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The Centre for WTO Studies was set up by the Department of Commerce, Government of India in 1999. The intent was to create an independent think tank with interest in trade in general and the WTO in particular. The Centre has been a part of the Indian Institute of Foreign Trade since November 2002. The Centre provides research and analytical support, and allied inputs to the Government for WTO and other trade negotiations. The Centre also has its own body of publications, and conducts outreach and capacity building programmes by organizing seminars, workshops, and subject specific meetings to disseminate its work, create awareness on recent trade topics and build consensus between stakeholders and policy makers.

Donald Trump's trade tirade targets India

Elizabeth Roche, Live Mint

August 15, 2019: US President Donald Trump on Wednesday took aim at India and China, saying the two were no longer “developing nations" and were “taking advantage" of the tag given by the World Trade Organization (WTO).

Championing his “America First" policy, Trump told a gathering in Pennsylvania that WTO viewed certain countries like China and India as “growing," according to a report by news agency *PTI*.

Trump said India and China had “grown", warning that the US will not let such countries take advantage of WTO.

“We’re not letting that happen any more... Everybody is growing but us," he said.

Trump’s latest comments come as trade minister Piyush Goyal is set to visit Washington next month that could see the two sides work out a deal to narrow the US trade deficit with India. Bilateral trade in 2018 stood at an estimated $142.1 billion.

While Trump has previously targeted India— describing it as “tariff king" for imposing high duties on US goods—this is the first time he has named India and China together in the WTO context.

“They (India and China) were taking advantage of us for years and years," Trump said in his speech, referring to global trade rules under which developing countries claim entitlement to longer time frame for the imposition of safeguards, transition periods and softer tariff cuts, besides procedural advantages for WTO disputes and the ability to avail themselves of certain export subsidies.

Trump expressed hope that WTO will treat the US “fairly".

Opening a fresh front against India and China, President of the United States of America accused the two nations of taking advantage of the tag of 'developing' countries.

The US and China are engaged in a brutal trade war for almost a year, with the US being the first to impose tariffs on Chinese goods to press demands for an end to policies that Washington says hurt US

companies competing with Chinese firms. China responded with its own tit-for-tat tariffs on US goods.

In India’s case, the US has imposed tariffs on steel imports from India and ended preferential access for Indian products. In retaliation, India imposed retaliatory tariffs on 28 products exported from the US in June.

Officials in New Delhi noted that Trump’s speech had come just ahead of the US election season, when he will formally launch his re-election bid for the November 2020 polls.

According to former foreign secretary Kanwal Sibal, Trump’s comments were “in line with his declared thinking that WTO gives developing country status to countries that don’t merit it".

“This is the first time that Trump has mentioned India in this context," he said, adding that the comments also represent Trump-led attacks on WTO itself and the call for it to be reformed along US preferences. “It is an attack on the structure of the Indian economy," said Sibal. “The primary aim is to get rid of differential status and responsibilities between developed and developing countries not only in the WTO, but also in other international negotiations," added Sibal.

Trump ups ante on WTO special treatment for China and India

D. Ravi Kant, Live Mint

August 15, 2019: Even as he toned down his trade war rhetoric against China, President Donald Trump on Tuesday upped the ante on his multilateral trade war against developing countries, particularly China and India, for availing special and differential treatment at the World Trade Organization, say analysts.

On Tuesday (13 August), the Trump administration has announced that it will delay, until 15 December, the proposed levy of the 10% additional tariff on imports of several costly Chinese products worth around $160 billion.

The WTO, said President Trump, had been discriminating against the United States for years, but that is now changing because members realize that “if it’s not going to be fair, it’s not going to be at all, we don’t need it."

In a speech delivered in Pennsylvania on 13 August, he claimed that the United States had lost almost every WTO dispute it was involved in until he became President.

According to a report in Washington Trade Daily on 14 August,, President Trump claimed: “Now we’re winning a lot of cases because they know that they’re not on very solid ground. We will leave, if we have to. And all of a sudden, we’re winning a lot of cases. We’re winning most of our cases. And it’s only because of attitude, because we know that they have been screwing us for years. And it’s not going to happen any longer. They get it. They get it. So they’re giving us victories."

Trump severely attacked the self-designation norm to declare as developing countries for availing S&DT at the WTO. "Regardless of their size, allowing them to avail themselves of special treatment" is not fair, he said.

Trump said that countries like China and India have been allowed to take “tremendous advantages [because of the S&DT]," the WTD reported.

“But we’re not letting that happen anymore, okay? We’re not letting that happen anymore," he declared.

Like the trade war with China, which is increasingly becoming a “quagmire", almost akin to the Vietnam war, the Trump administration’s decision to bring about differentiation/graduation for availing S&DT by developing countries could prove to be a multilateral quagmire - if the developing countries continue to fiercely oppose the move.

India, China no longer ‘developing nations’, won’t let them take ‘advantage’ from WTO: Donald Trump

Financial Express

August 14, 2019: US President Donald Trump has said that India and China are no longer “developing nations” and were “taking advantage” of the tag from the WTO and asserted that he will not let it happen anymore. Trump, championing his ‘America First’ policy, has been a vocal critic of India for levying “tremendously high” duties on US products and has described the country as a “tariff king”.

The US and China are currently engaged in a bruising trade war after Trump imposed punitive tariffs on Chinese goods and Beijing retaliated. Earlier in July, Trump asked the World Trade Organisation to define how it designates developing-country status, a move apparently aimed at singling out countries like China, Turkey and India which are getting lenient treatment under the global trade rules.

In a memorandum, Trump had empowered the US Trade Representative (USTR) to start taking punitive actions if any advanced economies are inappropriately taking benefits of the WTO loopholes. Addressing a gathering at Pennsylvania on Tuesday, Trump said India and China – the two economic giants from Asia – are no longer developing nations and as such they cannot taken the benefit from the WTO. However, they are taking the advantage of a developing nation tag from the WTO, putting the US to disadvantage, he said.

"They (India and China) were taking advantage of us for years and years," Trump said.

The Geneva-based WTO is an intergovernmental organisation that regulates international trade between nations. Under the global trade rules, developing countries claim entitlement to longer timeframe for the imposition of safeguards, generous transition periods, softer tariff cuts, procedural advantages for WTO disputes and the ability to avail themselves of certain export subsidies.

Trump expressed hope that the WTO will treat the US "fairly". He said the WTO views certain countries like China and India as "they're growing". "Well, they've grown," he said and warned that the US will not let such countries to take advantage of the WTO. "We're not letting that happen anymore…Everybody is growing but us," he said.

US appeals against WTO ruling favouring India in renewables case

Amiti Sen, Business Line

August 15, 2019: The US has appealed against a WTO panel ruling favouring India. In its complaint, India had alleged that local content requirements and subsidies for the renewable energy sector in several American states were discriminatory and against multinational rules.

The appeal, which was discussed at the WTO's Dispute Settlement Body (DSB) meeting on Thursday, however, may not be taken up by its the global organisation's Appellate Body, as it could become dysfunctional in December.

A WTO panel had ruled in June in favour of India, which claimed that subsidies and mandatory local content requirements in 11 renewable energy programmes in eight American states — Washington, California, Montana, Massachusetts, Connecticut, Michigan, Delaware and Minnesota — are inconsistent with global trade rules.

The panel had asked Washington to bring the states in conformity with US obligations under the "national treatment" rules that require foreign entities to be treated at part with domestic producers.

Judges' appointment

"By appealing against the panel ruling and also not allowing Appellate Body judges to be appointed, the US is literally bringing the dispute settlement mechanism of the WTO to a grinding halt. Something needs to be done by the WTO Secretariat and members soon to ensure that the Appellate Body keeps functioning after December, too," a government official said.

The US has been blocking the appointment of judges in the Appellate Body claiming there are 'systemic issues' that need to be sorted out. From December 11, the Appellate Body will cease to have the mandatory three members required for its working and may thus become dysfunctional.

Sugar subsidies row

Another important decision taken by the DSB was to agree to the second requests from Australia, Brazil and Guatemala for the establishment of panels to rule on India's sugar subsidies. New Delhi, however, declined requests from the three to set up a single dispute panel.

"India declined requests from the three complainants for a single panel to review the complaints jointly on the grounds that they are similar, arguing that each case was distinct," a Geneva-based official told *BusinessLine.*

The complainants had alleged that India's subsidies for its producers exceeded its WTO spending limit of 10 per cent for the product. India's response is that its sugar subsidies are permissible under WTO rules.

"The DSB will now set up three separate panels...and the cases will be fought separately," the official explained.

WTO likely to set up panel to decide on India's sugar sops

Business Line

New Delhi, August 13, 2019: Brazil, Australia and Guatemala have requested the World Trade Organisation (WTO) to set up dispute panels to rule on India's sugar subsidies the second time round after India rejected the request at the last meeting of the Dispute Settlement Body (DSB) last month.

The request for dispute settlement panels put in by the three countries will be taken up at the DSB meeting scheduled on August 15. Since the second request made to the DSB cannot be rejected,

panels are now likely to be formed at the WTO which will decide whether India's sugar subsidies are valid or not.

"India tried to reason with the three complainants pointing out that all subsidies extended by the government to sugar producers were permissible under the WTO rules. However, the discussions were not successful," a government official told *BusinessLine*.

Once the DSB considers the second time requests and sets up three separate panels, all sides will put forward their arguments.

According to Australia, the amount of support to sugarcane producers in India exceeds the country's product-specific de minimis level of 10 per cent for the product

. It added that several subsidies such as the State-level export subsidy for sugar, federal-level assistance and export incentives (raw sugar export incentive scheme), and freight assistance were inconsistent with the Agreement on Agriculture (AoA) as they appeared to be export subsidies.

India's decision to increase the Fair and Remunerative Price for sugarcane from ₹1,391.2 per tonne in 2010-11 to ₹2,750 per tonne in 2018-19 was the main reason for Brazil's concern which also believed that making it compulsory for mills to export 5 million tonnes of sugar in 2018-19 had distorted prices in the global market.

Guatemala also had similar complaints and alleged that India's domestic support measures for sugar are inconsistent with obligations under the WTO's AoA, while the alleged export subsidies are inconsistent with India's obligations under the AoA and the Agreement on Subsidies and Countervailing Measures (SCM Agreement).

New Delhi's stand

New Delhi has consistently argued that its subsidies to sugar producers were in the form of production subsidies that were permissible under the WTO. Moreover, the subsidies to exporters were for transportation and marketing purposes which, were permitted by the WTO at least till 2022.

"We are hopeful that once the panels are set up our arguments would be appreciated and we would get a favourable judgement," the official said.

US to impose 10 per cent additional tariff on Chinese imports from September 1

Business Line

Washington, August 2, 2019: US President Donald Trump said he plans to impose a 10 per cent tariff on $300 billion of Chinese imports from September 1 and could raise tariffs further if China's President Xi Jinping fails to move more quickly to strike a trade deal.

The announcement on Thursday extends Trump's trade tariffs to nearly all China's imports into the United States and marks an abrupt end to a temporary truce in a trade war that has disrupted global supply chains and roiled financial markets. "I think President Xi...wants to make a deal, but frankly, he's not going fast enough," Trump said.

Trump made the announcement in a series of Twitter posts after his top trade negotiators briefed him on a lack of progress in US-China talks in Shanghai this week. Trump later said if trade negotiations fail to progress he could raise tariffs further - even beyond the 25 percent levy he has already imposed on $250 billion of imports from China.

The news hit US financial markets hard.

Oil prices plummeted 7 per cent, with Brent crude registering the biggest daily percentage drop since February 2016. The benchmark S&P 500, which had been in solidly positive territory on Thursday afternoon, closed down 0.9 per cent. Benchmark US Treasury yields also fell.

Retail associations predicted a spike in consumer prices. Target Corp tumbled 4.2 per cent, Macy's Inc fell 6 per cent and Nordstrom Inc was down 6.2 per cent. Asked about the impact on financial markets, Trump told reporters: "I'm not concerned about that at all."

Moody's said the new tariffs would weigh on the global economy at a time when growth is already slowing in the United States, China and the euro zone. The tariffs may also force the Federal Reserve to again cut interest rates to protect the US economy from trade-policy risks, experts said.

"Raising tariffs would lower the prospects of a deal rather than expedite it," China's *Global Times* newspaper said. "Beijing would focus more on efforts to survive a prolonged trade war," Hu Xijin, editor-in-chief of the Communist Party-backed newspaper, said on Twitter. "New tariffs will by no means bring closer a deal that the US wants; it will only make it further away," Hu said.

Growing frustration

US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin briefed Trump on their first face-to-face meeting with Chinese officials since Trump met Xi at the G20 summit at the end of June and agreed to a ceasefire in the trade war. "When my people came home, they said,

‘We’re talking. We have another meeting in early September.’ I said, ‘That's fine, but until such time as there’s a deal, we’ll be taxing them’,” Trump told reporters.

A source familiar with the matter said Trump grew frustrated and composed the tweets shortly after Lighthizer and Mnuchin told him China made no significant movement on its position.

Previous negotiations collapsed in May, when US officials accused China of backing away from earlier commitments.

American business groups in China expressed disquiet over the latest round of US tariffs. The US-China Business Council said on Friday it was concerned the action “will drive the Chinese from the negotiating table, reducing hope raised by a second round of talks that ended this week in Shanghai.” “We are particularly concerned about increased regulatory scrutiny, delays in licenses and approvals, and discrimination against US companies in government procurement tenders,” said the US-China Business Council's President Craig Allen in an e-mail.

Ker Gibbs, the president of the American Chamber of Commerce in Shanghai, urged both sides to keep talking. Gibbs said that as market access in China “remains unnecessarily restricted,” the United States should continue its dialogue with Beijing, and “also work with like-minded countries to persuade China that fair and reciprocal trade and investment benefits all.”

The disagreements

Trump said Beijing had failed to stop sales of the synthetic opioid fentanyl to the United States, as it had promised to do. He also said Beijing had not fulfilled a goodwill pledge to buy more US agricultural products.

Trump has failed to make good on a goodwill gesture he said he would make after the G20 meeting to relax restrictions on sales to Chinese telecommunications giant Huawei.

Trump had been pressing Xi to crack down on a flood of fentanyl and fentanyl-related substances from China, which US officials say is the main source of a drug blamed for most of more than 28,000 synthetic opioid-related overdose deaths in the United States in 2017.

China had pledged that from May 1 it would expand the list of narcotics subject to state control to include the more than 1,400 known fentanyl analogues, which have a slightly different chemical makeup but are addictive and potentially deadly, as well as any new ones developed in the future.

The US Department of Agriculture on Thursday confirmed a small private sale to China of 68,000 tonnes of soy beans in the week ended July 25.

It was the first sale to a private buyer since Beijing offered to exempt five crushers from the 25 per cent import tariffs imposed more than a year ago. Soy bean futures opened lower on Thursday as traders shrugged off the purchase because of the small volume involved, and losses accelerated after Trump's tweets.

Big impact

The new tariffs will jack up prices for consumers at the start of the back-to-school buying season, four large retail trade associations said on Thursday.

"President Trump is, in effect, using American families as a hostage in his trade war negotiations," said Matt Priest, president of the Footwear Distributors and Retailers of America.

Stephen Lamar, executive vice president of the American Apparel & Footwear Association, said his group's members were shocked that Trump had not allowed the resumed US-China trade talks to proceed further before acting.

The measure will hit US consumers far harder than Chinese manufacturers, who produce 42 per cent of apparel and 69 per cent of footwear purchased in the United States, Lamar said.

Trade war: Here's a list of tariffs by Trump and US trading partners

Business Line

Washington, August 2, 2019: United States (US) President Donald Trump said on Thursday he would impose a 10 per cent tariff on the remaining $300 billion of Chinese imports starting September 1, after negotiators failed to make progress in US-China trade talks.

Trump has used tariffs as a tool to negotiate better terms of trade for the US, saying bad deals cost millions of US jobs.

The following is a list of tariffs levied by United States and its trading partners:

US tariffs on China

US has imposed 25 per cent tariffs on $50 billion worth of Chinese technology goods including machinery, semiconductors, autos, aircraft parts and intermediate electronics components on July 6 and August 23 as part of 'Section 301' probe into China's intellectual property practices.

It has also imposed 25 per cent tariffs on $200 billion worth of goods including computer modems and routers, printed circuit boards, chemicals, building materials and furniture. A 10 per cent tariff on these goods was imposed on September 24, 2018, as a response to retaliation by Beijing.

On May 10, Trump increased the tariff rate to 25 per cent after accusing China of backtracking on earlier commitments in the talks.

US Trade Representative Robert Lighthizer has launched the process to impose 25 per cent tariffs on all remaining imports from China, another $300 billion worth of goods. That would hit consumer products hard, including cellphones, computers, clothing, toys and other consumer products.

Chinese tariffs on US

China, on May 13, announced it would increase tariffs on a revised list of 5,140 US products, worth about $60 billion, after Trump's move. The additional tariff of 25 per cent will be levied on 2,493 products, including liquefied natural gas, soy oil, peanut oil, petrochemicals, frozen minerals and cosmetics. Other products will see tariffs of 5 per cent-20 per cent.

The Asian nation has also imposed 25 per cent tariffs on $50 billion worth of US goods including soy beans, beef, pork, seafood, vegetables, whiskey, ethanol, imposed on July 6 and August 23, in retaliation for initial rounds of US tariffs.

China had suspended a 25 per cent duty on US auto imports during their trade negotiations. Beijing has resumed some purchases of US soy beans, but has not formally suspended those tariffs.

Based on 2018 US Census Bureau trade data, China would only have about $10 billion in US imports left to levy in retaliation for any future US tariffs. Retaliation could come in other forms, such as increased regulatory hurdles for US companies doing business in China.

US global tariffs

The US imposed 25 per cent tariffs on imported steel and 10 per cent tariffs on imported aluminium, imposed on March 23, 2018, on national security grounds.

Exemptions were granted to Argentina, Australia, Brazil and South Korea in exchange for quotas. Canada and Mexico were exempted from the tariffs in May. In response, both countries lifted their retaliatory tariffs on the US.

On January 22, 2018, it imposed 20 per cent to 50 per cent tariffs on imported washing machines as a "global safeguard" action to protect US producers Whirlpool Corp and GE Appliances, a unit of China's Haier Electronics Group Co Ltd. It also imposed 30 per cent tariffs on imported solar panels, as a "global safeguard" action to protect US producers Solar World, based in Germany, and Suniva, owned by China's Shunfeng International Clean Energy Ltd.

Trump is considering tariffs of around 25 per cent on imported cars and auto parts, based on a Commerce Department study of whether such imports threaten US national security.

Trump negotiated a new deal with Mexico and Canada to replace the NAFTA deal. This new US-Mexico-Canada Agreement protects Canadian and Mexican production in the event of such tariffs through a quota system.

Trump has pledged not to impose auto tariffs on Japan and the European Union while trade negotiations with those partners are under way.

European Union tariffs on US

The European Union on June 22 imposed import duties of 25 per cent on a $2.8 billion range of imports from the United States in retaliation for US tariffs on European steel and aluminium.

Targeted US products include Harley-Davidson motorcycles, bourbon, peanuts, blue jeans, steel and aluminium.

Indian tariffs

Trump ended preferential trade treatment for India in early June this year, resulting in US tariffs on up to $5.6 billion of imports from India.

India, the world's biggest buyer of US almonds, responded by slapping import duties on the nuts and 27 other US products.

Duelling tariffs with Turkey

The United States halved tariffs in May to 25 per cent on Turkish steel imports and 10 per cent on aluminium. It had doubled US duty rates on steel and aluminium from Turkey 50 per cent and 20 per

cent, respectively, in August 2018 citing national security and currency concerns in an escalating trade spat between the NATO allies.

In response, Turkey said it would cut its tariffs on some US goods in response to the US reduction. It has tariffs on $1.8 billion worth of US goods, including motor vehicles, alcoholic beverages, rice, structural steel and beauty products.

Trump ended preferential trade treatment for Turkey effective May 17, a move that imposes tariffs on about $1.66 billion of Turkish imports.

Explained: How geographical indication can boost agriculture exports

Seema Bathla & Abhishek Jha, August 13, 2019

Financial Express: India continues to be a net agriculture exporting economy, having a high share of primary commodity exports—rice, shrimps, bovine meat, sugar, tea, spices. Most of its imports are processed products, mainly palm oil and sunflower oil. The key concern is the value of agri-imports has surged by four percentage points, touching an all-time high of $25 billion in FY18, which can possibly surpass the value of agri-exports, thus making India a net agri-importer. Going by the country's mandate to accelerate the rate of agricultural growth and double farmers' income by 2022-23, exports have to play a pivotal role. An increased thrust on agricultural exports is well documented in the Agriculture Export Policy 2018, and is also visible through alterations in the tariffs and non-tariffs measures.

An initiative India should take is branding agri-products through steps such as geographical indication (GI), especially for organically-produced commodities that would realise higher returns in global markets. Establishing effective agricultural brands can help farmers gain a competitive advantage in 'buyer-driven' global markets. Some globally recognised brands (California almonds, Chilean wines, Swiss chocolates) enjoy a high stature in their respective product groups. Branded items usually fetch better price and can lead to brand loyalty, and are seen as a move towards a strong customer base. Branding adds value by differentiating the product and also because of the consumer perception that such products are of superior quality than unbranded ones.

India has about 300 registered GIs, but few have been used for commercial value addition. Two of India's well-known GIs are Darjeeling tea and Basmati rice, but both seem to be minuscule in terms of market impact when compared with, say, Chilean wine or Danish cheese. While a programme to promote branding and commercialisation of GI products for exports has been initiated in the Directorate General of Foreign Trade policies during 2015-20, it is pertinent to take it to the next level.

India can choose Alphonso mango, Darjeeling tea, Basmati rice and escalate them to the stature of California almonds or Swiss chocolates in terms of global acceptability. Indian Embassies abroad can

act as a catalyst in guiding and promoting such products through food festivals, displays at busy airports, encouraging top chefs and connoisseurs to highlight these. The Agriculture Department in the Dutch Embassy in New Delhi supports Dutch food producers in exploring Indian markets and bringing awareness about their expertise. In fact, lessons can also be learnt from other countries in promoting brands. Many countries have opted for clustering, which is at the root of branding agricultural commodities and adding value to products. For example, France started this for wine, and soon after many other countries followed—Japan for Kobe beef, Colombia for Juan Valdez coffee and New Zealand for Manuka honey. A celebrated example is that of Malaysia for having implemented commodity branding programme called Malaysia's Best. It is an umbrella brand for selected horticultural products that guarantee quality and safety in accordance with Malaysian standards and good agricultural practices. The immediate benefit accrued is a significant increase in the exports of guavas, mangoes and mangosteens—from $21.73 million in 2017 to $51.29 million in just a year.

Another reasoning that buttresses aggressive branding of agri-products is that government support, if given, would be WTO-compliant as it is placed under the 'green box' instead of 'amber box'. Currently, India supports agri-exporters through duty drawback and under the Merchandise Export from India Scheme, which may carry the risk of being WTO non-compliant. It goes without saying that adequate budgetary allocations towards aggressive branding and packaging can encourage producers and exporters.

Imposing tariff on digital companies will be counter-productive: Report

Krishnanand Tripathi, Financial Express

August 12, 2019: Amid a raging debate over whether to tax global technology giants or not, a new study has warned Asian economies that the move will be fiscally counter-productive. If the aim is to fill the exchequer then these tariffs on digital services will depress the domestic output and the net result for revenue officials will be strongly negative, said a report of the European Centre for International Political Economy (ECIPE), adding that import duties levied on digital goods and services will lead to higher prices and reduced consumption which would in turn slow the GDP growth and shrink the tax revenues.

"Our research indicates that the payoff in tariff revenues would ultimately be minimal relative to the scale of economic damage that would result from import duties on electronic transmissions," said Hosuk Lee-Makiyama and Badri Narayanan, the authors of the report.

Hosuk Lee-Makiyama is a fellow of the London School of Economics and director of ECIPE and Badri Narayanan is an associate professor at the University of Washington and consultant at McKinsey Global Institute.

At present, global digital trade is largely free from tariffs as WTO members have agreed to a moratorium in 1998. This moratorium has come to known as WTO E-commerce Moratorium.

However, in recent times, several WTO members have debated the issue of imposing tariffs on these digital companies.

India is also mulling to impose tariffs on global technology giants like Google, Facebook, Microsoft, Twitter and several others that have significant economic presence and business interest in the country but operate through the entities registered in low tax jurisdictions such as Ireland. This strategy permits them to avoid paying taxes both on their operations in India and also on the income. Finance minister Nirmala Sitharaman raised the issue at G-20 meeting in Osaka, Japan in June this year.

The report examined four major economies in Asia and Africa – India, China, Indonesia and South Africa. According to the study, each of the four countries tends to lose more in terms of economic and revenue loss than the gains through tariff.

Impact on India's GDP & Economy

Assuming a likely scenario in which tariffs imposed by one country lead to widespread reciprocal tariffs then India would lose 49 times more in GDP than it would generate in duty revenues, said the report.

The report concludes that it would be even more damaging for Indonesia, which would lose up to 160 times as much GDP as it would collect in tariffs, while South Africa would lose over 25 times more and China, seven times more.

Impact on Revenues

According to the report, in a scenario where reciprocal tariffs are imposed by other countries, tax revenues loss to India is estimated to be 51 times more than the tariff revenues to be earned by the country. While it is 23 times for Indonesia, 12 times for South Africa and three times for China.

"In short, a tariff on electronic transmissions would prove to be a highly inefficient form of tax collection," concluded the authors.

Economic slowdown: Govt plans urgent steps to boost exports

Banikinkar Pattanayak

August 12, 2019: The government is weighing a raft of measures — including "full reimbursement" of various imposts on exports and relaxed lending norms to improve credit flow — to reverse a slide

in the growth of outbound shipments in recent months, sources told FE. While the commerce ministry has already circulated a Cabinet note to phase out the flagship Merchandise Exports from India Scheme (MEIS) with a more WTO-compatible regime under which various state and central levies on inputs consumed in exports will be reimbursed, the government will likely top it up with an assurance that all embedded taxes borne by exporters will be fully refunded.

“The new scheme will be a dynamic one, so that all sorts of embedded taxes will be reimbursed once exporters bring them to notice. A government panel will examine their demand and take appropriate action. The idea, as we have stated, is that exports must be zero-rated as per the global best practices,” a source said.

Though the goods and services tax (GST) regime has subsumed a plethora of levies, some still exist (petroleum and electricity are still outside the GST ambit, while other levies like mandi tax, stamp duty, embedded central GST and compensation cess etc remain unrebated). Similarly, the Reserve Bank of India (RBI) is willing to ease priority-sector lending guidelines for exporters. Currently, exporters with a turnover of up to Rs 100 crore each are eligible for credit under the priority sector norms. This limit is likely to be scrapped or doubled so that more exporters are benefited. The maximum sanctioned limit of loans is also likely to be raised to Rs 40 crore per borrower from the current Rs 25 crore. Even the cap on export credit at 2% of banks’ total loans could be relaxed soon.

However, the central bank has refused to endorse a proposal to allocate a part of its foreign exchange reserves for export credit — as is being demanded by some exporters — to boost flow of loans on the ground that such a move is fraught with risks, a source said.

Once tweaked, the revised priority sector lending norms and certain enabling guidelines are expected to release additional credit of anywhere between Rs 35,000 crore and Rs 68,000 crore for exporters, according to an RBI assessment. Recently, commerce and industry minister Piyush Goyal told the Rajya Sabha that banks’ outstanding export credit, which rose from Rs 1,85,591 crore in March 2015 to Rs 2,43,890 crore in March 2018, dropped to Rs 2,26,363 crore at the end of March 2019.

Goyal has already held a series of meetings with exporters to address their concerns, and some of the steps being mulled will be finalised soon. The measures are proposed at a time when India’s merchandise export growth collapsed to just 0.6% in April, 3.9% in May and -9.71% in June. Citing persistent risks from a global trade war, the IMF recently trimmed its 2019 trade growth forecast by a sharp 90 basis points from its April projections to 2.5%, against the actual rise of 3.8% in 2018.

As for the plan to reimburse levies, such a scheme has already been implemented in garments and made-up exports. However, its scope and reach will be expanded now. Exporters will be refunded levies through freely transferable scrips. For the remission of state levies for garment and made-up exports, the government had allocated Rs 3,664 crore in FY19. However, the compensation level under this scheme was expanded in March to include central levies as well; even some embedded taxes were factored in. So the potential revenue forgone is now estimated at around Rs 6,300 crore annually. The government’s potential revenue forgone on account of the MEIS is estimated at Rs 30,810 crore a year.

However, government officials have repeatedly stated that the entire allocation or potential revenue forgone on account of various such schemes (including MEIS) doesn't qualify as export subsidies, as in most cases, they are meant to only soften the blow of imposts that exporters have been forced to bear due to a complicated tax structure. The US has dragged India to the WTO, claiming that New Delhi offered illegal export subsidies and "thousands of Indian companies are receiving benefits totaling over $7 billion annually from these programmes". Indian officials have rejected such claims.

According to Fieo president Sharad Kumar Saraf, for our exporters to become competitive, the government needs to ensure that transaction costs are cut drastically, embedded taxes are fully offset, raw materials are made available at reasonable prices and credit is extended at cheaper rates. "Land acquisition needs to be made easier and companies must not be dragged into unnecessary legal hurdles," he added.

Make-in-India: Need a brand-new policy to curb imports

Financial Express

Sunit Jain, August 12, 2019: If prime minister Narendra Modi doesn't take corrective action fast, his plan to reduce import-dependence in electronics—mobile phones, in particular—will go the way of the oil sector where, despite the ambitious targets to raise self-sufficiency, this has fallen in the last five years. Indeed, in a business-as-usual scenario, mobile phones alone could become India's second-largest imports in another 5-6 years.

The problem is the phased-manufacturing-program (PMP) Modi came up with to push domestic manufacturing simply didn't work. PMP put an import duty on mobile phones, but reduced this to zero on various components to push domestic value addition; so, in the first phase, import duties were zero on chargers/adapters and then this was extended to battery packs and then headphones etc. Yet, domestic value addition is just 15-18% and, in fact, the 2019 phase of PMP had to be put on hold as the domestic industry wasn't ready.

A possible reason for low value addition, according to Internet and Mobile Association of India (IAMAI) is that, in response to higher import duties, Chinese component-makers lowered prices so as to keep the post-import-duty component price the same; since Chinese phone firms in India have captured most of the market, the margins they sacrifice on components exported to India are made up by the margins on the phones they sell here.

As a result (see graphic), even as phone production rose 3.8 times from 6 crore units in FY15 to 22.5 crore in FY18, imports continued to rise, from $11.2bn in FY14 to $17.9bn in FY19; imports were a higher $21.9bn in FY18, but there was some change in classification that meant FY19 imports looked lower.

One result of the PMP was the mushrooming of small assemblers, and the government mistook this for a boom in local manufacturing. In its 2017-18 report, the ministry of electronics and information technology said there were 120 units making mobiles and components; in February 2019, the National Policy on Electronics (NPE 2019) said there were 268 units for mobile handsets and components that had been set up in the last 3-4 years. It turned out, FE found, that while there were indeed 268 unique units assembling mobiles/components, around half had shut shop.

While on data, interestingly, the National Policy on Electronics (NPE) in 2012 hoped to create an overall demand for electronics—including mobile phones—of $400bn by 2020, the Digital India policy gave the same projection in 2015 and, more recently, NPE 2019 is also aiming for $400bn, though by 2025! Not surprisingly, given PMP's inherent flaws, India has been way behind the targets. IAMAI reports that India exported just 18mn handsets in FY19 for $1.4bn or around a seventh of the target; for some reason, India's export data shows a number of $2.7bn but that could include some components as well.

Ideally, instead of focusing on a policy that is aimed at, essentially, smaller players, the government must woo big players looking at shifting production from China due to its problems with the US and, in the process, could move their vendor eco-system as well. Just look at how, thanks to Suzuki first and later Hyundai, India has become a hub for small car production in the world. Indeed, MAIT and ICEA, the two industry associations dealing with mobile phones, have asked the government to review PMP as it is not delivering—MAIT talks of how component imports have shot up despite PMP, and ICEA also talks of how the duty protection is easily circumvented via the Asean FTA, apart from the fact that India's duty regime is itself being challenged at the WTO; it could violate the WTO's ITA-1 agreement.

The Indian market is too small for global giants—75% of the global smartphone market is shared by Apple, Samsung, Huawei, Oppo/Vivo and Xiaomi— to want to move their entire production eco-system here, but if the global exports market of around $300bn is added, the addressable market gets attractive. Right now, around 60% of exports are made out of China, but Vietnam is also becoming a big player and accounts for around 10% of exports; several big players wanting to diversify from China are looking at Vietnam.

It offers very attractive corporate tax rates for firms wanting to relocate—zero in the first 4-5 years, 5% for the next decade and around 10% for the next two decades! Not surprisingly, Vietnamese production of mobile phones is up from 38mn in 2010 to around 250mn today. Add to the dramatically lower tax levels, much better infrastructure, cheaper land and electricity costs, faster clearances etc, and it is clear big players aren't going to shift to India unless the government really sweetens the deal for them. While a committee has been set up under Niti Aayog CEO Amitabh Kant to figure out how to attract these firms and estimate India's 'disability'—jargon for higher costs—this is likely to be around 9-12% relative to Vietnam and 18-20% vis-à-vis China. The government may baulk at giving large concessions—suit-boot-ki-sarkaar—but if it doesn't, not only will it miss a big export opportunity, it will end up with at least an $85bn import bill in just the next 5-6 years.

'Make in India' has re-emerged as the pivotal talking point

Saloni Roy & Bilakhshah Anand, Financial Express

August 12, 2019: Against the backdrop of a huge Lok Sabha triumph that saw the government enter its into second term with a large majority in Parliament, the new finance minister presented the Union Budget 2019-20 on July 5, 2019. Considering the magnitude of the victory in the General Elections and the current scenario of the Indian economy, this Budget was riding high on expectations.

Without much ado, the finance minister made her intentions clear by reiterating that the country is poised to become a $5-trillion economy in the next few years. Few minutes into her speech, she re-emphasised the vision laid down in the earlier Budgets of this government.

'Make in India', the flagship initiative of this government, re-emerged as the pivotal talking point in this Budget. Ever since its inception on September 14, 2014, this government has laid special emphasis on 'Make in India', and has, over the years, shown intent by providing stimulus for the success of this scheme. These steps include manoeuvring tariff regulations, relaxation of FDI norms, development of industrial corridors, creation of a conducive regulatory environment, impartation of skills and development training, and various other sector-specific initiatives.

To bolster the 'Make in India' ambition, the Budget 2019-20 witnessed an increase in customs duty rates of various finished goods. These include loudspeakers, digital video recorders, CCTV cameras, television cameras, optical fibres, etc. On the flip side, exemptions were extended to certain capital goods used in the indigenous manufacturing of telecommunications equipment, set-top boxes, compact camera modules, etc. Apart from electronic goods, there have been various customs duty concessions on parts exclusively used for electric vehicles. These products are electric-drive assembly, on-board charger, e-compressor and charging gun. This step has been extended for making India an electric vehicle manufacturing hub, and is seen as a special impetus to the 'Make in India' initiative.

To boost this campaign, the government has time and again tweaked customs rates to incentivise domestic value addition. As a policy measure, a Phased Manufacturing Programme (PMP) has been laid down by the ministry of electronics and information technology. Under this PMP, parts of mobile handsets would be brought under the ambit of higher rate of customs duty in a phased manner, to promote indigenous manufacturing of cellular mobile handsets, its sub-assemblies and even assemblies of sub-parts. While certain products such as chargers/adapters, battery packs and wired headsets are already subject to higher rates of customs duty, the list is likely to be expanded in due course of time. Similarly, a PMP has been laid down by the ministry of heavy industries and public enterprises for boosting domestic manufacturing of electric vehicles, its sub-assemblies and manufacturing of its sub-parts.

Strategic measures such as fine-tuning of duty rates are imperative taking into consideration various factors such as a focus on policy initiative of 'Make In India', need for maximum value addition in the country to boost the economy, employment generation in the manufacturing sector, aspirational vision of realising the $5-trillion economy, the need to counter pushback at the WTO on export subsidies, the volume of trade in electronic goods, etc. In light of these aspects, while adjustment of duty rates

for finished goods and inputs used in indigenous manufacturing may seem to take the colour of protectionism in the short term, this approach is expected to deliver the necessary impetus to the Indian economy and domestic interest in the long run.

Nevertheless, there is an acute need to up the ante on the slowing economy and a challenging fiscal situation. While in the macroeconomic shape of things, the 'Make in India' initiative seems to be one of the ways towards improving the overall economic health of the country, more could have been, and can be, done towards creating better infrastructure conducive to manufacturing set-ups.

Opinion | It's time for India to shed its export pessimism for good

Line Mint

August 12, 2019: India's early post-independence development strategy was marked by export pessimism. To it was added the not-quite misplaced nationalistic approach of import substitution-led industrialization. To top it, there was public-sector control of the commanding heights of the economy. One of the consequences of this approach was an excessive catering to industry. This was done by keeping wage goods cheap and import tariffs very high. This meant food prices were kept very low, hurting farmers, whose predicament was worsened by policies such as compulsory monopoly procurement and control on movement of produce. High import tariffs on industrial goods shielded domestic industry from competition, and hence from the pressure to innovate and be cost efficient. One more consequence of this inward-looking strategy was the neglect of labour-intensive manufacturing. Much later, the value of export-led growth based on the innate advantage of low labour costs was starkly revealed by the eye-popping growth of East Asian "tiger" economies, followed by China's three decade-long growth run. By now, all this is conventional wisdom, but it still does not seem to be leading to the dropping of our age-old export pessimism. At a recent ministerial meeting of the 16 members of the Regional Comprehensive Economic Cooperation (RCEP) in Beijing, a press statement was issued in which an unnamed government official complained about Indian industry's still-timid approach to free trade agreements. Most of the objections to India's signing up to RCEP stem from a fear of a flood of duty-free goods from the Association of Southeast Asian Nations or China. So Indian negotiators have been cautioned by industry to be very cautious, as it would hurt domestic producers. The unnamed government official may well wonder why Indian producers don't eye the large overseas market that will be available duty free for their own products and services if we sign up to RCEP. So why this export pessimism? Naysayers have many reasons. The world is turning protectionist, global demand is sluggish, there are far too many non-tariff barriers, Indian firms face tough regulatory qualification requirements to enter foreign markets, and so on. All these are true, but are still not enough to justify being fearful of embracing RCEP. India's share of global merchandise trade is less than 2% as against China's 13%. Going from 2% to 4% is possible, even in a world driven by protectionist forces and a growth slowdown. It would call for a 100% jump in our exports, which is an important engine of domestic growth. Indeed, the other three engines cannot be revved up as easily. Consumption spending is constrained by an excessive burden of retail debt, the drying up of non-bank finance at the retail level, and high job anxiety among households. The second engine, government spending, faces fiscal constraints since our current sovereign borrowing already gobbles up most household financial savings. The third engine, industrial investments, is constrained by a variety of factors ranging from

taxation, ease of doing business, risk aversion, lack of equity capital, low capacity utilization and uncertainty on demand growth. Hence, it is imperative to pursue exports aggressively. For more than five years since 2014, the cumulative growth in exports was nearly zero, at a time when the world economy grew 23%. In garment exports, India lost out not just in relative but also in absolute terms to Bangladesh and Vietnam. Meat and leather exports suffered, so did gems and jewellery. There were other factors like goods and services tax refunds and currency appreciation that hurt exports. For instance, the rupee has appreciated nearly 20% against the Chinese yuan in the past five years, partly explaining the deteriorating trade deficit, despite growth in trade.

So what would a reversal of export pessimism entail? First, focus on trade facilitation. Exporters still face an “inspector raj" at the border. One recent horror tale was the case of a freshly-cooked foods exporter being asked to open his deep-freeze container, which effectively meant trashing the consignment. The government must allow self-certification, with minimal and statistically sound sampling inspection, and severe penalties for breaches. Second, amend the anomalies that hinder the growth of export-oriented Special Economic Zones. For instance, due to our free trade agreement with Thailand, it makes more sense to produce in Thailand and sell duty free in India, than produce in Aurangabad and face stiff duty barriers to sell in the domestic market. Third, embrace global value chains. The entire production process is made of small steps, each adding a small bit of value but generating large-scale employment. The small value addition should not deter us from allowing duty-free access to and participation in the entire chain. This may require modifying our stance on high-value addition and rules-of-origin in our free trade agreements. Fourth, vigorously promote agriculture and agro-based industrial exports. This is an overdue piece of deregulation. Lastly, learn to play the non-tariff game like some of our savvy neighbours. The objective, ultimately, is to encourage, not thwart, India’s export optimism. One beneficial side effect is that competitive pressure will force domestic belt-tightening and reform. We are a large economy, and it’s time we behaved like one, especially in international trade, unafraid of engaging with canny trade partners.