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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.

How does RCEP fit in with Make in India?

Smitha Francis, Financial Express

October 9, 2019: Under the ominous shadow of the US-China trade war and global slowdown, there is urgency in concluding the Regional Comprehensive Economic Partnership (RCEP) agreement. With RCEP set to add China as well as Australia and New Zealand as India's new free trade partners, how does this trade deal fit in with India's national priorities for increasing domestic value added production and employment through the Make in India mission? The shift in India's approach to RCEP from the earlier reticence to the current TINA (there is no alternative) seems to arise from a perceived fear of marginalisation in relation to exports and FDI inflows. This marginalisation fear has two major assumptions underlying it.

The first is that the import of intermediate products and capital goods from partner countries at lower (or zero) tariff rates will increase the competitiveness of India's final goods exports. Meanwhile, lowering of tariffs by FTA partners will provide expanded export market access. It was on the basis of such bright export prospects for itself that India committed to reducing/eliminating tariffs in a large majority of manufactured goods in her major FTAs with ASEAN, Japan and South Korea.

However, the evidence is that easier access to imports has not pushed India to become more competitive, either globally, or in the markets of her FTA partners. After three successive years of negative or dismal growth, India's total exports grew at 13.1% and 9.5% in 2017 and 2018. "But at USD 322 billion, the 2018 value was still lower than the peak reached in 2013. On the contrary, domestic production has got increasingly displaced by imports such that the number of individual manufactured sectors recording trade deficits has gone up since 2015.

In the case of India's existing region-wide FTA with ASEAN, ASEAN has achieved greater market penetration in India than what India could achieve in their markets. Consequently, the ratio of India's trade balance to total trade has worsened with respect to ASEAN. Same is the case for India's trade balances with her other major FTA partners South Korea and Japan, also part of the RCEP negotiating group. Clearly, increase in firm-level productivity achieved through liberalised access to imports becomes unsustainable after a point, without the upgrading of indigenous technological capabilities. It is therefore unrealistic to expect that India will be able to achieve significantly higher export growth because of a larger free trade zone through RCEP, especially with China's inclusion in it.

A second argument favouring FTAs is premised on their ability to facilitate FDI. Liberalised trade under region-wide FTAs obviously provides greater flexibility to MNCs to source components from different FTA partners. It is therefore argued that RCEP will enable India to attract more FDI inflows and develop its manufacturing industries through greater integration into GVCs. The theoretical and empirical bases for this argument have been found to be untenable. A large body of empirical evidence shows that the very entry of developing country firms into GVCs is conditional upon their **existing** level of industrial and technological capabilities.

Ironically, region-wide FTAs make it easier for MNCs to locate the entire production process for particular products in a single country that they consider the most "suitable" or consolidate them in existing vertically integrated locations across a few countries, and import them duty-free into all other markets in the free trade zone. India-ASEAN FTA's regionally cumulative rules of origin support such production restructuring.

A number of RCEP negotiating countries (including China) have well-diversified and more developed supplier bases than India, thanks to their pro-active and ingenious government support for domestic production and technology development using strategically tweaked trade and FDI policies during earlier years/decades. In such a scenario, incentives for local production in India will get further eroded under an RCEP type agreement.

That is, in the absence of strategic policy measures that help build up indigenous capabilities and create "incentives for localisation" that go beyond tax rebates, trade and investment liberalisation across region-wide FTAs leads to an erosion of the incentives for maintaining/upgrading local production in India by foreign producers. In addition to oft-repeated infrastructural woes, this forms a significant part of the explanation for the relatively low level of real FDI inflows into creating new capacities in the Indian manufacturing sector.

The lack of level playing field in domestic markets from intensified import competition and the option of importing various intermediate products and capital goods duty free, erode indigenous manufacturers' incentives for local production too and weaken existing domestic backward linkages. Thus whatever local production by both foreign and domestic investors take place become increasingly dependent on imports from abroad, as reflected in India's growing import and trade deficit figures. (This is also why our imports/trade deficits decline/improve whenever there is an export slow down or a generalised industrial slow down).

Moreover, RCEP negotiations are continuing without any transparency also regarding the nature of negotiations related to investment, e-commerce, intellectual property rights (IPR), etc. WTO-plus provisions in existing FTAs relating to broad definition of foreign investments, rules on the operations of investors, indirect expropriation, etc. have all been found to reduce host governments' policy capacity for WTO-compatible industrial development strategies.

Similarly, clauses in an e-commerce chapter (or elsewhere) committing to free cross-border data flow can scuttle India's chances to catch-up with digital industrialisation. Any GATS-plus or TRIMs-plus commitments in services such as telecommunication services, cloud computing, etc. can prevent countries from implementing national laws related to data and making use of the government procurement route to promote our ICT sector. These are critical policy tools in the unfolding data-based economic growth trajectories.

Thus the fear that India will lose out if it does not join RCEP seems quite out of place. For the other negotiating countries, an RCEP without India does not have the same value as an RCEP including India. Indian negotiators must ensure that our national concerns, including those related to meaningful rules of origin to incentivise domestic value added production, are taken on board. RCEP should not become an impediment to realising our national objectives of increasing local production and our ability to put our house in order to benefit from digital industrialisation.

Proposed RCEP will worsen trade deficit in plantation commodities, says apex body

Rajesh Ravi, Financial Express

Kochi, October 12, 2019: The proposed Regional Comprehensive Economic Partnership (RCEP) will harm and worsen the trade deficit in the plantation commodities and make things miserable for the sector, which is already facing challenging times on account of low prices and high cost of production, says a study by the United Planters' Association of Southern India (UPASI) , an apex body of planters.

Natural Rubber (NR), pepper, coffee and tea are likely to come under intense competition and imports into the country are likely to increase over time, the study said.

The trade partnership is expected to be the world's largest regional trading bloc, with nearly 45% of global population and combined gross domestic product of $21.3 trillion. RCEP includes the 10 members of the ASEAN grouping of Southeast Asian nations and six Asia-Pacific countries of China, India, Japan, South Korea, Australia and New Zealand.

UPASI reports that the plantation commodities like tea, coffee, natural rubber, cardamom, pepper were exposed to international competition from April 2001, when the quantitative restriction were lifted as per the commitments under WTO. The signing of the ASEAN Agreement in 2009 opened up the Indian market further to the plantation producing countries like Indonesia, Vietnam, Malaysia, Thailand, among others.

Under the ASEAN Agreement, the import duties were gradually reduced since 2009 for tea, coffee and pepper, while natural rubber, cardamom and few tariff lines on coffee were kept under exclusion list. The current import tariff for ASEAN countries is 50% for tea and coffee (100% under WTO for other countries) and 51% for pepper (70% under WTO).

"During 2018-19, the trade deficit in the plantation commodities is Rs 5,716.64 crore with RCEP countries, while we had overall trade surplus in the plantation commodities to the tune of Rs 4,368 crore. As per the analysis done by UPASI, the plantation commodities will be losing significantly if the RCEP agreement materialises," UPASI secretary R Sanjith told FE.

Among the five plantation commodities, Natural Rubber (NR) and pepper have an overall trade deficit, irrespective of RCEP.

“In pepper, due to multiple bilateral (India-Sri Lanka) and multilateral trade agreements (SAARC, SAFTA & ASEAN), the trade deficit had increased over the years. Trade deficit with RCEP countries is Rs 415.31 crore during 2018-19. Coffee, being an export dominated commodity and with more than 75% being exported, India has an overall trade surplus of Rs 4,763.4 crore, but we have trade deficit with RCEP countries at Rs 164.35 crore, suggesting Indian coffee sector will be a loser,” Sanjith said.

“China, the partner country in the proposed RCEP, poses challenges and it being the largest tea producer and its ability to produce to the needs of the export market in quick time, is an immense threat to the Indian tea sector. Though China is the largest green tea producer in the world it also produces black CTC teas for the export market and with duty advantage and logistical advantage it may target Indian market. We hope that the plantation commodities will be kept under the exclusion list under the proposed RCEP ,” he added.

“Removal of trade tariffs only enhances the price competitiveness by reducing the wages for the laborers or removal of laborers with increased automation, and also less or no return for the farmers.The RCEP proposal will undoubtedly hurt the already weak plantation sector in India.It is time for us to think of a facilitative policy regime that addresses the concerns of the producers under such trade partnerships,” Resmi P Bhaskaran, Policy Analyst said.

India’s fertiliser policy flawed, policymakers still stuck to the 1970s/80s

Uttam Gupta, Financial Express

October 7, 2019: The Modi government is in its sixth year, but a coherent policy continues to elude the fertiliser sector. To get a sense of how the central government is approaching the sector, and where the sector is headed, let us look at some crucial pronouncements by the prime minister.

First, in the 38th edition of his “Mann ki Baat” radio address to the nation (November 26, 2017), Modi exhorted farmers to take a pledge to halve their consumption of urea, which is the most widely used fertiliser, supplying nitrogen, or ‘N’, to plants, by 2022. At the same time, he has proclaimed, time and again, his commitment to reviving the ailing public sector fertiliser plants at Talcher, Gorakhpur, Sindri, etc. The two objectives seem contradictory.
If the first goal is achieved, the consumption of urea should decline from the approximately 30 million tonnes at present to 15 million tonnes by 2022. Against this, even if the current domestic production is maintained, at about 24 million tonnes, this will result in a surplus of 9 million tonnes if consumption is halved by 2022. Since the cost of Indian urea is significantly higher than the international price, exporting the surplus is not feasible; selling at a lower price will be tantamount to the importing country subsidising farmers its farmers, which won’t be WTO compliant. If, in addition to this, ailing plants are revived, what will the country do with the additional production?

Second, Modi has pledged to eliminate diversion of urea to chemical industries by requiring all supply of the fertiliser to be neem-coated, which renders the urea unfit for any use other than agriculture. At the same time, he continues with an archaic policy of maintaining urea’s maximum retail price (MRP) at a level that is, depending on the plant where it is manufactured, 2-4 times lower than its cost of production and distribution. The huge arbitrage opportunity thereby created makes the temptation to divert too strong to resist and this can't be reined in merely by neem coating; no administration, howsoever alert, can monitor a mammoth 600 million bags of urea.

Considering that diversion was at a significant 30%, its elimination ought to have resulted in a steep decline in subsidy payments. But, this has not happened; subsidy on urea was a high Rs 45,000 crore during FY19 against ~Rs 50,000 crore during FY15 (neem-coating was introduced in 2015-16). The allocation for FY20 is even higher, at Rs 57,000 crore.

Third, Modi wants soil health cards (SHCs) to encourage farmers to opt for a more balanced use of fertilisers based on soil analysis. But, pursuit of disjointed policies such as disproportionately high subsidy on urea—nearly 50%-75% of the cost is subsidised—vis-à-vis complex fertilisers (phosphate 'P' and potash 'K') only 25-30% of whose cost is subsidised and denial of secondary transportation costs for the complex fertilisers prompts farmers to use more urea. This, in turn, leads to imbalance in fertiliser use, and thereby militates against the objective of the SHCs.
Fourth, Modi has vowed to curb leakage of fertiliser subsidy by implementing direct benefit transfer (DBT). Yet, he continues with the existing unit-wise, new pricing scheme for urea, which protects high-cost units—we have units producing urea at the cost of Rs 20,000 per tonne as well as those producing urea at half this cost. Since the subsidy gets transferred to the bank account of the manufacturer after sale is authenticated by the farmer using his Aadhaar number, the authorities may prevent bogus claims, but excess payments to inefficient manufacturers continue.
Fifth, while the PM wants to give a boost to 'Make in India', the existing policy gives no incentive to companies to invest in exploration of indigenous resources, or in research & development for delivering more efficient and cost-effective products to farmers. For instance, at present, India depends heavily on import for meeting its fertiliser requirements—90% in P and 100% in K. As a result, even as the country remains vulnerable to exploitation by global suppliers, farmers don't get any major breakthrough in yield because of skewed fertiliser use.

The root cause of these anomalies is that our policymakers remain glued to the antiquated framework of the 1970s and 1980s, which was designed solely to increase the production and consumption of fertilisers. In contrast, today, it is issues such as fertiliser use efficiency, balanced fertilisation, increase in crop yield, improvement in soil health, efficiency and cost optimisation in the supply chain, and reduction in subsidy that need greater attention. This is what Modi has himself repeatedly emphasised in his speeches.

The way forward is to unshackle the fertilisers sector from state controls, and leave all crucial decisions to market forces. Government intervention should be restricted to giving direct cash transfer subsidies to the poor farmers.
Left to market forces, urea's MRP will increase to a level where its use is curtailed, leading to reduction in unbalanced fertiliser usage. By eliminating arbitrage, this will automatically eliminate diversion, too. Manufacturers will increase efficiency, and reduce costs. They will invest in R&D and innovation, and find more effective solutions to farmers' needs. 'Make in India', too, will get a boost. Above all, the government will save a large amount on subsidy outgo. Will Modi bell the cat?

No reason not to have a limited trade deal with India: US commerce secretary Wilbur Ross

Financial Express

October 4, 2019: US commerce secretary Wilbur Ross on Thursday said there was no reason why a limited trade deal with India couldn't be signed quickly, even as he asked New Delhi to balance the interest of large e-tailers like Amazon and Walmart-backed Flipkart with offline retailers' in its e-commerce policy.

Addressing a session of the India Economic Summit organised by the World Economic Forum here, Ross said: "Amazon and other US retailers did not get to become the world's biggest companies due to any evil reason. They have become what they are today due to efficiency. So India has to do the balancing act and decide how they can be doing their business."

Speaking at the same session, commerce and industry minister Piyush Goyal, however, asserted that there was no change in India's FDI policy for e-commerce. While the government wants to promote e-commerce, it also intends to protect small brick-and-mortar stores.

"E-commerce is an agnostic platform for trading, and not meant for predatory pricing. We don't change rules mid way. We provide stable regulatory framework," Goyal stressed. "Small retail is a sensitive subject, so India has restricted FDI in multi-brand retail at 49%."

Responding to Ross' observation that American e-tail giant Amazon's investments in India have dropped, Goyal said the company might have front-loaded its investments and is, therefore, investing less now. Later in the day, Ross met Goyal and is learnt to have discussed greater and easier access for American companies to the Indian market in key segments, including medical equipment, agriculture and ICT products, including high-end smart-phones and smart watches. Ross has been a vocal critic of India's "high tariffs", although New Delhi has pointed out that its tariffs are still way below the WTO-mandated levels. Separately, Ross met finance minister Nirmala Sitharaman on Thursday.

As for FDI rules in e-commerce, India had issued a notification in December 2018, which barred online marketplaces with foreign investments from selling products of the companies where they held stakes or controlled inventory, and also banned exclusive marketing arrangements, among others. The government, however, stated that the notification was only a reiteration of existing rules and it was forced to clarify as it had received complaints that the e-commerce players were giving discounts on products sold on their platforms, thus, violating the FDI rules.

On the expectations of a trade deal, Ross, however, said at the Summit that neither country had suggested that it would be sealed in "five minutes", tacitly acknowledging differences in negotiating positions.A limited deal was expected to be announced when Prime Minister Narendra Modi met US President Donald Trump on September 24 but persisting differences are learnt to have delayed it.

The US wants India to scrap/cut “not justified” tariff on ICT products (20%), motorcycles (50%) automobiles (60%) and alcoholic beverages (150%). It is seeking better trade balance with India through greater market access in agriculture and dairy products. Similarly, Washington wants New Delhi to remove price caps on medical devices like stents, a move that will help American companies like Abbott. The US has also expressed concern over what it thinks India’s “frequent changes” to e-commerce FDI rules, and data localisation.

India fears that it could lose as much as $3.2 billion a year if it scraps duties on the seven ICT products, including high-end smart-phones and smart watches, acceding to US demand. Also, China, not the US, will be the biggest beneficiaries of any such move, as the US made up for only 2% (or $415 million) of India’s imports of these seven products worth $20.5 billion in FY18. Instead, India offered to cut tariffs in those ICT products where the US could benefit more. But Washington remains unimpressed.

For its part, India is pitching for an exemption from the extra duty imposed by the US on steel and aluminium, resumption of duty-free export benefits for some Indian goods under the so-called Generalised System of Preferences (GSP) as well as greater market access for its products in sectors ranging from agriculture, automobile and auto components to engineering.

India’s exports to the US, its largest market, touched $52.4 billion in 2018-19, while imports were to the tune of $35.5 billion. Its trade surplus with the US has been shrinking in the past two years, as it has stated importing oil and gas from the largest economy, something that India has been highlighting.

According to the US government data, New Delhi’s trade surplus with Washington eased to $21.3 billion in 2018 from $22.9 billion in 2017. In contrast, China’s trade surplus with the US widened further to a record $419.2 billion last year from $375.6 billion in 2017, despite the tariff war between the top two economies.

India-US trade deal: Is Donald Trump asking for too much

Bhabesh Hazarika, Financial Express

October 2, 2019: As the famous saying goes, politics dominate even the most casual conversations. This holds true for the latest bonding between the US president Donald Trump, and the Indian prime minister Narendra Modi. While Trump has repeatedly called India ’Tariff King’ for imposing high tariffs on American products, there seems to be a shift in sentiment, owing to the ’Howdy Modi’ euphoria.

But, is this shift of sentiment genuine, or there is more to the story that doesn’t meet our eyes? An announcement on a bilateral trade deal was expected on September 25, 2019, on the sidelines of the UN General Assembly meeting. India’s refusal to remove the 20% tariff on information and communication Technology (ICT) products seems to be the reason behind the delay. The US Senator

Graham Lindsey had recently claimed that India has the worst tariffs in the world on US products; 67% of tariffs across the world have damaged America's trade deficit ratio.

India's import of medical devices jumped 24% to Rs 38,837 crore in 2019, as per the latest export-import data. If reports are to be believed, average tariffs in India are much higher than those in developed economies. An official report released by the USA asserted that India's tariff on other countries, who are members of the World Trade Organization (WTO), are the highest. The average tariff rate demanded by India in 2018 was 17.1%—much higher than the USA, Japan, and the European Union, whose rates ranged between 3.4% and 5.2%. The average tariff levels claimed by India, however, are more in line with other developing nations.

For instance, the average rate in 2018 in Turkey, was 10.7%, in Brazil, 13.4%, and in Egypt, 19.1%. India, however, has always maintained that it has adhered to WTO guidelines. The country cites another measurement of tariff rates, called trade-weighted average, which accounts for imports on volume, thus measuring the average of the tariffs collected. The trade-weighted average tariff of India was 11.7% in 2017—Brazil's was 10%, and South Korea's 8.1%. The trade-weighted average tariffs for the US, Japan, and the EU, however, were much lower at 2.3%, 2.4%, and 3% respectively.

India cites these reasons to have a 'No negotiations' stand, especially in the ICT products category. PM Modi is also concerned that if the tariffs are removed, the decision could open the market to a variety of Chinese products.

Nonetheless, there has been a positive buzz on Trump and Modi's attempts to establish a transparent, and predictable pricing mechanism for a variety of products in the agricultural, and medical devices sector. These interventions will promise quality treatment, with focus on patient safety.

Trump has been vocal about his demands as far as the medical devices sector is concerned, asking for much greater accessibility to the Indian markets for medical devices such as cardiac stents and knee implants, and removal of price caps. Consistent discussion on price control, between experts from the medical devices industry and the government, has also led to 'trade market rationalisation'.

The US expects the policy decisions to be in accord with the condition that global medical devices manufacturers be paid on a 'first point sale' basis, rather than on a 'landing price' basis. First point sale means that the payment should cover cost, insurance, and freight. It may be noted here that there are four to seven points of sale in the supply chain. This incurs expense namely freight, inventory in high-maintenance warehouses specially designed for medical devices, rental, sales and marketing overheads, wages, and service and statutory costs of compliance.

So, the big announcement is awaited. It remains to be seen when Modi will budge and give in to Trump's demand to effectively implement TMR, and, most importantly, lower the tariffs.

WTO gives final approval to US retaliation in Airbus case

Financial Express

October 14, 2019: The World Trade Organisation on Monday gave the United States final authorisation to impose tariffs on EU products in retaliation for illegal subsidies given to Airbus, in a widely expected procedural move. Earlier this month, a WTO arbitrator gave Washington the green light to slap tariffs on USD 7.5 billion (6.8 billion euros) worth of European Union imports, a landmark moment in the 15-year legal battle between Airbus and American planemaker Boeing.

The arbitrator's award — the largest in the organisation's history — needed to be rubber-stamped by the WTO's Dispute Settle Body (DSB). That final authorisation was granted at a special DSB meeting on Monday, according to a Geneva trade official. Washington has said the tariffs, which may target a range of consumer products including French wine, could be in place by Friday.

But EU officials have indicated that they are trying to reach a negotiated settlement with the US, to avoid escalating trade tensions that risk battering economies across the globe.

If those negotiations fail to produce a deal, Brussels will get the chance to impose its own WTO-approved tariffs on US products, after convincing WTO judges that Boeing had benefited from illegal US government subsidies. An arbitrators award in that case is due in 2020.

Opinion | Airbus versus Boeing at the WTO

Livemint

October 3, 2019: The US has scored a victory against the EU at the World Trade Organization (WTO). On Wednesday, it ruled that the US could impose tariffs on $7.5 billion worth of European goods in retaliation to illegal EU subsidies given to aircraft maker Airbus. American grumbles over state support in Europe for its premier plane maker go back decades. European policies, the US has long alleged, had given Airbus an unfair advantage over its Boeing in the global market.

Rivalry between the two has been intense. While Airbus has had a setback in its failure to turn its A380 'super jumbo' into the world's long-haul of choice, Boeing has recently has a blowout with its 737 Max planes. The Donald Trump administration in the US, however, is in the midst of a trade battle with the EU, and the ruling would be music to his ears. But if he does exercise the option to levy tariffs on EU imports, it would only worsen trans-Atlantic tensions.

The world is already reeling under the mercantilist approach taken by the world's most powerful country. According to recent forecasts, world trade in merchandise is expected to expand by only 1.2% during 2019, markedly lower than the 2.6% forecast made in April. This would make this the weakest year for trade since 2009, when it plunged by nearly 13% (on account of the West's Great Recession). Call it slowbalization of deglobalization, it bodes ill for international relations. What is needed are US-EU talks to resolve trade differences.

After setback at WTO, India likely to 'rework' more export schemes

Banikinkar Pattanayak, The Indian Express

October 1, 2019: With India losing a key trade dispute with the United States at the World Trade Organization (WTO) on export subsidies, it will likely expedite a process to replace or restructure various WTO-incompatible export schemes in the coming months, a source said.

A WTO dispute settlement panel is learnt to have ruled in favour of the US that had claimed that New Delhi offered illegal export subsidies and "thousands of Indian companies are receiving benefits totaling over $7 billion annually from these programmes". These export subsidies were in violation of the WTO's subsidies and countervailing measures (SCM) pact, the US had alleged.

India is awaiting the panel's final report and its precise findings, which is expected soon, said another source, indicating that a detailed impact assessment would be done once the report was received. Analysts say what comes as a blessing in disguise for India is the US move to block judges to the appellate tribunal, which will be crippled with just one judge left after December 11.

In that case, the fate of any appeal by India against a verdict in favour of the US remains uncertain. Unless a decision is made by the tribunal on the appeal, the findings of the WTO's dispute panel cannot be binding on India, they have added.

In a business-as-usual scenario, though, once the dispute panel's final report is made public, India would be required to appeal the ruling before an appellate body within 30 days. If the appellate body upholds the panel's ruling, India will have to stop the export promotion schemes within a mutually-agreed-upon time frame, which is often a year. Here, too, India will have time to comply if it starts the restructuring of controversial programmes early. Last March, the US had challenged many Indian export subsidy programmes, including MEIS, Export Oriented Units Scheme; sector-specific schemes, including Electronics Hardware Technology Parks Scheme; special economic zones; Export Promotion Capital Goods Scheme; and duty free imports for re-exports. —*FE*

WTO still scrambling for standardised global fishing rules

The Indian Express

October 9, 2019: A short video slowly making the rounds on social media starts out with none than 93-year-old David Attenborough, a filmmaker famous for his luscious documentaries on nature. It is classic Attenborough with his distinctive, calm voice backed up with dramatic music and amazing underwater footage of whales, dolphins and coral reefs.

But this isn't a new nature film; it is a call for help. And the main issue isn't global warming or the mountains of plastic in our oceans, it is government subsidies.

"Government subsidies are keeping fishing boats fishing even when there are too few fish left for fishing to be profitable," said Attenborough in the video. "A global deal to end harmful fisheries subsidies is the next vital step in the restoration of our oceans to their former abundance and diversity."

The video, produced in cooperation with NGOs Friends of Ocean Action, the World Economic Forum and the World Wide Fund for Nature (WWF), is a digital message being sent to governments around the world and decision makers in Geneva at the World Trade Organization (WTO).

Previously the WTO has come up with global rules for government subsidies for industry and farming. The video is meant to add pressure to reach another deal by the end of this year on global fishing rules, which is one of the UN's official Sustainable Development Goals. It also comes during an important round of negotiations when time seems to be running out.

Today governments around the world cough up around $22 billion (€20 billion) of public money for fisheries subsidies. These unchecked transactions in turn have often led to overfishing and threaten fish stocks and jobs.

"It is estimated that 85% of governments' fisheries subsidies benefit large industrial fleets, thereby distorting markets to the detriment of small-scale artisanal fishing companies. Small-scale fisheries employ 90% of all fishers yet account for 30% of the catch in marine fisheries," pointed out a statement from the groups behind the video.

According to Friends of Ocean Action, 3 billion people depend on healthy oceans for food and jobs. "If the ocean was an economy, it would be the seventh-largest in the world." Adding that almost 90% of ocean fish stocks "are now fully exploited, overexploited or depleted."

To get the whole picture, the group also has an eye on plastic pollution, ending illegal and unregulated fishing, and decarbonizing the shipping sector. It is a long list; still they place a big part of the blame on unregulated government subsidies.

A message of hope

But there is more than a glimmer of hope in the message. Ocean recovery is possible. "All is not lost. We can turn this around right now," said Attenborough while suggesting that healthy oceans can be achieved with time and careful planning. Seabeds and fish stocks can recover through sustainable fishing and continue to feed the billions who depend on it.

Improved management of the oceans can also bring big economic gains for the seafood industry besides boosting food security. Stakeholders — big and small — from around the world have a say.

But personal responsibility has its limits, and money talks. Peter Thomson, the UN Secretary General's special envoy for the ocean, and co-chair of the Friends of Ocean Action, has an answer to that. He has suggested that the billion in current subsidies should be used "in building the resilience of coastal communities."

This would allow those hit the hardest to see other possibilities to endless, unaccountable fishing. Attenborough takes a more sentimental approach to convince people to help oceans once again become "vibrant, abundant and productive" by simply calling it "your ocean" in his convincing, wise manner.

India, China can help build a more inclusive global governance

Wang Huiyao, The Indian Express

October 16, 2019: This week, Chinese President Xi Jinping and India's Prime Minister [Narendra Modi] will seek to reinforce Sino-Indian ties as they wander among the ancient structures of Mamallapuram. Local sites have been spruced up ahead of the summit, with roads repaved and gates repainted. However, recent events are a reminder that it will take more than a fresh lick of paint to cover cracks in the relationship between the two countries.

Since the Doklam standoff in 2017, sustained engagement between Xi and Modi has brought Beijing and Delhi closer. More work remains if both sides are to overcome the bilateral "trust deficit" that hampers deeper cooperation. If they can do this, in the long-term, China and India have the potential to help revive global governance and forge a new framework for Asian integration.

Xi and Modi's move to cultivate closer ties over the past two years has come amidst a turbulent global context. President Donald Trump's unpredictable "America First" politics has presented challenges for policymakers in Beijing and Delhi, undermining the liberal order that has benefitted both countries. However, the Sino-Indian rapprochement is much more than temporary expediency. It is also a recognition that we live in an increasingly multipolar century, one in which no country can dictate global rules or solve its challenges alone.

Asia will be central to this story. Next year, Asian economies will become larger than the rest of the world combined in PPP terms, for the first time since the 19th century. Not only is Asia growing richer, as it becomes more integrated, it is also coalescing as a constructive force for global governance. While a lack of leadership or consensus hampers badly-needed reform of global institutions, Asia has become the locus for new multilateral initiatives. This is evident in new trade pacts like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), as well as new institutions such as the Asian Infrastructure Investment Bank (AIIB).

China and India are destined to play pivotal roles in the "Asian century." Both share interests in promoting a fairer, more inclusive form of globalisation. Together, they constitute 35 per cent of the world's population and their economies constitute 45 per cent of global growth. Jointly, China and India have the critical mass to galvanise reform of institutions such as the WTO, IMF and UN so that developing countries get more say. A robust Sino-Indian relationship would also be an anchor for regional stability, paving the way for a more integrated, prosperous Asian community.

Recent events in disputed regions reflect the challenges in fulfilling this collective promise. In particular, unresolved border issues and regional politics have left lingering suspicions between the two countries. Turning this trust deficit into a "cooperation dividend" means forging a new paradigm for Sino-Indian relations — one that ringfences thorny issues of contention while cultivating mutual benefits. In particular, there is great scope for deeper cooperation in areas such as economy, connectivity, culture, and environmental protection.

Economically, China and India have huge complementarities given their strengths in manufacturing and services, respectively. IT is another promising area for collaboration — China is a leading investor in AI and quantum communications, while India is a world-leader in software outsourcing and IT consulting. These synergies could be unlocked through deeper cooperation in trade and investment. To this end, China and India should redouble efforts to complete the RCEP. This free trade agreement would not only boost economic ties between China and India; it would also be a gamechanger for integration in Asia.

Connectivity cooperation between China and India would further catalyse this integration process, helping to cut transport costs and spur trade. Delhi retains reservations about the Belt and Road Initiative (BRI). However, if carried out in an open, consultative manner, connectivity initiatives by China and India should be seen as complementary, not competing. To enhance trust and facilitate genuine participation by all stakeholders, China should take concrete steps to multilateralise the BRI. The AIIB, of which India is the largest recipient to date, offers a useful model. For example, establishing a BRI International Cooperation Committee would enable active involvement by all countries, including India, if and when it is willing.

Alongside the movement of goods and capital, flows of people are a vital component of Asia's integration. Inter-Asian tourism and talent flows are booming. However, cultural ties between China and India remain thinner than might be expected. Just a tiny fraction of the millions of Chinese and Indian tourists and students going abroad is between the two countries. More can be done to build friendships between Chinese and Indians, such as improving visa processes and creating programmes for talent and academic exchange.

The last area to highlight — arguably the most important for long-term cooperation — is environmental protection. As the most populous countries on earth, joint efforts between China and India will be crucial to tackle environmental challenges like climate change. The destinies of China and India are inextricably linked through a shared atmosphere, water resources, and the Himalayan ecology. Both countries face ecological crises. But together, they can provide new impetus for environmental governance, promoting solutions that balance sustainability and development.

The Xi-Modi summit will no doubt be peppered with references to ancient ties between China and India's great civilisations. But the two leaders should focus firmly on the future if they are to lay the foundations for a lasting bilateral relationship. Over the coming century, cooperation between China and India can play a crucial role in reviving multilateralism and building a more united Asia. The obstacles which must be overcome to achieve this are truly Himalayan. Yet, the potential gains are even greater.

As world stares at recession, there is need for coordinated policies by major economies

The Indian Express

October 14, 2019: The annual data for the last two years, and also quarterly numbers on world economy, trade and capital flows suggest that the world economy is on the edge of a recession. World GDP was at 3.8 per cent in 2017, fell to 3.6 per cent in 2018, and is now projected to be 3.2 per cent in 2019.

The two major groups — 39 Advanced Economies (AEs) and 23 Emerging Economies (EEs) — have been experiencing downturn for the last two years. While AEs are projected to grow at 1.7 per cent in 2019 from 2.4 per cent in 2017, EEs are set to experience 3.8 per cent growth in 2019 from 4.8 per cent in 2017. Though the IMF projects a better picture for AEs (3.5 per cent) and EEs (4.5 per cent) in 2020, it is difficult to predict given the geo-political uncertainty, escalating trade war between US and China, and lack of consensus among the G-7 and G-20 member countries to push world trade and growth. Investors are worried about the slump and that is clearly reflected in capital flows and stock markets across the countries.

Growth and trade go hand in hand. In fact, the spectacular growth of the world economy between 2003-2008 till the Global Financial Crisis (GFC) was well supported by world trade. However, world trade growth has been shrinking since 2017 — it fell to 3.7 per cent in 2018 from 5.5 per cent in 2017 and is projected at 1.6 per cent in 2019. The growth of trade volume for AEs is projected to be 1.6 per cent in 2019 from 4.4 per cent in 2017 whereas for EEs trade is expected to grow at 1.5 per cent in 2019 from 7.4 per cent in 2017. Though the IMF has forecasted an upward projection for world trade in 2020, there is great uncertainty due to the ongoing US-China trade war.

Individually, the world's top 10 economies are slowing down. While the US, the largest economy of the world, has a projected growth of 2.3 per cent in 2019 from 2.9 per cent in 2018, China is growing at its slowest pace in the last three decades — thanks to the US-China tariff war affecting trade worth billions of dollars. Though different factors have been at play resulting in slow growth in each of these big economies, a global slump in the manufacturing sector, weak global sales in automobiles and electronics, and a drop in business confidence — owing to uncertainty in trade and investment — are facilitating the continuous slide.

For example, Germany, the world's fourth largest economy, relies heavily on automobile exports to the US and China. The British economy is shrinking mainly because of the fears of a chaotic Brexit without cutting a deal to protect its trade. Italy's downward trend is due to high unemployment, weak productivity, huge debt and regular political upheavals. Brazil is undergoing high unemployment and weak industrial production.

As the US-China tariff war is escalating — especially in the last few months with both countries resuming and dropping the bilateral talks intermittently — the world economy is undergoing immense uncertainties. And, as Bloomberg reports, this uncertainty could lower world GDP by 0.6 per cent by 2021. A solution to the tariff war looks like a bleak possibility — even as the US puts conditions on China, such as resolving the mass protests in Hong Kong. The protests, on since June 2019 in Hong Kong, Asia's financial hub, are denting the confidence of investors and businessmen.

Hong Kong's GDP and exports have been worst affected in FY 2019 due to setbacks in Asian manufacturing, trading and investment.

Further re-imposition of US sanctions on Iranian oil not only affected Iran's economy and price levels, leading to a weak currency, but it also led to disruptions in the supplies of oil and oil price volatility. Both India and China, the two largest energy consuming countries in the world, are badly affected, as both countries are among the largest importers of Iranian crude on favourable terms. All these uncertainties are supplementing the already existing difficult situation in the Indian economy, that is, lack of aggregate demand. Though the US-China tariff war gives an opportunity for Indian exports to export more to both countries, we have failed to capitalise so far.

In such a scenario, when the world economy is staring at a recession, it is increasingly important to strive for international cooperation through forums like the G-7 and the G-20 to revive world trade and growth, like they did after GFC. Though the G-7 leaders called for boosting globalisation through efficient and fair trade, there is no such commitment to arrest protectionist measures.

In fact, they also expressed concern on how to safeguard the rule-based trading system led by the World Trade Organisation (WTO) through reforms and modernisation, improve intellectual property protection and a quicker settlement of trade disputes.

Crucially, the G-7 leaders made a commitment to reach an agreement that simplifies regulatory barriers to trade and modernises international taxation within the framework of the OECD in 2020.

The US and China, at the G-7 forum, also recognised the importance of bilateral talks to resolve trade issues rather than slamming tariffs on the opposing country or by pressurising businesses of the home country by withdrawing operations from the opposing country.

The world economy is on the edge of a recession that can affect the standard of life of billions of people through jobs, wages, price stability and uncertainty. Though it is not a crisis situation like 2008, there is an urgent need for international cooperation for globalisation, resolution of trade conflicts and the peaceful resolution of geo-political uncertainties. Moreover, there is a need for coordinated fiscal and monetary policies by major economies, like the G-20 members adopted after GFC. But unfortunately, the credibility of even the G-20 and WTO is at stake. So who is going to save the world economy?

Granaries overflowing, Food dept's SOS to MEA: Send wheat, rice as aid to deserving countries

Harikrishan Sharma, The Indian Express

New Delhi, October 15, 2019: With Food Corporation of India granaries overflowing, the government is looking to liquidate its grain stocks to prevent damage and minimise the carrying cost in the country beyond the requirement. In fact, the Food Ministry wants the Ministry of External Affairs to look at the option of presenting the surplus grain stocks as "humanitarian aid to deserving countries".

Sources told The Indian Express: "The Department of Food and Public Distribution has requested the Ministry of External Affairs to explore the possibility of export of wheat and rice from the surplus stock available with FCI, through G2G (government-to-government) basis in the form of humanitarian aid to deserving countries."

Earlier this year, a committee of secretaries too recommended that the possibility of offering surplus stocks of wheat in the form of aid to deserving countries be explored in coordination with the MEA. The Ministry of Consumer Affairs, Food and Public Distribution had made similar request to the MEA at least twice in the last two years.

"Despite repeated requests, there has been no positive outcome," sources said.

Procurement of wheat and rice in the central pool has been increasing over the years, leading to accumulation of surplus stock of wheat and rice with FCI. As a result, stocks of food grain in the central pool continue to remain much in excess of stocking norms.

As per stocking norms, the total requirement of food grain in the central pool as of July 1 was 411.20 lakh tonnes, and as of October 1 307.70 lakh tonnes. However, as of September 1, the stock available in the central pool was 669.15 lakh tonnes (254.25 lakh tonnes of rice and 414.90 lakh tonnes of wheat).

“The present procurement and lifting pattern of wheat and rice indicate that in near future, FCI may have to carry huge and undisposed stocks, leading to not only blockage of borrowed funds but difficulty in accommodating new crop of wheat and rice due to occupation of space by the old stocks,” a note prepared by the DoF&PD states.

“Therefore, for it would be in our interest to liquidate at least a part of the surplus stock of wheat and rice available with the FCI by offering the same as humanitarian aid to deserving foreign countries,” it states.

In the past, India has donated food grain to some countries. For instance in 2011-12, 2013-14 and 2017-18, India donated more than 3.5 lakh metric tonne quantity of wheat to Afghanistan. In 2012-13, a quantity of 2,447 metric tonne of rice was given to Yemen as humanitarian aid. Similarly, a small quantity of rice was also donated to each one of five countries — Myanmar, Sri Lanka, Zimbabwe, Lesotho and Namibia — between 2014-15 and 2017-18. But the same has not happened in the last two years.

“Earlier, the quantity of food grain donated was too small, this time we want MEA to do this in a big way,” sources said.

The FCI has tried to sell the surplus stock through the Open Market Sales Scheme (OMSS) but the results have not been encouraging so far. According to data available on its website, during 2019-20, FCI offered 22.92 lakh tonnes of wheat but the actual quantity sold till the third tender of September was 5.13 lakh tonnes only. Similarly, FCI offered a quantity of 8.77 lakh tons of rice for sale through e-auctions but barely 4.12 lakh tonnes sold till the third tender in September.

There are two main reasons due to which FCI has not able to sell the surplus wheat and rice in the domestic and international markets.

First, the prevailing prices of wheat and rice within the country and outside are not conducive. The market prices of these two commodities are much lower than the economic cost of FCI. For instance, the economic cost of wheat and rice is budgeted at Rs 2505.67 and Rs 3601.91 per quintal respectively. Whereas, the market rate of wheat and rice are around Rs 2,100 and Rs 3000 per quintal respectively, depending on the varieties. The average wheat price in the international market in September was somewhere around $190 to $202 per tonne. In case of rice, it was around $427 per tonne for Thai 5% broken, which is closest to Indian rice.

Second, there are some provisions in the WTO agreement on agriculture which impose certain restrictions on export from public stock holding.

“The wheat and rice procured for the central pool at MSP (minimum support price) and available with the FCI constitute a public stock holding and, therefore, certain restrictions have been imposed on exports to foreign countries from such public stock holding as per provisions of the agreement on agriculture under WTO," sources said. "Such exports are allowed in fully grant form to foreign countries subject to certain conditions of the WTO," sources said.

China's digital route to dominance

Paran Balakrishnan

October 15, 2019: It's got a remarkably catchy name: Peace, or the Pakistan East Africa Cable Express, and it's an undersea cable that will connect Pakistan's Gwadar Port to a landing point near Mombasa in Kenya. It's one of many undersea cable links being built by Chinese companies like Huawei Marine and the goal is to ensure all digital roads lead to China.

Laying undersea cables is just one part of what's been nicknamed China's Digital Silk Road. It's an attempt to connect large swathes of Africa, the Middle East, South-East Asia and even South Asia to a hi-tech network dominated by the Chinese state or by one of its corporations. And while the key emphasis of China's ambitious Belt and RoadInitiative (BRI) is on building infrastructure, the Digital Silk Road will underpin BRI strategy every kilometre along the route as China deploys technology to boost its influence.

Whenever we ever feel like comparing ourselves with the Chinese, it might be instructive to take a look at the Digital Silk Road which shows the gigantic scale of Beijing's vision in which they can marry hardware and powerful hi-tech corporations that can take on all-comers. In addition, China's playing for high stakes: a world in which the remnimbi has equal status with the dollar or more as well as for a world where companies like Huawei won't be under threat from the US government that stops suppliers selling essential components. That means hi-tech self-reliance at home and a market abroad for its products. Also, in the coming years, it wants to be the leader in 5G.

Most importantly, Beijing wants to create conditions under which it, not the US and the Western world, will set the standards for the Internet and surrounding hi-tech environment. Controlling the flow of data will become "increasingly important in shifting the balance of geopolitical power in China's favour," noted a recent paper by Fitch Solutions Macro Research.

Besides the 'Digital Silk Road' consisting of networks of new fibre-optic cables, China has also launched a 'Spatial Information Corridor', consisting of Chinese-backed systems of communications, positioning and observation satellites. Would you like to use a Chinese alternative to GPS? Beidou's Navigation Satellite System will soon be an option in many parts of the world. Beidou has a string of 46 medium-orbit satellites circling the Earth transmitting data to users and will soon be able to offer services globally.

Have the Chinese been able to muscle their way into markets once controlled by the Americans and the Europeans? Take a look at Huawei Marine which has taken part in 98 projects and laid 59,000 km of undersea cable. A decade ago, it was a small player and now it's got 24 per cent of the undersea cable market.

China's race to build undersea links has led observers to draw comparisons with the British back in the 1850s. Though many in the British government grumbled about the expense, the result was the British controlled the undersea cable market for telegraph and also determined standards to be met by companies from other countries. Incidentally, the British also chose Gwadar as their Indian sub-continent landing point. In the 19th century it was all about telegraph cables. Today it's about fibre-optic cables for the Internet.

The Chinese also have an array of fibre-optic cable projects all over Asia. Early this year, an 820-km fibre-optic cable from Khunjerab in Xinjiang to Rawalpindi became operational. Last year, a 50-km fibre-optic cable from Kerung in China to Rasuwagadi in Nepal ended India's dominance of the Mountain Kingdom's Internet services. China has also laid fibre-optic cables to Myanmar and Kyrgyzstan. Reaching out to other corners of the globe, Huawei recently laid a 3,750 km undersea line from Brazil to Cameroon in Africa.

The Chinese have calculated, just like the British Empire in which trade followed the flag, they must build the infrastructure that will make it easy for their home-grown companies to hold their own against powerful US corporations. That's precisely why US and European companies are worrying about the new powerful challengers emerging both in Africa and Asia.

Even in the Middle East, the Chinese have invested huge amounts in countries like Egypt and the UAE. Some observers believe the mutual interest between the two sides is fuelled by oil — the Arab countries want to strengthen their links with the country they believe will be their biggest customer in coming years. Similarly, the Chinese want to secure their oil supplies.

Huge opportunities

To be sure, there are opportunities galore all over Asia and Africa. Internet penetration is extremely low in countries like Myanmar, Cambodia and Laos. In the last two years, it's risen steeply in countries like Indonesia and the Philippines just as it has in India. Chinese companies have invested large amounts in these South-East Asian countries. The Chinese companies are also driven by the fact their own market is maturing so they need to move to fast-growth regions.

Leading the way are Chinese giants like the BAT trio, Baidu, Alibaba and Tencent, that are pouring money into all corners of Asia and Africa. Companies like Alibaba have focussed on e-commerce and payments systems. The biggest Chinese venture-capital companies like Qiming Ventures and GGV Capital are opening offices in Singapore and scouting for new opportunities. Western firms say this is an expansion carried out in coordination with the Chinese government.

As the Chinese companies spread in all directions, questions being raised are whether they will respect Internet freedom or whether they'll want to turn it into a policed zone where the state is supreme, as it is in China. Their Western rivals claim all Chinese corporations are subservient or in informal partnerships with the state. The Americans and Europeans insist the Chinese will change the very nature of the Internet because they prioritise state security and surveillance over all else. Observers see the BRI as being an import vehicle for China to push its goals of becoming a major tech power.

Hence, the moves to block the Chinese firms are accelerating and it's clearly more than just a straightforward corporate battle. These efforts began even before President Donald Trump came to power. The West, led by America, wants to keep ruling the hi-tech roost. China is determined to change this. One international commentator described it this way by saying, "China's task is to build a global coalition of countries that subscribe to its policies and ensure that new laws and norms are in line with its own interests." One thing is certain: the struggle for tech dominance will remain a key source of tension in relations between China and the West.

RCEP: India must protect its ICT industry

Smitha Francis / Murali Kallummal , Business Line

October 15, 2019: Given that ASEAN, South Korea and Japan are already India's FTA partners, the ongoing Regional Comprehensive Economic Cooperation (RCEP) negotiations will primarily add China as well as Australia and New Zealand as new free trade partners for India. Australia and New Zealand's membership in RCEP has raised the fear of severe adverse impacts on India's agricultural and dairy sectors. On the other side, the prospect of duty-free imports from China has raised concerns about the ability of our indigenous manufacturing firms, including in the information technology and communication (ICT) hardware sector, to withstand further competition from the state-supported firms in China and allied countries.

These concerns are related to the fact that even when India does not have an FTA with China, currently, between 15-17 per cent of India's overall imports already originate from China as against just 2.8 per cent in 2000 (the year before China joined the WTO). While India's growing import dependence on China is significant in several industries — like pharmaceutical ingredients — it has been severe in the case of the electronics industry, which includes ICT hardware products. From the time of its official entry into the WTO in 2001, China became eligible for duty-free access for several electronics exports into every WTO member's market, including India, because of the Information Technology Agreement (ITA-1). This is despite the fact that China did not sign the ITA-1 until 2004. Chinese electronics firms, which matured and attained economies of scale in its large domestic market under strategic trade and FDI policies supporting indigenous manufacturers, have subsequently been able to gain massive market shares in India.

Re-routing of imports

If we go by the OECD definition of ICT products, China single-handedly accounted for 63-64 per cent of India's total ICT imports during 2016-17. Altogether, the 16-member RCEP group accounted for as high as 85-86 per centof India's total ICT imports during 2016-17. But this share came down to 74 per cent in 2018, which was due to a massive 15 per cent drop in China's share. While China still accounted for nearly half of India's ICT imports in 2018, this drop seems explainable by a re-routing of Chinese imports through neighbouring countries driven by the heightened US focus on China's ICT technology strength from around 2017. It seems that Chinese exports have been making their way in particularly through Vietnam, followed by Singapore, both of which showed an increase in their shares in Indian ICT imports in 2018.

The shift to Vietnam is especially visible in the consumer electronics and telecommunication equipment segments. China used to account for about 50 per cent of Indian consumer electronics imports during 2015-16, followed by Malaysia and Thailand. However, in 2018, while China's share dropped to 43 per cent, Malaysia's more than halved to 6 per cent and Thailand's share declined to 8 per cent, Vietnam's share nearly tripled from 6 per cent in 2016 to about 18 per cent in 2018. In India's imports of telecommunication equipment, while China's share dropped from around 71 per cent during 2016-17 to 53 per cent in 2018, Vietnam's share jumped four times from about 3 per cent to about 12 per cent between 2017 and 2018.

The re-routing of Chinese exports through Vietnam has clearly been to help circumvent the sharp US focus on Chinese ICT exports. But for India, the sudden drop in China's share which seems mirrored in Vietnam's rise in shares amidst a significant rise in ICT import value in 2018 raises many questions than answers. Given that Vietnam is a beneficiary under the India-ASEAN FTA, this brings back the focus on compliance with the rules of origin criteria.

If India is going ahead with RCEP negotiations, we must insist on rules of origin mandating significant domestic value addition in the country of the final exporter as well as strengthen bilateral mechanisms for ensuring compliance. Additionally, we need to negotiate availability of firm-level investment data with the RCEP group to understand the nature of Chinese investments in different countries.

Strikingly, the largest re-routing of Chinese ICT exports appears to be through Hong Kong, whose share in India's total ICT imports jumped from less than 3 per cent during 2016-17 to about 14 per cent in 2018. Specifically, between 2017 and 2018, Hong Kong's share increased from 1.5 per cent to 21.5 per cent in electronic components; from less than 4 per cent to nearly 15 per cent in telecommunication equipment; from 0.7 per cent to 7.5 per cent in consumer electronics, and from 1 per cent to 8 per cent in computers and peripheral equipment.

Given that Hong Kong is not part of the RCEP, India also needs an urgent re-look at the non-preferential rules of origin applied on MFN trade, beyond what has been achieved at the WTO.

Safeguarding local industries

It is critical for the government to approach these trade negotiations with foresight, realising the need for coherence with its ‘Make in India’ and ‘Digital India’ missions. The electronics industry supplies the devices and equipment required to advance digitalisation. In particular, telecom equipment provides the network connectivity and access layer of the digital infrastructure base. We are moving beyond the simple Internet era into the era of the Internet of Things, with automated controls among connected devices and equipment driven by data intelligence. There is increased merging of the digital and the physical spheres across sectors — including in those critically integral to national security like defence, energy, agriculture, transport, etc.

Apart from the fact that our country can ill afford another wave of import surge in electronics arising from digitalisation, we cannot depend on imported telecom equipment and control devices as the backbone of our critical digital infrastructure. Thus strengthening indigenous capabilities in these high-technology industries is a must for national security.

India must ensure that RCEP’s architecture will not undermine those capital-intensive efforts going on among indigenous manufacturers which will help realise the government’s target of achieving net zero electronics imports by 2022.

How India can enter global supply chains

Ajay Shankar, Business Line

October 15, 2019: In the context of the growing trade friction between the US and China, one view often expressed is that it provides India with a major economic opportunity. But this opportunity, as of now, is more theoretical than real. For some years, wages in China have been rising rapidly, and consequently, low-wage jobs have been moving out — just as they did from the high-wage economies of the US, Europe, Japan, Korea and Taiwan a generation earlier — as a part of mobile global supply chains.

These jobs, whose numbers are not insignificant, are going to other destinations, rather than India, which are more attractive to investors. To get these jobs into India as part of global supply chains, we need more than ‘business as usual’.

Labour reforms

The government’s intention to move forward with the proposed four labour codes to replace the 40-plus labour laws is a welcome development. The easy one on wages has already been enacted. The complex one is on social security. Here, the intention is to provide universal coverage. The challenge would be to provide sufficient resources. Further, considerable ingenuity would be required to design a seamless transition of benefits in case of movement from self-employment to casual employment in micro and small enterprises, and then to the organised sector, and vice versa.

The code on industrial relations providing for labour market flexibility should be easier to navigate politically, if universal social security is in place. A modest initial step has been taken with the notification on Fixed Term Employment. It is not well-known that German Chancellor Otto von Bismarck introduced comprehensive social security in Germany in the 1880s, not because he was a socialist at heart, but because he felt that this would facilitate rapid industrialisation and the rise of Germany.

Indian firms have been able to manage the system and have allowed for *de facto* labour market flexibility by increasing the share of casual contract labour. This naturally appears daunting to a potential investor considering locating some part of his global supply chain in India, especially if it is labour-intensive. Labour market flexibility is intrinsic to global supply chains, given the increasing uncertainties in the global market driven by the faster pace of technological change.

Given India's reputation for not being an easy place to set up a factory and employ a large number of workers, it suited the commercial interests of MNCs to encourage India to get into FTAs, starting with Thailand, in the first decade of this century. Growing Indian demand could be then be met from existing efficient supply chains in these countries and there was no commercial need for relocating these to India. The theoretical case for preferential regional trading arrangements is a bit nebulous in any case.

It is also worth recalling that China was given conditional entry into the WTO only in 2000. But by then, it had already become the factory of the world, using a wide range of measures to succeed. Competitive advantage in the globalised industrial economy is not a natural endowment. It is created by firms. Intelligent state action can and does make a huge difference.

Attracting investment

The dominant ideology in India of the virtues of free trade comes in the way of considering pragmatic, WTO-compatible measures for getting investment into specific sectoral supply chains. In recent years, there has been some feeble discovery of the potential of policy. The result is the impressive number of mobile phones that are being assembled in India. But getting the supply chain for IT hardware manufacturing in India is turning out to be not easy. Nudging the process with changes in import duties appears attractive. But this goes against the principle of having low, predictable uniform tariffs across the board.

One unorthodox way around the problem would be to rework the idea of Special Economic Zones. Sales from these into the domestic tariff area should attract the lowest import duty applicable on these goods under any FTA. These Zones may have the benefit of duty-free imports of capital goods as well as raw materials, and components with the same value addition requirement that apply to FTA partner countries. Exemptions for taxes on profits need not be provided. Investment decisions in the brick-and-mortar economy are rarely taken on the consideration that there would be no taxes on profits. In any case, the recent reductions in corporate tax rates have been steep enough. The requirement of being net foreign exchange earners may also be dispensed with. Sales to the domestic tariff area would replace imports from other destinations and reduce foreign exchange outgo.

For this to work, the state would need to develop these Zones with private partnerships to the extent feasible. The infrastructure and logistical connectivity to the ports and the National Highways could be made to match those of competitive destinations in South-East Asia. Such quality infrastructure would need Central government financing. There is a good precedent of Central funding in the development of the Delhi-Mumbai Industrial Corridor. Land and infrastructure of a quality and price that is comparable with those of alternative destinations is naturally essential for success.

Art of negotiation

State governments in India have traditionally been competing for investments and have been negotiating attractive terms to get high-profile investments, such as the Nano car plant of the Tatas in Gujarat.

The Central government has been liberalising the FDI policy, but has not showed belief in negotiations. It is time for the Central government to adopt this approach selectively.

Negotiating with Walmart, Amazon, Apple, Sony and Samsung to get their supply chains to India is worth attempting. It was a negotiating process which brought Suzuki and its supply chain of auto components for the Maruti car into India; it was the last successful example in India of creating competitive industrial capacity through state policy. For comapnies like Amazon and Walmart, some changes in the e-commerce policy could work.

Plight of cotton farmers still unresolved

Sachin Kumar Sharma, Abhijit Das, Business Line

October 14, 2019: Recognising the importance of cotton in agriculture development, poverty reduction and international trade, World Trade Organization (WTO) observed World Cotton Day on October 7. While this initiative is laudable, it does not conceal the harsh reality that the WTO has failed repeatedly in its efforts to improve the plight of poor cotton farmers in African countries by getting the US to cut its subsidies to cotton. It compels a sober reflection on what was the problem, how it was sought to be addressed and what went wrong.

For the past two centuries, cotton was an embodiment of slavery and colonisation. The need for employing slaves to cultivate and harvest cotton — a commercially lucrative crop — in the southern states of the US ultimately led to the American Civil War. The role of cotton in economic exploitation of India by the British is too well-known to be recounted. At the WTO, developments over the past 16 years suggest that cotton continues to remain a symbol of exploitation, poverty and hypocrisy.

The US holdout

The issue of cotton subsidies came into limelight in 2002, when Oxfam published a report titled *Cultivating Poverty* . The report delineated in detail how the huge subsidies provided by the US to its cotton growers had depressed global prices, diminished prospects of exports from developing countries and destroyed the livelihoods of cotton farmers in Africa. The adverse impact of US subsidies was felt most severely by African countries, whose economies were overwhelmingly dependent on cotton. These included Benin, Burkina Faso, Chad and Mali (referred to as the 'C-4' countries).

The Oxfam report shook the collective conscience of most of the trade negotiators at the WTO. Those were the early days of the Doha Round of multilateral trade negotiations, and a persuasive case was built by the C-4 countries for eliminating subsidies to cotton as a part of these negotiations. In fact, cutting cotton subsidies became the rallying cry at the Cancun Ministerial Meeting of the WTO held in 2003. However, what happened on this issue at the Cancun meeting highlights the hypocrisy of the US and failure of the WTO to negotiate for more stringent rules on cotton subsidies.

With most of the WTO members putting pressure on it to give a commitment to cut its cotton subsidies, the US was cornered. However, the US found it politically inconvenient to give any commitment on cotton. It tried to divert attention away from its subsidies and instead, in informal talks with the C-4, proposed action for product diversification in Africa. This strategy fuelled further resentment and frustration among developing countries.

According to some trade experts, after sensing that the sentiment of most WTO members was against its approach to cotton, the US ducked a detailed discussion on the issue by letting the Cancun meeting sink on other contentious issues.

The US had succeeded in stonewalling the demand to cut its cotton subsidies. Undeterred by the failure of the Cancun meeting, C-4 and other developing countries persisted in their efforts aimed at getting developed countries to cut cotton subsidies. This bore fruit during the Hong Kong Ministerial meeting of the WTO, held in 2005. At the insistence of developing countries, the US agreed to reduce cotton subsidies "ambitiously, expeditiously and specifically", but as a part of agriculture negotiations under the Doha Round.

However, the US killed the Doha Round in 2015 and escaped reducing its cotton subsidies. This has also provided it a window to further distort global trade in cotton.

Cotton lobby

During 1995 and 2017, the US provided subsidy worth $38 billion to cotton farmers through a plethora of schemes: including direct payment, market loan assistance, crop insurance, counter-cyclical payment and commodity certificates. In a few years, the amount of subsidy was as high as 74 per cent of the value of production of cotton. The US is also implementing a Marketing Facilitation Programme, under which it has provided $462 million direct payments to cotton producers whose export earnings have fallen due to the US-China trade war.

With the top 10 per cent of recipients of cotton subsidy in the US receiving 82 per cent of the total amount of the cotton subsidy, the influence of the cotton lobby on trade negotiations is evident.

As a result, despite the cost of cultivation of cotton lint in India ($0.71 per kg) and the C-4 ($1.23 per kg) being lower than that in the US ($1.88 per kg), the US exporters always have an upper hand in the market.

In conclusion, celebrating the World Cotton Day cannot mask the plight of poor cotton farmers in developing countries, mainly on account of cotton subsidies provided by the US.

The way forward should be for WTO members to discuss the joint proposal by India and China aimed at capping product-specific subsidies provided by developed countries to 5 per cent of value of production of the product concerned.

This proposal would go some distance in reducing the elbow room available to developed countries to distort global cotton trade through subsidies. The appropriate occasion to celebrate the Cotton Day would be the day when this proposal is accepted by all the WTO members.