms that provide products and services geared toward improving health and fitness.

The Desire for Convenience

- Increased desire for convenience created by:
 - Changes in household composition
 - Increases in the number of working women
 - General shortage of time

Consumerism

- **Consumerism** is the movement to establish and protect the rights of buyers.
- One increasingly important consumer issue is environmentalism.
- Successful marketers can respond by developing environmentally safe products and communicating their environmental contributions.

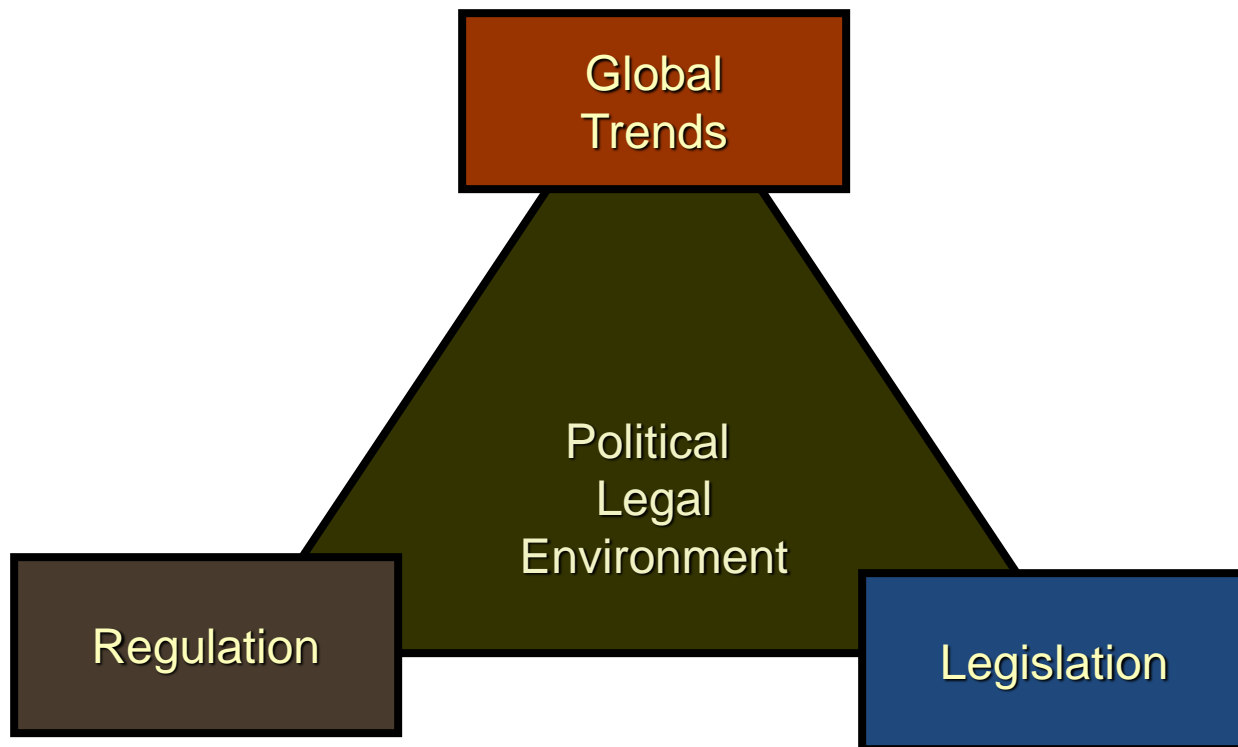


The Economic Environment

- The **economic environment** includes factors and trends related to income levels and the production of goods and services.
- Economic trends in different parts of the world can affect marketing activities in other parts of the world.
- The **gross domestic product (GDP)** represents the total size of a country's economy measured in the amount of goods and services produced.

The Political/Legal Environment

- The **political/legal environment** encompasses factors and trends related to governmental activities and specific laws and regulations that affect marketing practice.



Global Political Trends

- In today's world economy, international political events greatly affect marketing activities. For example the impact of the war on terrorism on the travel and security industries.
- A second important political trend is movement toward free trade and away from protectionism. Studies show that countries with the freest trade have the highest GDP growth.

The Technological Environment

- The **technological environment** includes factors and trends related to innovations that affect the development of new products or the marketing process.
- These technological trends can provide opportunities for new product development, affect how marketing activities are performed, or both.

The Competitive Environment

- The **competitive environment** consists of all the organizations that attempt to serve similar customers.

Brand Competitors

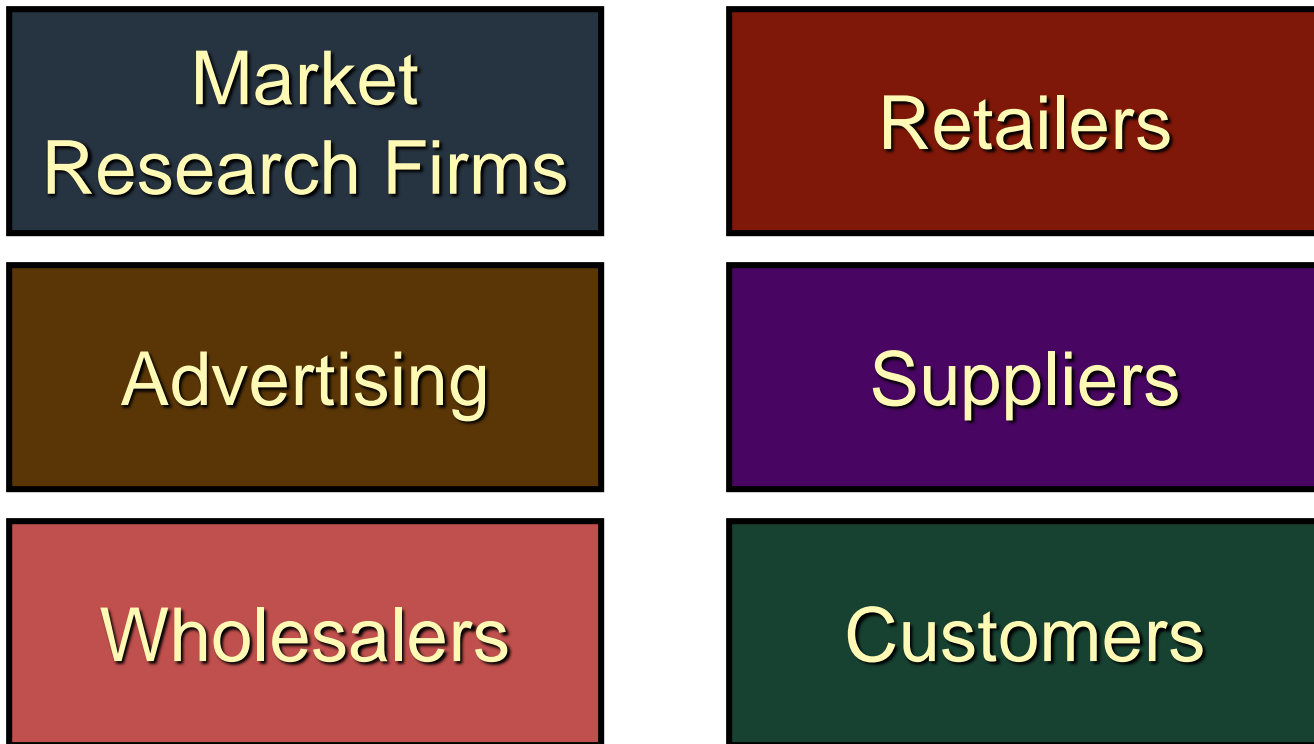
The most direct competition, offering the same types of products as competing firms. For example, Nike is a brand competitor of Reebok as both companies manufacture shoes.

Product Competitors

Offer different types of products to satisfy the same general need. Domino's Pizza, McDonald's, and Kentucky Fried Chicken are product competitors.

The Institutional Environment

- The **institutional environment** consists of all the organizations involved in marketing products and services.



The Future

- The only certainty about the future is that it will be uncertain, and change will occur at an increasing rate.
- It will also be more complex.
- Businesses and consumers now must operate in an era of terrorism and lack of trust.

Summary

- *After studying this chapter, you should be able to:*
 - Understand the nature of the marketing environment and why it is important to marketers.
 - Describe the major components of the social environment and how trends in the social environment affect marketing.
 - Understand how the economic environment affects marketing.
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WORLD TRADE
ORGANIZATION

- What is WTO?

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business

- A rules-based, member-driven organization.
- “Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.”
- Created in 1995 by 120 nations to supersede and extend the GATT.
- Now:
 - 164 member nations (over 97% of world trade).
 - 32 ‘observer’ countries.

Origin: The General Agreement on Tariffs and Trade (GATT)

- Before GATT: several joint declarations of free-trade ideals—and failed attempts to create an international trade institution.
- Under US leadership, the GATT was created in 1947—as a step toward the “ITO.”
- GATT: 23 original “contracting parties.”
- Regulated trade in goods, only.

Inception

- Efforts to negotiate international trade agreements began in 1927 at the League of Nations but were unsuccessful.
- Precursor organization to GATT, ITO, was first proposed in February 1945 by the United Nations Economic and Social Council (UNESCO).
- Owing to the United States failing to implement the ITO, GATT was the only organization left.
- On 1 January, 1948 the agreement was signed by 23 countries:
Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, the Czechoslovak
- **Republic, France, India, Lebanon, Luxembourg, Netherlands,**
- **New Zealand, Norway, Pakistan, Southern**
- **Rhodesia, Syria, South Africa, the United Kingdom, and the**
- **United States.**
- According to GATT's own estimates, the negotiations created 123 agreements that covered 45,000 tariff items that related to approximately one-half of world trade or \$10 billion in trade.

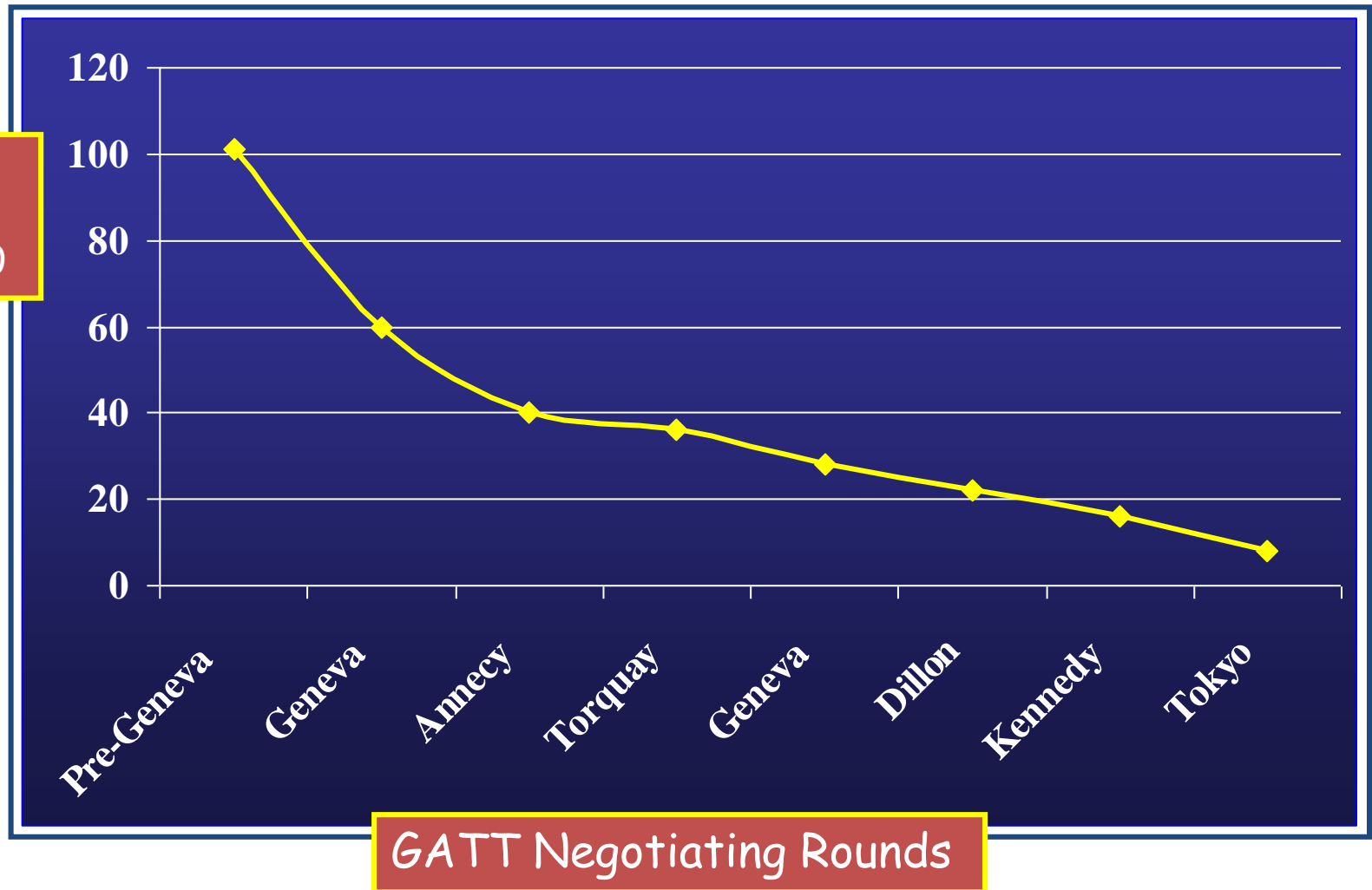
- **GATT's main objective**
 - Reduction of barriers to international trade
 - Achieved through reduction of tariff
 - barriers, quantitative restrictions and subsidies on trade
 - through a series of agreements
- It was a treaty, not an organization
- A small secretariat occupied what is today the Centre William Rappard in Geneva, Switzerland

GATT-Sponsored Trade Liberalization

– Negotiating Rounds: The First Seven –

<u>Round</u>	<u>Period</u>	<u>Participants</u>	<u>Subject Covered</u>
• Geneva	1947	23	Tarffis
• Annecy	1949	13	
• Torquay	1951	38	
• Geneva	1956	26	
• Dillon	1960-61	26	
• Kennedy	1964-67	62	
• Tokyo	1973-79	102	Tariffs & Non Tariff
• Uruguay	1986-94	123	Tariffs & Non Tariff

Average Reduction in US Tariff Rates 1947-85



TRADE BARRIERS

Tariff and Non-Tariff Barriers

- While free-trade maximizes world welfare, most nations impose some trade restrictions that benefit special groups in the nation. The most important type of trade restriction historically is the **tariff**.
- This is a tax or duty on the imports or exports.
- When a small nation imposes an import tariff, the domestic price of the importable commodity rises by the full amount of the tariff for individuals in nation. As a result, domestic production of the importable commodity expands while domestic consumption and imports fall. However, the nation as a whole faces the unchanged world price since the nation itself collects the tariff.

Tariffs

- Tariffs can be ad-Valorem, specific, or compound.
 - **Ad-Valorem** tariff is expressed as a fixed percentage of the value of the traded commodity.
 - **Specific** tariff is expressed as a fixed sum per physical unit of the traded commodity.
 - A **compound** tariff is a combination of an Ad Valorem
 - and a specific tariff.

Trade Restrictions /Trade Barriers

- An **import tariff** is a duty on the imported commodity, while an **export tariff** is a duty on the exported commodity.
- Export tariffs are prohibited by the U.S. Constitution but are often applied by developing countries on their traditional exports (such as Ghana on it's cocoa and Brazil on it's coffee) to get better prices and revenues.
- Developing nations rely heavy on export tariff to raise revenues because of their ease of collection.
- On the other hand, industrial countries invariably impose tariffs or other trade restrictions to protect some(usually labor-intensive)industry, while using mostly income taxes to raise revenues.

Non-Tariff Barriers

- International trade also hampered by numerous
 - **Technical, administrative, and other regulations.**
 - These include **safety regulations** for automobile and electrical equipment, **health regulations** for the hygienic
 - Production and packaging of imported food products, and **labeling requirements** showing origin and contents.

Non Tariff Barrier [Subsidies]

- National government sometimes grant **subsidies** to domestic producers to help improve their trade position. Such devices are indirect form of protection provided to domestic businesses, whether they may be import competing producers or exporters.
- Two types of subsidies can be distinguished: a **domestic subsidy**, which is sometimes granted to producers of import-competing goods, and an **export subsidy**, which goes to producers of goods that are to be sold overseas.

Other Non Tariff Barriers

- *Government Procurement Policies:*
Because government agencies are large buyers of goods and services, they are attractive customers for foreign suppliers. Most governments however, favor domestic suppliers over foreign ones in the procurement materials and products. E.g, Government often extend preferences to domestic suppliers in the form of buy-national policies campaigns.

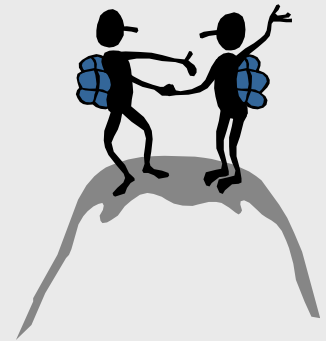
Impact of trade barriers

- Advanced industrial nations **committed themselves after World War II to removing barriers** to the free flow of goods, services, and capital between nations
- This goal was enshrined in the General Agreement on Trade and Tariffs [**GATT**]
- Under the umbrella of GATT, eight rounds of negotiations among member states (now numbering 146) have worked to lower barriers to the free flow of goods and services
- The most recent round of negotiations, known as the Uruguay Round, was completed in Dec, 1993. The Uruguay round further reduced trade barriers; extended GATT to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copyrights; and established the World Trade Organization (**WTO**) to police the international trading system

- In the late 2001, the WTO launched a new round of talks [Doha, Qatar] aimed at further liberalizing the global trade and investment framework.
- The agenda included cutting tariffs on industrial goods, services, and agricultural products; phasing out subsidies to agricultural producers; reducing barriers to cross border investments; and limiting the antidumping laws.
- The rich nations spend around \$300 billion a year in subsidies to support their farm sectors. The world's poorer nations have the most to gain from any reductions in agricultural tariffs and subsidies.

Uruguay Round—the 8th Round

- 123 participating countries.
- Most difficult—and most ambitious—among all rounds of negotiation.
- Lasted almost 8 years (1986-1994, in effect since 1995): the longest round.
- Created the WTO in 1995.
- Ultimately, very successful.



Uruguay Round—Outcomes

- Manufactured goods' further liberalization:
 - Cap on developed countries' average tariff: not higher than 4%.
 - Overall, tariffs reduced by more than 30%.
 - Additional tariffs 'bound.'
- Extended GATT scope to many new areas:
 - Agriculture.
 - Textiles.
 - Services (banking, insurance, telecommunications, transportation etc.): GATS.
 - Intellectual property (copyrights, patents, trademarks): TRIPS.
- Strengthened GATT dispute settlement procedures.

Agriculture

- Main difficulty. Ultimately, plan to progressively reduce subsidies was approved.

Textiles

- Plan to progressively reduce and eliminate the current quota system.

TRIPS

- Agreement to provide enhanced protection to intellectual property.

GATS

- Extension of GATT rules to services.
- Negotiations continued after the conclusion of the Uruguay Round.
 - Telecommunications (1997-98)
 - 69 countries (90% of world telecommunications revenues) involved.
 - Financial Services (1997-99)
 - 102 countries (95% of trade in banking, insurance and financial information) involved.

In both cases, markets became more open to foreign competition and barriers to FDI were reduced.

**Did GATT
succeed?**

Successes

- Continual reductions in tariffs helped spur very high rates of world trade growth during the 1950s and 1960s — around 8% a year on average
- Trade growth consistently out-paced production growth
- The rush of new members during the Uruguay Round demonstrated recognition of multilateral trading system as the anchor for development and an instrument of economic and trade reform.

But.....

- GATT's success in reducing tariffs to a low level, with a series of economic recessions 1970-80's drove governments to devise other forms of protection for sectors facing increased foreign competition
- High rates of unemployment and constant factory closures led governments in Western Europe and North America to seek bilateral market-sharing arrangements with competitors and to embark on a subsidies race to maintain their holds on agricultural trade
- Both these changes undermined GATT's credibility and effectiveness.

- The problem was not just a deteriorating trade policy environment.

By the early 1980s the General Agreement was clearly no longer as relevant to the realities of world trade as it had been in the 1940s

- World trade had become far more complex and important than 40 years before
- The globalization of the world economy was underway
- Trade in services — not covered by GATT rules
- Ever increasing international investments

- Factors convinced GATT members that a new effort to reinforce and extend the multilateral system should be attempted.

That effort resulted in the Uruguay Round, the Marrakesh Declaration, and the creation of the WTO.

WTO –FUNCTIONS & STRUCTURE

- It facilitates the implementation, administration, and operation of trade agreements.
- It provides a forum for further negotiations among member countries on matters covered by the agreements as well as new issues falling within its mandate.
- It is responsible for the settlement of differences and disputes among its member countries.

- It is responsible for carrying out periodic reviews of trade policies of its member countries.
- It assists developing countries in trade policy issues through technical assistance and training programmes
- It encourages cooperation within international organizations.

WTO Current Structure

	Goods	Services	Intellectual property	Disputes
<i>Basic principles</i>	GATT	GATS	TRIPS	Dispute settlement
<i>Additional details</i>	Other goods agreements and annexes	Services annexes		
<i>Market access commitments</i>	Countries' schedules of commitments	Countries' schedules of commitments		

Principles of Multilateral Trading System under WTO

- Trade without discrimination
 - (a) MFN
 - (b) National Treatment
- Gradual move through freer market through negotiations.
- Increased predictability of international marketing environment.
- Promoting fair competition in international market

WTO Structure

Ministerial Conference	<ul style="list-style-type: none">• Supreme Decision Making body• 164 members, Latest member Afghanistan• Meets once every two years,• deliberates on trade agreements• Appoints Director general
<u>General Council</u>	<ul style="list-style-type: none">• day to day Decision Making body• Meets regularly at Geneva.• implements decision of ministerial conferences• Has Representative from each member state. <p>has two bodies, with separate chairmen</p> <ol style="list-style-type: none">1. Dispute settlement body2. Trade policy review body <ul style="list-style-type: none">• Below general council, there are Committees on individual agreements and annexes- Anti dumping, Subsidies & countervailing measures (SCM) etc.
Director General	<ul style="list-style-type: none">• Roberto Azevêdo• Appointed by ministerial conference• Has four years term.• heads the Secretariat at Geneva

WTO Agreements

Goods

- General Agreement on Tariffs and Trade (GATT)
- Agreements on
 - Agriculture
 - Textile
 - Antidumping
- Safety / quality checks related
 - Sanitary and phytosanitary agreement (SPS)
 - Technical barriers to trade (TBT)
- Trade related investment measures (TRIMS)
- Subsidies and countervailing measures (SCM)

Services

- General Agreement on Trade in Services (GATS)
- To ensure that services' import/export enjoys the same principles of free and fair trade, just like the trade in goods.

Agreements

IPR

- Copyrights
- Patents
- Trademarks
- Geographical indicator
- Industrial designs
- Integrated circuit layout-designs
- Trade secrets

- Copyright terms must extend at least 50 years, unless based on the life of the [author](#). (Art. 12 and 14)^[5]
- Copyright must be granted automatically, and not based upon any "[formality](#)," such as [registrations](#), as specified in the [Berne Convention](#). (Art. 9)
- Computer programs must be regarded as "literary works" under copyright law and receive the same terms of protection.
- Patents must be granted for "inventions" in all "fields of technology" provided they meet all other patentability requirements (although exceptions for certain public interests are allowed (Art. 27.2 and 27.3)^[6] and must be enforceable for at least 20 years (Art 33).
- No unreasonable prejudice to the legitimate interests of the right holders of computer programs and patents is allowed.
- Legitimate interests of third parties have to be taken into account by patent rights (Art 30).

1. Patents (Amendment) Act, 2002 and Patents (Amendment) Bill 2003 (lapsed due to the dissolution of the Lok Sabha).
2. Trade Marks Act, 1999
3. Designs Act, 2000
4. Copyright (Amendment) Act, 1999
5. Protection of Plant Varieties and Farmers' Rights Act, 2001
6. Geographical Indications of Goods (Registration and Protection) Act, 1999
7. Semiconductor Integrated Circuits Layout Designs Act, 2000

Dispute settlement

- To enforce the trade agreements and commitments made by individual member country
- Once a complaint is filed, first, the parties are allowed to sort the issue through mutual consultation
- If that fails, formal adjudication by an expert panel

Agreement on Agriculture (AoA)

1. Market Access

reduce import duties

2. Export subsidies

reduce them

Agreement on Agriculture: THREE PILLARS

3. Domestic Agriculture subsidies



Green Box



Blue Box



Amber Box
Reduce'em to
De-minimus level

- **WTO's Agreement on agriculture (AoA) has three pillars**

1. Market access

- reduce import duties

2. export competition

- reduce export subsidies

3. domestic support

- reduce Amber box subsidies

AoA classifies subsidies into two parts:

DOMESTIC SUBSIDY	EXPORT SUBSIDIES
mostly by third world to keep help farmers and keep vote bank happy	mostly by first world, to keep their MNC-corporatized farmer lobby happy.
to increase food production, food security	to capture "Foreign market" by flooding their cheaper products
	India doesn't give much "export" subsidies to farmers- except a select horticulture and floriculture items
AoA further classifies them into 3 parts 1. GREEN 2. BLUE 3. AMBER (WTO wants to reduce these subsidies)	AoA wants members to reduce export subsidies <ul style="list-style-type: none">• developed countries: cut by 36%• Developing: by 24%• Least developed: not applicable.

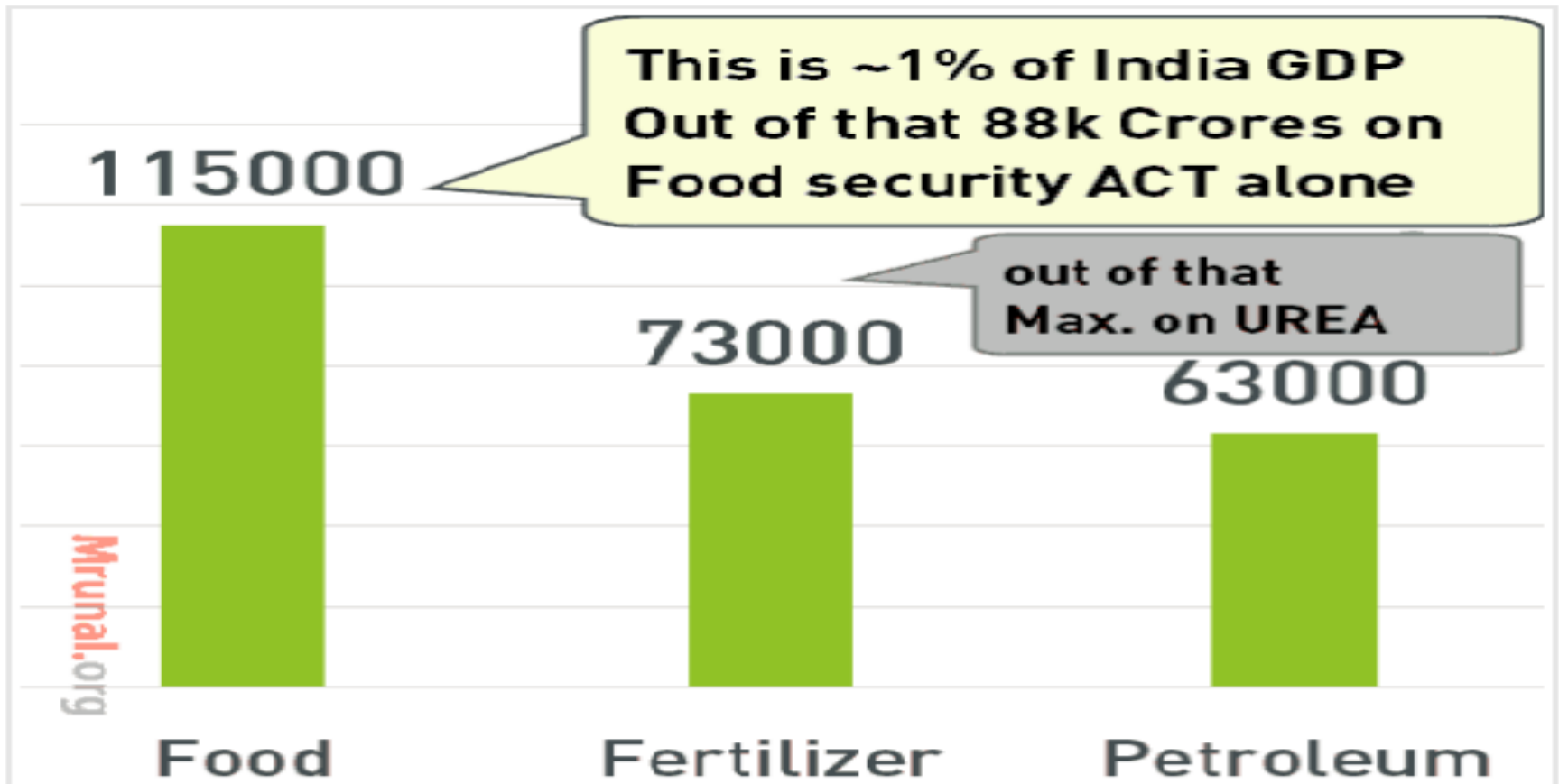
Box	subsidies
GREEN	<ul style="list-style-type: none">• Subsidies that don't disrupt trade balance OR• Only cause minimum damage to trade balance.• E.g. agriculture research-development, extension services, farmer training programs, pest-disease control program, flood/drought relief money paid to farmers etc.• WTO Limit: nothing. Governments can give as much as they want.
BLUE	<ul style="list-style-type: none">• Amber type Subsidies that aim to limit production.• Subsidies that don't increase with production. For example subsidies linked with acreage or number of animals.• Very few countries use blue box- Iceland, Norway, Slovenia etc.• WTO limit: Nothing.
AMBER	<ul style="list-style-type: none">• Subsidies that disturb trade balance like, subsidies on fertilizers, seeds, power and irrigation.• They distort trade balance because they encourage excessive production,therefore given country's product becomes cheaper than others, in the international market.• WTO limits: yes- explained below

Amber box: De Minimus limits

- Under WTO's agreement on agriculture (AoA), domestic-subsidies are classified into three groups: Green, Blue and Amber.
- Amber box subsidies create trade distortion because they encourage excessive production e.g. fertilizers, seeds, electricity and irrigation subsidies.
- Therefore, WTO wants to limit the amber box subsidies.
- De Minimus is the Minimal amounts of Amber box subsidies permitted by WTO, even though they distort trade.
- De minimus limits are calculated on the agriculture production of the given member state in 1986-88.

Country	De-Minimus: Amber box subsidies quota
Developed	5% of agriculture production in 1986-88
Developing	10%
Least developed	Exempted

Why India Oppose?



- In 1986: USA agriculture production was far ahead of India. So, their 5% De-minimus quota will be far bigger than our 10% quota (in absolute figures).
- Input costs have skyrocketed in these decades. But, De-minimus doesn't consider inflation factor.
- So, if India has to limit its (Amber box) agro. subsidies to a non-inflation adjusted 86's production, we cannot continue the MSP to farmers or food security to poors.
- These subsidized foodgrains are meant for feeding the poors only, they do not distort international trade.

Bali Summit and Pease Clause

- **December 2013:** 9th WTO ministerial conference held at Bali, Indonesia
- “Bali Package” is the collection of three prime outcomes of this summit
- as per the original Agreement on agriculture (AoA), the developed and developing countries have to keep their Amber box subsidies within De-minimus level i.e. 5% and 10% of their agriculture production in 1986-88 respectively.
- India opposed this base year and limits, because it'd make impossible to implement the food security programs for the poor and MSP for the farmers.
- Therefore, as a measure of temporary relief, Bali summit enacted a “peace clause” for the AoA

Salient features of Peace Clause

- No member, can drag any developing country to Dispute settlement mechanism of WTO for violation of De-minimus limits in AoA
- Provided that the said developing country is
 - (1) paying subsidies for staple food crops
 - for public stockholding program
 - For food security purpose.
 - (2) providing annual information of its food security Program to WTO.
 - (3) Permanent solution will be taken no later than 11th ministerial conference i.e. at December 2017.

Trade facilitation agreement	<ul style="list-style-type: none"> • To cut down the red tape in customs clearance
LDC exports	<ul style="list-style-type: none"> • Exporters from Least developing countries, will get Duty free, quota free (DFQF) access to markets in foreign countries.
food stockholding	<ul style="list-style-type: none"> • this lead to peace clause, explained below

Trade Facilitation Agreement

- ORIGIN - 9th WTO ministerial conference held at Bali, Indonesia in 2013
- AIM - reduce red tapes and bureaucratic hassles in customs clearance
- Under TFA, Every member:
 - (1) Will have to publish a detailed list of procedure for import-export, fees, inspection rules, penalties etc.
 - (2) Minimize the proof documents and clearance required for customs clearance.

- (3) Make all the information available on INTERNET to foreign traders, governments and interested parties
- (4) Provide electronic payment of fees, duties, taxes.
- (5) Setup a single window mechanism to help trader submits all documents at a single point- preferably online.
- (6) Trader should be notified immediately, If goods are detained at customs.
- (7) Provide faster customs clearance to perishable goods (Fruits, veggies, flowers).
- (8) Member must not ask foreign traders to compulsorily route their applications/fees via local customs brokers/middlemen.
- (9) Give Advance ruling, as and where applicable

WTO Buenos Aires Summit 2017

Doha Development Agenda (DDA) 2001

third world countries want that:

- 1st world should liberalize their trade regulation further so that 3rd world's goods and services can enter more easily in the first world's domestic markets.
- 3rd world should be allowed to keep various barriers to slow down the entry of 1st world's agriculture, mfg and service exports in their domestic market.
- 1st world should give financial and technical assistance to 3rd world.

1st World wants E-commerce pe charcha & not Chai-pe-charcha

- WTO's latest summit also aimed to streamline the national laws and regulations on e-commerce. Because already various bilateral and regional FTAs have covered E-commerce. So, it'd have been better to codify all those into a single and far-reaching agreement on E-commerce.
- But 'e-commerce' subject was not part of the original Doha agenda. So, India and others opposed it, saying "Doha subjects must be resolved first, before taking up new subjects".

- Hence WTO's latest summit couldn't deliver a unified agreement on e-commerce applicable to all of its 160+ members.
- Instead, USA, EU, Japan and other likeminded countries decided to workout a separate plurilateral e-commerce agreement applicable to 70 likeminded countries.
- Later it may be expanded to other WTO-members. For similar reasons, discussions on investment facilitation, MSME etc. remained inconclusive- because India insisted that Doha topics must be cleared first before taking up new topics

WTO Couldn't reform Food subsidies

- Under WTO's agreement on agriculture (AoA), member-states have to limit their food-subsidies to 10% of the value of agriculture production in 1986.
- India and other developing countries opposed it because to provide food security to their poor masses.
- So, during WTO's Bali summit (2012) they were given immunity under a '**peace clause**', with the deadline of 2017.
- In other words, WTO had decided to resolve food subsidies related issues in 2017's Buenos Aires summit at Argentina

- But, USA/EU vehemently opposed farm subsidy reforms. They insisted that India and China must abide by their blueprint. Consequently, no consensus could be reached in the latest summit.
- So, automatically, “peace clause” is extended for infinite period= India’s MSP-PDS and food security programs are safe from WTO’s prosecution
- While both first and third world nations need to reform food subsidies to improve international trade and to reduce rampant use of chemical input, but so far, WTO has failed to act as a facilitator / catalyst on this subject.
- Although in fairness, atleast all members agreed to address fisheries subsidies by next summit (2019).

Special Safeguard Mechanism (SSM)

- USA, Canada and other 1st world countries give 70-80% subsidies to their farmers on the cost of production. When such cheap agriculture commodities arrive in 3rd world, it ruin domestic farmers' livelihood.
- Hence, India and others 3rd world countries want a Special Safeguard Mechanism (SSM), under which they can raise tariffs temporarily to deal with import surges or price falls in agriculture commodities.
- WTO's Nairobi summit package (2015) had given 'in-principle' approval to SSM, but further details were to be finalized in Buenos Aires summit (2017)- but this too remained inconclusive.

Trade in Services Act (TISA)

- Origin - The Trade in Services Agreement (TiSA) is an initiative by a group of developed nations who're dissatisfied with the non-inclusion of their agendas in General Trade in services agreement (GATS) and Doha development round of WTO.
- In the global economy, service sector contributes over \$70 trillion in absolute figure and over 2/3rd in proportion. However, post sub-prime crisis, the developed nations' services export growth have gone in negative territory. Their dissatisfaction with WTO supervised agreements for services has prompted them to propose a non-WTO mechanism called TiSA, with following features:

- Since the initial days of WTO, the developed nations were eager to expand coverage of the General Agreement on Trade in Services (GATS), first to capture the emerging middle class in developing nations, and later to balance their trade deficits in services with India and China.
- But since 2001, WTO's attention was shifted to Doha Development Agenda (DDA), which focused on developing nations' demands related to international trade of agriculture, industrial goods etc.
- Hence the dissatisfied group of WTO members, known as "Really Good Friends of Services" initiated talks for Trade in services agreement (TISA) in 2012-13.

- This initiative/group is largely made up of US, EU, Australia and other developed nations. Their draft TISA agreement aims for deeper commercialization and more business friendly regulation of services in international trade.
- TISA nations' strategy is to first ratify an agreement amongst themselves, outside the WTO regime. Then gradually expand its net to more and more WTO members using carrot and stick approach.
- Ultimate goal of TISA nations is to bring emerging economies, such as China, India and ASEAN with whom they've trade deficit in services.

TISA's Classification of services

TISA classifies services according to four modes of 'supply', and aim to reduce barriers in their international trade:

- CROSS-BORDER: e.g. IT/BPO call centre and other services provided through fax, phone or electronic means.
- CONSUMPTION ABROAD: e.g. tourism, students studying abroad
- NATURAL PERSONS: e.g. executives, consultants or engineers who are staying temporarily in another country for a project.
- COMMERCIAL PRESENCE: e.g. foreign companies such as Walmart, Citibank establishing branches in India.

MNCs in Public Service Delivery

- TISA excludes only a handful of public services such as police, judiciary, prisons, statutory social security schemes and defence from its purview.
- All the other public services such as education, healthcare, postal, telecommunications, waste collection, water provision, electricity, transport, etc. will fall under TISA.
- Then individual government will not be allowed to create monopoly OR reserve it only for the public sector or not-for-profit entities.

- **Implications:** MNCs would enter in health and education sector. While such competition will improve the service delivery, but critiques opine, it'll create following problems:
- Poaching of good teachers and doctors from public institutes with lucrative salaries, to a level that good education and healthcare is only available in highly expensive private schools and hospitals. Public sector will not be able to match these salaries. This will further deteriorate public service quality.
- Degree churning foreign universities with online courses without local faculties or physical libraries. TISA regulations will forbid UGC/MCI etc. from imposing regulatory checks on them unless agreed by all member nations.

India's stand on TISA

- We already give faster clearance to short-term work visas, waived visa fees on reciprocal basis, ratified WTO's trade facilitation agreement.
- We've relaxed FDI in various service sectors, abolished FIPB, reformed IPR regime and initiated measures for ease of doing business under the Make in India initiatives.
- So, India's stand on trade in services is not one-way export oriented.
- However, what TISA proposes is not acceptable to us for the aforementioned reasons. Whatever progress we've achieved under Doha Development round of WTO, to adequately safeguard the interests of developing nations and LDC, will be undone / weakened, if TISA comes into force.
- Therefore, along with BRICS and ASEAN members, we too are not participating in TISA discussions.

USA's Stand on TISA

President Trump has already pulled out of Trans Pacific Partnership (TPP) agreement. Experts opine that he favours bilateral agreements over multilateral / regional agreements. Because in bilateral agreement he can get more concessions by asserting US power one-on-one against other countries. Hence three scenarios are possible:

- USA exits TISA and the movement collapses. Singapore, Uruguay and Paraguay have already pulled out.
- USA exits TISA, but movement continues under EU. Although this is an unlikely scenario, because USA accounts for over 25% of the global trade in services, so without USA the entire deal / movement may seem less lucrative for the MNCs and their lobbyists.
- USA continues to lead TISA with even more enthusiasm, because TISA's pro-corporate approach matches with the temperament of President Trump! This scenario could be troublesome for India, China, BRICS and ASEAN.