INDIA'S TRADE NEWS AND VIEWS

1 June to 30 June` 2019

Discordant Notes: Naked pursuit of domestic interests robbing the G20 of its essence

G20 summits are meant to underline international problems and address them through policy coordination and guidance from the highest…

The dynamics of G20: Theory of first best and the group's empirics

The G20 Summit is current underway in Osaka, Japan. It presents interesting insights into the way global economic order is shaped…

India to push for reforms at WTO during G20 meet

India will push for reforming and strengthening the World Trade Organization (WTO), amid stresses and strains over free trade…

India may oppose efforts to seal trade deal at G20 meet

Attempts by the US, Japan and Australia to finalize a new trade deal, scrapping curbs on data…

G20 finance chiefs to warn of trade risks, differ on how 'pressing'

Global trade tensions threaten an expected pick-up in economic growth this year and in 2020, a draft…

G20: Developing nations call for balanced approaches in e-commerce and proposed reforms

Efforts to cobble an ambitious agenda for free data flows and sweeping reforms at the global trade…

India seeks solution on taxing digital firms

Finance minister Nirmala Sitharaman called upon the G20 members to urgently fix the issue of taxing profits made by digital economy

Trump talks trade at G20, China's Xi warns against protectionism

US President Donald Trump made clear on Friday that trade was his top priority at a summit of leaders of Group of 20 (G20) nations…

The new Cold War

Using its economic power to meet non-economic objectives is not new for the US. Sanctions against Cuba and Iran…

Delhi offers blueprint to promote development, inclusivity at WTO

India has offered a blueprint for promoting development and inclusivity at the World Trade Organization (WTO) and…

Opinion | Global trade is important for India's prosperity

The international, rules-based, multilateral trading system enshrined through the World Trade Organization (WTO) faces an existential threat…

India in a tight corner over trade policies

The Modi government's second term in office has begun with the country's foreign trade policy facing multiple…

Why India needs to reform its trade policy

The Generalized System of Preferences (GSP) is a US trade programme designed to promote economic growth in the…

India wins solar case against US at WTO

India on Thursday won a major trade dispute against the US at the World Trade Organization, with a dispute settlement panel pronouncing…

India-US trade: Are we reaching a point of no return?

India's relations with the US have entered a particularly rocky phase due to differences over trade…

Washington apples in soup as India imposes tariff

Washington state's apple industry is a worried lot after India hiked duties on the fruit. They said that it is very…

Trade winds: Big jump in electronics exports allays deficit fears

Massive electronics imports and their debilitating impact on trade balance have long pressured the…

Double farm incomes by investments, not subsidies

If anyone thought the government could double farmers' income by 2022—a Narendra Modi promise—by a sharp hike…

Australia, EU laud Narendra Modi govt's PM-Kisan scheme at WTO meeting

The Narendra Modi government's flagship scheme, the PM Kisan Samman Nidhi Yojana, which promises income guarantee to farmers…

Government's transport assistance for farm produce exports under attack at WTO

The new transport and marketing assistance scheme for farmers announced by the Union government in March has raised…

We should join WTO e-commerce talks

E-commerce and growing protectionism were two key topics of discussions at the G20 ministerial meeting at Tsukuba, Japan…

India must reclaim its lost digital space

India will not join the e-commerce negotiations at the WTO until issues like data flow and welfare to the poor are resolved…

Centre for WTO Studies, 7th Floor, IIFT Bhawan, B-21, Qutab Institutional Area, New Delhi – 110016

Tel: 91-11-26965124, 26965300, 26966360 Ext-725,710 Fax: 91-11-26853956 Email: cws@iift.ac.in

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.

Discordant Notes: Naked pursuit of domestic interests robbing the G20 of its essence

The Economic Times

June 30, 2019: G20 summits are meant to underline international problems and address them through policy coordination and guidance from the highest political level of heads of state and government. But as member countries diverge sharply on core issues, this unique institution risks losing the relevance it earned in the initial years following the 2008 global economic crisis.

Today's G20 is a pale shadow of what it used to be because everyone knows what the big challenges affecting the world are and, yet, consensus for collective action eludes.

The Osaka summit's top two themes were to spur growth in the slowing global economy and promote freer trade and investment. But in the wake of relentless trade wars between the US and multiple countries which are threatening growth prospects around the world, the G20 has not managed to convince member states to spurn protectionism.

Condemning protectionism had been a unanimous default position of G20 summits until US President Donald Trump's advent in 2017. But since then, the group's shared belief in the principle of free trade has eroded.

Trump is leading the charge of narrow national interest-based policymaking without consideration for the wellbeing of the broader interests of other countries. Like a domino effect, once the US erected tariff barriers in the name of "America First", others had no option but to retaliate and we are now caught in a downward spiral.The World Trade Organisation (WTO), whose own future has been clouded by American scepticism and the declining spirit of multilateral cooperation, has trimmed its global trade growth forecast to 2.6% in 2019, compared with 3% in 2018. At Osaka, concerned leaders like Prime Minister Narendra Modi explicitly named protectionism and unilateral tendencies as negative trends that must be reversed. But the group as a whole has failed to implement measures to remove trade and investment barriers.

Trump is not the only spoiler. Part of the paralysis has to do with the fading of a sense of crisis and urgency which compelled all G20 members to set aside selfish behaviour and save the global economy after the 2008 crash. The willingness to adjust and make concessions for other countries has dimmed. Nationalism is indeed trumping globalism.

Another central priority on which the G20 has fragmented into a motley gathering lacking in cohesion is climate change. The Osaka summit did name it on paper as a sub-theme.

But, again, consensus and a concrete push are missing. Scientific evidence that greenhouse gas emissions are not being cut adequately should have roused the entire G20 to issue decisive commands to combat this ongoing emergency. But Trump's denial of the crisis and the drying up of climate finance funding from developed to developing nations to transition to green technology are terrible omens. The environmental commons could be battered far worse in times to come.

Energy supplies and renewables have always been on the formal agenda of G20 summits. Osaka was no different. Leaders of large energy importing countries like India expressed alarm about war between the US and Iran and its impact on oil markets. Modi told Trump in their bilateral at Osaka that peace and stability in the Persian Gulf region was in "India's fundamental interest". The G20 host Japan even pitched in as a mediator between the US and Iran.

But the American crusade against Iran is driven by domestic politics within the US. Trump is also happily peddling American shale oil as a substitute to Iranian crude, thereby advancing market share for US energy companies. Naked pursuit of domestic interests rather than the welfare of the international community is robbing the G20 of its essence.

A striking aspect of the Osaka summit was the forceful articulation of the age-old conflict between "Global South" and "Global North".

"Minilaterals" on the sidelines of the main summit insisted on the centrality of a developmentcentric course where the special needs and interests of poorer nations are respected. For example, the sub-group of Russia, India and China (RIC) batted for a "rule-based trading system" and appealed to "maintain the trend of globalisation".

In the Brazil, Russia, India, China and South Africa (BRICS) informal, Modi criticised "one-sided decisions" roiling the global economy and demanded "all-inclusive" development with lessened inequalities.

Besides the classic "North versus South" fault line, "North against North" rifts are also undermining the G20. Some liberal European leaders continue to be aghast by Trump's populism. "Trans-Atlanticism" has hit rock bottom. But inside Europe, there is a pro-Trump far-right camp, which is defying liberal leaderships in France and Germany.

Labelling the G20 a broken family or a Tower of Babel is no exaggeration. Its grand mandate of steering the world economy will remain aspirational until it gets its own house in order. Given the illiberal political winds blowing across the horizon, expecting a multilateral revival is wishful.

The dynamics of G20: Theory of first best and the group's empirics

Ram Upendra Das, Financial Express

June 29, 2019: The G20 Summit is current underway in Osaka, Japan. It presents interesting insights into the way global economic order is shaped or de-shaped today. To understand the empirical realities of the G20, it is worthwhile to refer to the theories of first best and second best. Put simply, according to the theory of first best if all but one requirement for achieving a most desirable economic situation cannot be satisfied, it is always beneficial to satisfy the remaining ones. The theory of second best is even more interesting. It suggests that if a particular market distortion is difficult to remove, introducing another market distortion could well produce a more efficient outcome by countervailing the previous distortion.

So the question is whether G20 is a distortion to multilateralism or an impetus to it, if multilateralism is considered as the first best? With more than 80 percent of the world's economic output and two-thirds of its people, G20 represents the most powerful of countries of the globe. It is plurilateral but has the power to shape the distortions-laden multilateralism, be it the UN, the WTO, Climate Change negotiations, the international financial architecture, global digital economy regime and so on.

G20 is mini-UN and it can direct and shape the contours of WTO reforms. It can address investment needs in infrastructure which has the potential to help capital reap profits alongside huge employment generation. Prime Minister Modi highlighted an estimated deficit of $ 1.3 trillion for investing in infrastructure development of emerging market economies.

But what is it that the G20 is in news for, that too with reference to extremely crucial economic maladies? First, the global disquietedness with respect to economic unilateralism. Secondly, the unilateralism translates into bilateral trade wars and how can the G20 Summit not be an occasion to redress that? The US more than doubled import tariffs on Chinese goods worth US $200 billion. It is also considering to impose tariffs on the remaining Chinese imports into the US, including consumer products such as mobile phones, computers and clothing. This would cover another US $325 billion of Chinese goods. The retaliation by China is well-known in terms of increased tariffs on US$60 billion worth of US goods. Reports suggest that China is considering exports restraints of rare earth elements, which are crucial raw materials for a variety of electronic parts and components, affecting the entire value chain in the electronics sector.

Thirdly, an important sub-set on the sidelines of the G20 has been the BRICS. The Joint Statement on BRICS Leaders' Informal Meeting on the margins of G20 Summit is wide-ranging, covering diverse subjects that require global action and those where BRICS is moving ahead viz. New Development Bank (NDB) and BRICS Contingent Reserve Arrangement (CRA).

Fourthly, another emerging configuration which is worth-noticing is that of the US, Japan and India, Abe described the grouping as "the foundation of peace and prosperity in the region". This has both the economic and strategic content with which India has a lot to do especially the

RCEP. Fifthly, Russia, India and China have highlighted the need to adhere to the basic agreed principles of global economic conduct.

And, finally there have been various permutations and combinations of bilaterals at the G20 summit.

What do all these add up to? Some broad inferences can be drawn. Each unilateral, bilateral, trilateral, regional and plurilateral is important for the multilateral and global trade and economic growth. These are so very crucial for the multilateral institutions and their very survival be it the UN or the WTO. Each of these interactions can determine the fate of trade and economic multilateralism. Each can be the first best if helps reversing a trade, market, and institutional distortion. And what is more all these happening at the G20 Summit.

The G20 itself is a departure from multilateralism so much so ironically that it can revive the multilateral process and a rule-based system. The G20 process has brought to the fore the need for understanding the global economic dynamics all afresh and has highlighted the imperatives of revisiting the Theories of first best and second best.

India to push for reforms at WTO during G20 meet

Elizabeth Roche, Live Mint

22 June, 2019: India will push for reforming and strengthening the World Trade Organization (WTO), amid stresses and strains over free trade among key global economies, at the upcoming G20 meeting in Japan.

Briefing reporters in New Delhi, Suresh Prabhu, India’s sherpa to the 28-29 June summit in Osaka, said Prime Minister Narendra Modi will highlight the fact that “slower global trade adversely affects economic growth". This will be Modi’s sixth G20 meet.

India feels that “the only way forward is multilateralism, but that does not mean it should not be reformed. So, multilateralism has to be a way of life, but has to be in a much better way," Prabhu added.

“We strongly feel that WTO should be strengthened and that should be the body through which global trade is regulated."

The remarks come against the backdrop of the US imposing unilateral punitive tariffs on India and other countries with which it has trade deficits, in a bid to ensure what it calls fair trade.

US President Donald Trump has also threatened to pull the world’s largest economy out of the World Trade Organization in retaliation for ruling against the US.

Trump was previously quoted as saying the 1994 agreement to establish the WTO “was the single worst trade deal ever made".

US trade representative Robert Lighthizer has also accused the WTO of interfering with US sovereignty.

Explaining India’s position on free trade, Prabhu said India has already opened up its economy to a great extent, making it “one of the most open economies of the world today".

“We have opened several sectors to foreign direct investment. So, now, India is right to demand that India should get reciprocal treatment from other countries. While we have opened the borders, we have not fully benefitted from it," Prabhu said.

The return of fugitive offenders and illegally acquired assets, besides terrorism, energy security, financial stability and innovation in the digital economy, will be some of the other subjects that Modi will highlight in his speech, Prabhu added.

Infrastructure to boost trade, including climate resilient infrastructure, will also feature in the PM’s speech.

Modi is likely to meet Trump, Russian president Vladimir Putin, Australian Prime Minister Scott Morrison, besides other leaders on the sidelines of the summit.

The G20 comprises Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea/South Korea, Republic of South Africa, Russia, Saudi Arabia, Turkey, the UK, the US and the European Union.

In addition, leaders of invitee countries and representatives of international organizations participate in the summit.

This time, Japan has invited representatives of several African countries to participate in the meet, Prabhu said.

India may oppose efforts to seal trade deal at G20 meet

D. Ravi Kanth, Live Mint

Geneva, June 7, 2019: Attempts by the US, Japan and Australia to finalize a new trade deal, scrapping curbs on data flows, at the G20 trade ministers' meeting in Japan this weekend, could prompt a push-back from India and other developing countries.

India's new trade minister Piyush Goyal will lead the country's delegation at the two-day G20 trade ministerial summit starting on Saturday in Tsukuba, near Tokyo. Goyal is expected to indicate New Delhi's stance on major trade issues such as e-commerce and the proposed reforms at the World Trade Organization (WTO).

Trade ministers from several developing countries seem alarmed over concerted efforts by Japan, the US and other major industrialized countries to finalize a highly imbalanced digital and WTO reform agenda, which would severely undermine the "development dimension" in global trade, said a trade minister, requesting anonymity.

India's new trade minister must provide leadership at the meeting to ensure the development dimension is preserved in global trade, particularly in the digital sector, wherein attempts are being made to weaponize data, the minister said.

Japan wants to advance a 'Data Free Flow with Trust' (DFFT) agenda at the G20 meeting to eliminate restrictions on cross-border transfer of information by electronic means, including personal information, and storing data in foreign servers.

In a proposal circulated at WTO on 26 April, Japan said "each member shall allow cross-border transfer of information by electronic means, including personal information, when this activity is (for) conduct of the business of a person of members."

Japan also wants that "no member country shall require a foreign operator of member countries to use or locate computing facilities in that member's territory as a condition for conducting business in that territory."

Japan's digital agenda is closely aligned with the US's demands that call for ambitious commitments from India and other developing countries to remove various restrictions, including on cloud-computing.

Japan, Australia and Singapore are the drivers of the e-commerce negotiations at the global trade body.

In sharp contrast, India has signalled its intent to use electronic data of its citizens "for its own development rather than allow its value to be appropriated by others". India remains concerned about the pitfalls of pursuing an ambitious digital agenda without first addressing the digital divide.

India and South Africa are also concerned over the loss of customs revenue, as well as other fiscal implications, because of the existing moratorium for not levying customs duties on electronic transmissions.

Japan and US are also advancing a common agenda on WTO reforms that seek to bring about “differentiation" among developing countries—something that would end the flexibilities currently available to India, South Africa, Indonesia and other major developing countries.

Ahead of the Tsukuba meeting, US President Donald Trump has stepped up pressure on developing countries to “forego special and differential treatment in current and future WTO negotiations".

In a letter to trade ministers of developing countries on 26 April, US Trade Representative Robert Lighthizer said: “At the direction of President Trump, I am reaching out to ask you to support this initiative by agreeing to forego special and differential treatment in current and future WTO negotiations."

G20 finance chiefs to warn of trade risks, differ on how 'pressing'

Live Mint

Japan, 8 June, 2019: Global trade tensions threaten an expected pick-up in economic growth this year and in 2020, a draft communique by the world's financial leaders showed on Saturday, but the policymakers were divided on whether the need to resolve them was "pressing".

Finance ministers and central bank governors of the world's 20 biggest economies, the G20, are meeting in the southern Japanese city of Fukuoka to discuss the global economy amid rising trade tensions between China and the United States.

"Global growth appears to be stabilising and is generally projected to pick up moderately later this year and into 2020," the draft G20 communique, seen by Reuters, said.

"However ... risks remain tilted to the downside. These include, in particular, intensified trade and geo-political tensions," said the draft communique, which may yet change before it is released on Sunday.

The draft statement, to which all the G20 financial leaders have to agree, contains a sentence in square brackets — which means it was not yet agreed — that trade and investment were important engines of growth.

"We reaffirm our leaders' conclusions on trade from the Buenos Aires Summit and recognise the pressing need to resolve trade tensions," the sentence still under discussion said.

If the sentence is dropped from the final statement, it would mean rowing back on an agreement reached by G20 leaders last year in Argentina that while the existing international trade system — the World Trade Orgnisation — needs improvement, it helps world growth and should be fixed.

G20 leaders also agreed last December to review the WTO reform in Osaka later this month. But progress in overhauling the WTO, which still functions under rules created a quarter of a century ago, has been slow, partly because of US actions to block appellate judge appointments.

A Japanese finance ministry official who attended Saturday's G20 session told reporters that most of the group's members voiced concern that escalating trade tensions posed a huge downside risk for the global economy.

"With so many countries expressing concern over the fallout (from the trade tensions), there seems to be some momentum to reflect that in the communique. But there's no conclusion yet" on the language of trade, the official told reporters.

Relations between the United States and China have deteriorated since US President Donald Trump in early May accused Beijing of reneging on commitments to change its ways of doing business with the rest of the world. Washington raised tariffs on Chinese goods and threatened new levies, while Beijing has retaliated.

US Treasury Secretary Steven Mnuchin, who will hold talks with China's Yi Gang on the sidelines of the G20 gathering, said the United States wants free, fair and balanced trade with China, in part to close a gaping US trade deficit with China.

But the United States is prepared to levy tariffs on virtually all remaining Chinese imports if the "right deal" cannot be reached to satisfy U.S. demands for better Chinese protections of intellectual property and curbs to technology transfers and state subsidies, Mnuchin said.

"If we can't have that, the end result will be that my expectation is that many companies will move their production out of China to other locations," due to tariffs, Mnuchin said.

He said his scheduled meeting with People's Bank of China Governor Yi Gang will not be a "negotiating meeting" on trade issues, reinforcing the view there will be little breakthrough in the row between the world's two largest economies.

He added that any major progress will rest with Trump's expected meeting with Chinese President Xi Jinping at a G20 leaders' summit late this month.

In a rare positive development, the US administration said it will put off imposing tariffs against Mexico after the two countries reached a deal to contain the migration of immigrants crossing the southern US border.

"It's a very good outcome not just for the United States and Mexico, but for the global economy," Bank of Japan Governor Haruhiko Kuroda told reporters.

G20: Developing nations call for balanced approaches in e-commerce and proposed reforms

D. Ravi Kanth, Live Mint

Geneva, 9 June, 2019: Efforts to cobble an ambitious agenda for free data flows and sweeping reforms at the global trade body by major industrialized countries suffered a setback at the G20 trade ministerial summit that concluded Sunday at Tsukuba, near Tokyo.

Trade ministers from several developing countries called for balanced approaches in both electronic commerce and proposed reforms to be discussed at the World Trade Organization. Several trade ministers at the meeting spoke about the systemic crisis at the WTO's appellate body following the repeated blocking to fill vacancies by the US during the past two years.

"We agree that action is necessary regarding the functioning of the dispute settlement system consistent with the rules as negotiated by the WTO Member," the G20 ministerial communiqué issued at the end of the two-day meeting in Tsukuba emphasized.

Given the divergent approaches to the two important issues--digital trade and WTO reforms, the chair of the conference Hiroshige Seko, Japan's minister of trade, industry and economy, issued a chair statement that expressed "serious concerns" about the trade tensions triggered off by the US.

On free cross-border data flows, several developing countries expressed sharp concerns. "From our perspective, the security of electronic transactions and the rights of businesses and consumers to have their data secured are crucial," Indonesia's trade minister Enggartiasto Lukita told his counterparts at the meeting, according to an Indonesian official who asked not to be quoted.

"Warning about predatory practices of bigger digital platforms towards the smaller ones," the Indonesian minister called for "the right balance between the free flow of data on one hand, and appropriate protection of certain types of data on the other hand."

Trade ministers from Japan, the US, and Australia among others pressed for an ambitious agenda of commitments in the e-commerce centering around free data flow and removal of restrictions for storing data in foreign servers. Japan has advanced the concept of "data free flow with trust" at the meeting. The US and Japan want sweeping commitments in electronic commerce at the WTO.

Against this backdrop, trade ministers from several developing countries spoke about the growing pitfalls in the e-commerce agenda that is being sought to be pushed by major industrialized countries. The developing country trade ministers underscored the need to address digital divide and digital dependency before discussing ambitious commitments in e-commerce.

In the face of divergent approaches among the participating countries, the final G20 trade ministerial communique reaffirmed the importance of the ongoing 1998 work program on electronic commerce as demanded by India, South Africa, and Indonesia among others at the meeting.

India had all along demanded that the 1998 work program on electronic commerce which has tasked members to study all the aspects of e-commerce must remain at the core of e-commerce negotiations. India and South Africa have submitted a proposal last week to reassess the fiscal and other implications for continuing with the moratorium for not imposing customs duties.

The G20 trade ministerial communique merely mentioned about the so called joint statement initiative on electronic commerce that was launched by industrialized countries at the WTO's eleventh ministerial meeting in Buenos Aires in December 2017.

Sharp differences also came to fore during the meeting on the approaches to be adopted for the WTO reforms. The US has called for denying special and differential flexibilities to developing countries such as India, South Africa, and other developing countries in the current and future trade negotiations. But trade ministers from developing countries rejected such divisive approaches to be adopted at the WTO, said a G20 official who asked not to be quoted.

India seeks solution on taxing digital firms

Asit Ranjan Mishra, Live Mint

9 June, 2019: Finance minister Nirmala Sitharaman called upon the G20 members to urgently fix the issue of taxing profits made by digital economy companies in countries where they do not have significant physical presence.

The work on tax challenges arising from the digitalization of economy is entering a critical phase, Sitharaman said on Sunday at the G20 meeting of finance ministers and central bank governors at Fukuoka in Japan, her first foreign engagement after taking charge of the ministry.

"In this respect, the FM strongly supported the potential solution based on the concept of 'significant economic presence' of businesses taking into account the evidence of their purposeful and sustained interaction with the economy of a country. This concept has been piloted by India and supported by a large number of countries including the G24," the finance ministry said.

As offshore digital companies such as Facebook, Google, and Netflix have little presence in India, taxing their profits is not possible. This prompted the government to roll out equalization levy as a tax deducted at source on payments made to them by Indian firms with effect from June 2016.

The aim is to bring offshore companies with ‘significant economic presence’ in India into the tax net to address the shortcomings in taxing the digital economy. Offshore entities with a minimum number of customers are deemed to have a business presence in India, making them taxable.

However, India opposed attempts by developed countries to formulate an e-commerce policy outside the World Trade Organization (WTO) framework. Advocacy on free trade should not necessarily lead to justification of data free flow, India’s trade minister Piyush Goyal said at the G20 ministerial meeting on trade and digital economy. “Issues of privacy and security should be given due consideration, in the debate on data free flow with trust. Clarity on all these issues is essential, before embarking on ‘rule making’ on e-commerce. Developing countries need time and policy space to build deepest understanding of the subject and formulate their own legal and regulatory framework before meaningfully engaging in e-commerce negotiations," he said.

Members exchanged views on various issues, including the concept of data free flow with trust and WTO discussions on e- commerce, bearing in mind the importance of ensuring that all nations realise their opportunities, said a joint statement after the ministerial meeting on trade and digital economy.

“Discussions should continue to enhance the benefits of digitization, which is transforming every aspect of our economies and societies, and can contribute to economic growth, job creation, inclusion, development and innovation," according to the statement.

Members affirmed the need to handle trade tensions and foster mutually beneficial trade relations, especially in view of the escalating trade war between the US and China, it said. “We note that trade and investment growth slowed in 2018 and that this is contributing to a weaker global growth outlook for 2019-20 than previously projected. While growth is expected to increase in 2020, downside risks arising from the current trade environment could undermine this growth," it said.

India has opposed reforms proposed in the multilateral trading system that undermine the rights of developing countries, calling for reforms that inspire confidence among all members.

The abrupt push to alter rules of the institution midway has led to disruptions in world trade, just when member countries were beginning to enjoy the benefits of free trade, Goyal said. “India believes that the reform process should not undermine the WTO’s fundamental principles, namely, ‘Special and Differential Treatment’, ‘Consensus’-based decision making and objective of ‘Development’. The concerns of all member countries must be accommodated. The reform process should begin with reviving the dispute settlement mechanism by allowing re-nomination of appellate body members at the earliest," he said.

The US’ war against “unfair trade" has extended to the WTO. It has refused to appoint judges to the appellate body, which is the highest dispute settlement body of the multilateral trading system. The appellate body is set to become defunct by December with only one member left in the panel. The US also insists that large economies such as China and India should voluntarily give up benefits of special and differential treatment available to developing countries under WTO rules.

The joint statement, however, noted that members will work constructively with each other to undertake necessary WTO reform with a sense of urgency, including in the lead-up to the 12th WTO ministerial. “We agree that action is necessary regarding the functioning of the dispute settlement system consistent with the rules as negotiated by the WTO members," it said.

Trump talks trade at G20, China's Xi warns against protectionism

Live Mint

Osaka, June 28, 2019: US President Donald Trump made clear on Friday that trade was his top priority at a summit of leaders of Group of 20 (G20) nations, as China's Xi Jinping warned against rising protectionism and India, Japan and Russia defended multilateral trade rules.

Trump, who is holding a series of meetings on the sidelines with world leaders, including Japan's Shinzo Abe and India's Narendra Modi, said he saw US trade prospects improving, days after criticising the US-Japan security treaty and demanding that New Delhi withdraw retaliatory tariffs.

"I think we’re going to have some very big things to announce. Very big trade deal. We’re doing some very big things with India in terms of trade, in terms of manufacturing," Trump said at the start of talks with the Indian prime minister.

Trump, set to hold a high-profile meeting on trade with Chinese President Xi Jinping on Saturday, also made a push to discuss US concerns about Chinese telecoms equipment maker Huawei at his meetings.

Washington has pressed its allies to shun Huawei in their fifth generation, or 5G, networks on security grounds, and has also suggested it could be a factor in a trade deal with Xi.

"We actually sell Huawei many of its parts," Trump said at his meeting with Modi. "So we’re going to be discussing that and also how India fits in. And we’ll be discussing Huawei."

Asian shares stumbled during the day amid rising doubts that the highly anticipated meeting between Trump and Xi would ease trade tension.

European Commission President Jean-Claude Junker flagged the shadow cast by the US-China trade feud.

"The trade relations between China and the United States are difficult, they are contributing to the slowdown of the global economy," he told a news conference.

Xi also warned about the protectionist steps he said some developed countries were taking.

"All this is destroying the global trade order... This also impacts common interests of our countries, overshadows the peace and stability world wide," Xi told a gathering of leaders of the BRICS grouping of nations on the sidelines of the G20 meet.

Defending world trade rules

Modi at the same meeting called for a focus on reforming the World Trade Organization and Russian President Vladimir Putin decried what he called efforts to destroy the Geneva-based body.

"We consider counter-productive any attempts to destroy WTO or to lower its role," Putin said.

The situation of the global economy was worrying as global trade was feeling the effect of "protectionism (and) politically motivated restrictions," he added.

Trump, who often castigates trading partners on Twitter and in his raucous political rallies, put a positive spin on trade developments with Japan.

"I appreciate the fact that you're sending many automobile companies into Michigan and Ohio and Pennsylvania and North Carolina," Trump told Japanese Prime Minister Abe, referring to US states critical to his effort to win re-election next year.

Trump said the two leaders would also discuss Japanese purchases of US military equipment, although a Japanese official said later the topic did not come up.

Tokyo and Washington are engaged in difficult trade talks as Trump's administration seeks to lower the US trade deficit.

Japanese Economy Minister Toshimitsu Motegi and US Trade Representative Robert Lighthizer were to meet later in Osaka.

Abe welcomed Trump's visit, calling their frequent meetings "proof of the strong US-Japan alliance".

He later urged G20 leaders to send a strong message in support of free and fair trade, warning that trade and geopolitical tensions were rising and downside risks to the global economy prevailed.

"Today, I want to discuss with leaders measures to further enhance momentum towards reform in WTO," he told them ahead of a working lunch.

Trump renewed his criticism of the US-Japan security alliance this week as unbalanced.

"We will go in and we will protect them and we will fight with our lives and with our treasure," he said in an interview on Wednesday with Fox television.

"We will fight at all costs, right? But if we're attacked, Japan doesn't have to help us at all. They can watch it on a Sony television, the attack."

Under the decades-old US-Japan security treaty, the United States has committed to defending Japan, which renounced the right to wage war after its defeat in World War Two.

Japan in return provides military bases that Washington uses to project power deep into Asia.

After the Trump-Abe talks, a Japanese official told reporters the leaders had agreed to accelerate trade talks and had agreed the alliance was stronger than ever.

The new Cold War

C Gopinath, Business Line

June 24, 2019: Using its economic power to meet non-economic objectives is not new for the US. Sanctions against Cuba and Iran deny those countries access to financial networks and markets, and scare away other businesses who fear prosecution in the US. By Section 301 of the Trade Act of 1974, the US gives itself the ability to initiate actions against countries whose policies affect commerce.

Yet, the present administration has taken the stick of economic power to new levels. The US concluded the US-Mexico-Canada free trade agreement in 2018 to replace the NAFTA that had existed for 24 years. Although President Trump cheered the new agreement, that did not prevent him from overriding it by threatening Mexico with a 5 per cent tariff on all goods rising to 25 per cent by October if the country did not do more to stop the flow of migrants to the US.

President Trump's constant demand for a border wall between the US and Mexico has led to derision. But the need to stem the flow of people is real. Agencies, in May, apprehended 132,887 people at the border which includes groups travelling as whole families and also thousands of unaccompanied children. Such an assault on the borders that has been ongoing for several months now only lead to desperate measures. With the US accounting for 80 per cent of Mexico's exports, tariff threats are a strong leverage. Many of the migrants who originate mainly from Guatemala, El Salvador and Honduras pass through Mexico to reach the US.

China, the second biggest trading partner after Mexico has begun accusing the US of 'economic terrorism.' This is meant to encompass the whole range of Trump's measures against China. This includes specific company targets such as Huawei, considered a spying threat, as also broad tariff measures. Chinese scientists face a greater level of scrutiny when they apply for visa. Chinese companies find it difficult to acquire technology-related businesses, and so on.

What is President Trump trying to get from China? It is more strategic here as compared to Mexico. For one, he wants China to provide a level-playing field to US companies who operate in that country. This would include not requiring the business to operate as a joint venture with Chinese companies, and not requiring technology transfer.

Trump has recognised that China's openly stated ambitions in its 'Made in China 2025' policy, and the manner in which it is implementing the policy for global dominance are a long-term threat to the US. Thus, he has picked up the gauntlet that previous US administrations, who thought they could achieve their objectives by being nice, did not. It helps him that the US business lobbies are lining up behind the administration after finding that soft policies did not work towards China. New ways of prying China open include a proposed bill that would require Chinese companies listed on US exchanges to comply with US audit requirements.

China has begun to retaliate by advising its citizens about travel to the US, limiting rare-earth exports, and preparing a blacklist of companies that disrupt supplies for non-commercial reasons.

The WTO was meant to develop a global level-trading field. But when the two biggest economies bypass the WTO, and use their economic power to satisfy national non-economic goals, we are seeing a new version of the Cold War.

Delhi offers blueprint to promote development, inclusivity at WTO

D. Ravi Kanth, Live Mint

Geneva, June 27, 2019: India has offered a blueprint for promoting development and inclusivity at the World Trade Organization (WTO) and emphasized that resolving the crisis at its highest adjudicating body must be the top priority.

The WTO Appellate Body, the vital limb of the inter-governmental dispute settlement system for resolving and enforcing global trade rules will become dysfunctional from 11 December, after the US repeatedly blocked filling its vacancies.

“Resolving the crisis in the Appellate Body" and “addressing the unilateral actions taken by some members" must remain as immediate priorities for any reforms at WTO, India has said.

At a closed-door retreat of trade envoys hosted by China on 19 June, India issued a concept paper to galvanize developing countries for advancing “developmental dimension" in global trade so as to counter the “one-sided" agenda being imposed by major industrialized countries.

“From New Delhi to Geneva, we have established a platform for developing countries to discuss reforms of the WTO from a developmental perspective," said China’s trade envoy Ambassador Zhang Xiangchen, suggesting Indian paper has laid out what ought to be immediate priorities.

The six-page concept paper says after the immediate priorities are addressed, developing countries must ensure other development concerns, “in particular the outstanding development issues of the DDA (Doha Development Agenda), as well as address the asymmetries in WTO agreements such as those in agriculture and other areas."

Many countries remain alarmed over the narrative promoted by the US and other industrialized countries for bringing “graduation/differentiation" for denying special and differential flexibilities to India and other developing countries. “Most importantly, [WTO] reform must reaffirm the principle of Special and Differential Treatment, which is a treaty-embedded, non-negotiable right for all WTO countries in the WTO and promote inclusive growth, widening spaces for states to pursue national development strategies in the broad framework and principles of a rules-based system," New Delhi’s trade envoy J.S. Deepak maintained at the retreat, according to several participants who asked not to be identified.

Unless all developing and poorest countries join forces for safeguarding “the core values and objectives of the WTO, particularly the consensus-based rule-making, non-discrimination, and special and differential treatment (S&DT) for developing countries," the global trade body will be tilted forever against the interests of developing countries, Deepak warned.

The US and other industrialized countries as well as WTO director general Roberto Azevedo mention non-mandated issues such as the controversial plurilateral initiatives for pursuing digital trade agenda, domestic regulation for trade in services, disciplines for micro, small, and medium enterprises, and trade and gender, said several trade envoys, who asked not to be quoted.

India, South Africa and representatives of developing country coalitions such as the ACP (Africa, Caribbean, and Pacific group of more than 90 developing countries) and the Africa Group, have called for addressing their bread-and-butter issues before imposing new rules in the digital trade that would deny digital industrialization in their domestic economies.

Ahead of the G20 leaders meeting on 29 June in Osaka, where Japan, the US, and other industrialized countries of the G20 will push hard for a new narrative on WTO reforms and Digital Trade Agenda, the Indian concept paper has bared unresolved multilateral trade issues. In Osaka, Japanese Prime Minister Shinzo Abe and other western leaders are expected to pressure India and South Africa to agree to the new digital trade agenda.

Opinion | Global trade is important for India’s prosperity

Narayan Ramachandran, Live Mint

11 June, 2019: The international, rules-based, multilateral trading system enshrined through the World Trade Organization (WTO) faces an existential threat. WTO accession played a major role in China's rise to prosperity. China's foreign trade rose 10-fold from $475 billion on WTO accession in 2001 to about $4.5 trillion today. India's total foreign trade in goods and services of approximately $1 trillion in 2018 is roughly the same as China's in 2003.

Can the multilateral trading system play a similar role for India as it did for China, but under very different global circumstances?

First, the background. The first wave of globalization spanned 1870-1914. This wave, triggered by the industrial revolution, was facilitated by the movement of goods on steamships and railways with financial intermediation centred in London. Exports as a percentage of global output rose to about 15% from single-digit numbers during this period. This phase was interrupted by World War I, the Wall-Street crash of 1929 and the economic depression that followed. In 1940-42, legendary economist John Maynard Keynes proposed a new global trade system based on a "reserve currency" called the bancor and a settlement system that would require an International Clearing Union. Neither of these were established since the dollar became the de-facto reserve currency under a pegged exchange rate system that the Bretton Woods Conference accepted after World War II.

The second wave of globalization began around 1950 and was facilitated by the rise of commercial aviation and telecommunication, and sustained towards the end of the 20th century by the rise of the internet. These technologies also facilitated a dramatic increase in global services trade. This second wave greatly benefited from the global institutions set up in the Bretton Woods Conference—the World Bank, the International Monetary Fund and the General Agreement on Tariffs and Trade (GATT), which subsequently became the WTO in 1994 after the Marrakesh Agreement. Exports as a percentage of global output have now risen to about 25% on an average, even as global output has grown materially in the 75 years since World War II.

The first globalization wave resulted in the developed world becoming prosperous and other countries remaining poor. The second wave of globalization has resulted in the developing world making rapid strides and, in the particular case of China, lifting an entire nation out of poverty. The distribution of prosperity both across countries and within countries has become uneven. This imbalance has led to significant domestic pressure on politics, in turn leading to policies such as "America First" and "Made in China 2025". Followed to the extreme, nation-first ideologies conflict directly with a multilateral trading system.

India too has brought a nation-first form of policy in "Make in India", even though it stands to be the biggest beneficiary of global trade for the next couple of decades . A WTO-like system helps countries most when they are lifting from about $2,000 in annual per capita income to about $5,000 with favourable demographics—this is the situation India finds itself in. Trade creates a virtuous cycle of competitive dynamism, employment and economic growth. China embraced this challenge two decades ago and has benefited enormously. Even though India finds itself in an increasingly protectionist world, it should become an enthusiastic supporter of the world trade system and make its voice heard.

Only last week, the new Indian government announced eight cabinet committees, including two new ones on investment and employment/skill development. To give it due importance, I propose that we should add another one for foreign trade made up of ministers from external affairs, commerce, petroleum, agriculture and finance, and led by the external affairs minister. This new cabinet committee should have the mandate to be much more proactive at the WTO. It should start with submitting a position paper on WTO reform (the US, Japan and China have done so already). India's position should explicitly suggest reforms for rule-making, dispute-settlement and the restoration of the WTO appellate body. India has already taken a positive step saying it will not oppose the end of its special and differential treatment status. Over time, this will force the Indian export industry to be more competitive.

The key is for India to embrace this engagement with WTO fully, as China did in the late 1990s, for its own national interest. Before and after China's accession to the WTO, it undertook structural and institutional reform to maximize its return. In the same way, India should use the opportunity for betterment. Unlike the prevailing American view, global trade is not a zero-sum game. For India, it can be a win-win proposition and a modernized WTO is its best chance. There are inferior choices like regional or bilateral free-trade agreements. These should be our least favoured choice only to be engaged if the multilateral system collapses. India probably does not realize it, but in the same way that China was seen as a success in the first 10 years after it joined the WTO, India can provide purpose and direction to the WTO for the next decade or two.

PS: "International cooperation is vital to keeping our globe safe, commerce flowing and planet habitable," said Nobel laureate Angus Deaton.

India in a tight corner over trade policies

Biswajit Dhar, Business Line

June 17, 2019: The Modi government's second term in office has begun with the country's foreign trade policy facing multiple challenges. The day the government took office, President Donald Trump announced his decision to withdraw the benefits of Generalised System of Preferences (GSP), effective from June 5.

The US administration has also questioned India's subsidies to both industry and agriculture. Several other countries, including Brazil, Australia have also challenged India's agricultural subsidies, they argue, are inconsistent with the WTO's Agreement on Agriculture (AoA). At the same forum, the European Union (EU) and Japan have questioned the government's decision to increase tariffs on mobile phones.

Finally, India is also under considerable pressure to undertake extensive trade liberalisation via the Regional Comprehensive Economic Partnership (RCEP). This regional trade agreement seeks across-the-board tariff elimination, including agriculture, which is among India's most sensitive sectors. China's presence among the 16 RCEP participating countries has left India's manufacturing industry worried.

The US's removal of India from its GSP-beneficiary list was not unexpected. In early March, President Trump notified to the Congress his decision to remove India from the list of countries, which enjoy duty-free access to the US market in 3,700 products.

President Trump has often argued that US's trade deficit with India must be reduced by "curbing" India's "unfair trading practices". Withdrawal of GSP benefits is, therefore, one further step taken by the US to whittle down India's trade surplus with the US; the first was the increase in tariffs on steel and aluminium in 2018.

The challenge for the new government is to prepare an effective strategy to deal with a resolute US trying to pry open India's market. The US could target sectors with high tariffs; a few in the manufacturing sector and agriculture and allied sectors. During the consultations after India was put on notice in March 2019, the US had demanded that India allow imports of agriculture, milk, and poultry products. It is difficult to perceive how India can relent, given its domestic compulsions.

Retaliatory tariffs

The first response from the new government has already been announced; retaliatory tariffs on 29 products. This list was drawn up after the US imposed tariffs on steel and aluminium. India's expectation was that it was providing room for dialogue by not retaliating. This gesture has clearly not worked, as the Trump administration has relentlessly pressured India, by removing India from its GSP-list, among others. It was, therefore, necessary for India to respond appropriately. India has now put its cards on the table with which it can now negotiate with the US.

The challenges that India faces in the WTO are more formidable since the issues that have been raised could affect several sectors, not the least, agriculture. At stake are three issues: export subsidies for non-agricultural products, agricultural subsidies, and India's recent tariff increases for mobile phones.

In 2018, the US complained to WTO's Dispute Settlement Body (DSB) against India's major export subsidies, namely, Merchandise Exports from India Scheme (MEIS), Export Oriented Units Scheme and support extended to Special Economic Zones. India could use these subsidies so long as its per capita GNP was below $1,000. With India's GNP having exceeded this threshold, export subsidies came under the scanner. The initial response of the government on the issue of export subsidies is forward looking.

The new Commerce and Industry minister gave an unambiguous message in his first meeting of the Board of Trade on June 6, that industry would have to think beyond subsidies and to seek ways of improving efficiency.

Farm subsidies

Several countries have targeted India's agriculture subsidies. They argued that these subsidies are well above the limit set by the AoA, which is 10 per cent of the value of production for every product. The US has questioned subsidies provided to rice and wheat, while Brazil, Australia and Guatemala have gone a step further and have initiated disputes against India's sugarcane subsidies.

Three more countries, Thailand, Costa Rica and the Russian Federation have joined the dispute as third parties. The complainants argue that India has substantially increased production-related subsidies for sugarcane provided by both the Central and State governments and, as a result, the country has breached its commitment to limit sugarcane subsidies.

The complainants also argue that the Central and State governments provide subsidies for exporting sugar, which it cannot under the AoA rules, since these subsidies were notified to the WTO. Thus, the politically sensitive sugarcane faces testing times.

In his 2018-19 Budget Speech, the then Finance Minister announced the government's decision to increase import tariffs on mobile phones to encourage domestic manufacturing. The EU and Japan have challenged this decision, complaining to the DSB that India had agreed not to impose tariffs on these products. Six other countries, Thailand, Canada, China, Chinese Taipei, the US and Singapore, have joined the dispute as third parties. The disputes challenge the government's policy to use import tariffs to not only provide protection to the domestic producers from import competition, but to also indirectly incentivise domestic production.

The most significant of the challenges awaiting the government is the future course of RCEP negotiations. The negotiations were on hold for the past few months as the governments in two of the largest economies, India and Indonesia, were seeking fresh mandates from their electorates. Countries driving the RCEP negotiations have been seeking deep cuts in import tariffs in almost all sectors.

While this is the most immediate challenge from the RCEP, inclusion of areas like e-commerce and investment could bring commitments that conflict with the policies of the government. For instance, India has firmly stated its position on data localisation, which several RPCs (RCEP participating countries) do not support. Also, India has its model investment protection law that is different from the one that is backed by RPCs.

After nearly three decades of its tryst with globalisation, India's trade policy faces formidable challenges.

Most of the challenges stem from structural infirmities in the domestic economy, which require a medium-term perspective. The government must recognise that it has obtained the political mandate to develop such a perspective.

Why India needs to reform its trade policy

Geethanjali Nataraj, Gunjas Singh and Shivang Gupta, Financial Express

June 25, 2019: The Generalized System of Preferences (GSP) is a US trade programme designed to promote economic growth in the developing world by providing preferential duty-free entry for up to 4,800 products from 129 designated beneficiary countries and territories. It is a unilateral and non-reciprocal agreement extended by the US to support a large number of developing countries.

Under this scheme, India was allowed duty concessions on over 3,000 imported products to the US valued at $5.7 billion since 1976, making India the largest beneficiary of GSP. To qualify as a beneficiary developing country (BDC) or a least-developed beneficiary developing country (LDBDC), a country has to meet the required criteria as per 19 USC 2462(b)(2) code, a US law. It includes for a country to not be communist, to support free international trade of vital commodities, to not aid or abet anyone wanted for international terrorism, to ensure worker rights, to abolish child labour and to respect workers' rights.

In March 2019, Donald Trump announced the US's intentions to end India's BDC treatment, following a 60-day notice period. This was put on hold due to general elections in India. With effect from June 5, 2019, India no longer receives preferential treatment as a BDC under GSP. Trump put forward his concerns that as India has not assured the US that it will provide equitable and reasonable access to its markets, it would be appropriate to terminate India's designation as a BDC. In fact, 11 more countries are under review for termination from GSP.

India has been maintaining a trade surplus with the US for quite some time, which has not gone down well with the Trump administration. India's trade surplus in merchandise goods with the US stood at $23 billion at the end of 2017. As per US regulations, a beneficiary country must meet 15 discretionary and mandatory eligibility criteria established by Congressto qualify for GSP. These include providing the US with equitable and reasonable market access, combating child labour, respecting internationally-recognised worker rights, and providing adequate and effective intellectual property rights protection. The US believes that India has failed to provide reasonable access to its markets and hence failed to meet the mandatory criteria, making India ineligible for GSP.

According to a report by the US Chamber of Commerce, India remains a challenging market for intellectual-property-intensive investments, even as the bilateral trade relationship continues to improve. The US is keen on getting reasonable access to Indian markets primarily for its three industries—pharmaceuticals, telecom and the dairy industry. It has expressed concerns over the new Draft Pharmaceutical Policy proposed by the Department of Pharmaceuticals, and India's new telecommunication security requirements. The US commerce secretary Wilbur Ross during his visit to India in May 2019 to attend the 11th Trade Winds Business Forum and Mission had listed out alleged unfair trade practices by India, including on data localisation, price control on medical devices and the higher tariffs on telecommunication equipment. So while patented medicines are excluded from price controls, the draft policy explicitly reserves the right to issue compulsory licences, which does not go very well with foreign pharma companies. On the other hand, in the telecom sector, high tariffs on imported telecom devices have been due to the new security requirements by India. This raises potential WTO-compliance concerns, which may act as a dangerous precedent for governments that may be inclined to use national security claims to undermine global trade. As far as dairy industry is concerned, India had imposed tariffs on imported dairy products from the US during the AB Vajpayee government as India required that dairy products be derived from animals that have never consumed feeds containing internal organs, blood meal, or tissues of ruminant origin. This criterion is non-negotiable to India and had also rejected the 'labelling solution' of a red-dot sticker on grounds of protecting cultural and religious sentiments of Indians.

In 2018, India's total exports to the US were $51.4 billion, with $6.35 billion in exports under GSP—India gained duty concessions of only $190 million in 2017 under GSP, which is rather a small amount relative to the value of exported goods traded with the US. Products that had GSP benefits of more than 3% are most likely to be hit due to GSP. Major sectors that will be impacted include imitation jewellery, leather industry, pharma, chemical and plastics, and processed agri-goods.

According to the ministry of commerce and industry, exclusion of India from GSP and ending the preferential trade status would have a moderate impact on exports, as the trade concession on exports is a small fraction of the total exported volume.

At the same time, India has argued that GSP benefits are "unilateral and non-reciprocal in nature extended to developing countries" and that it is wrong for the US to use it for its own trade benefits. Despite Trump's decision to stop India's preferential treatment, India will continue building strong ties with the US, both economic and people-to-people. Before this official announcement, India was considering raising import duties on more than 20 US goods, but it wasn't done. Commerce minister Piyush Goyal has said that India accepts the decision gracefully and won't push the US for benefits further. "We will work to make exports more competitive," he said.

Irrespective of GSP, it is imperative that India needs a strong export culture and needs to be more competitive to survive and get greater access to markets across the world. India needs to focus on diversification of exports and look for new countries and innovative products to ensure that its exports do not decline and its trade deficit remains manageable. However, the government did take retaliatory action and the first response from the new government has been announced—retaliatory tariffs on 29 products. This list was drawn up after the US imposed tariffs on steel and aluminium. This is only the beginning of the multiple challenges India is likely to face on the trade policy front. Large-scale trade reforms are the need of the hour and Modi 2.0 has its task cut out with regard to reforming India's trade policy.

India wins solar case against US at WTO

D. Ravi Kanth, Live Mint

Geneva, June 27, 2019: India on Thursday won a major trade dispute against the US at the World Trade Organization, with a dispute settlement panel pronouncing that subsidies and mandatory local content requirements instituted by eight American states breached global trade rules.

In a significant 100-page report, the three-member panel largely upheld India's claims that subsidies and local content requirement in 11 renewable energy programmes in eight US states violated core global trade rules. The panel also asked the US to ensure that these states are in conformity with trade rules.

India had claimed that the "domestic content requirements and subsidies instituted by the governments of the states of Washington, California, Montana, Massachusetts, Connecticut, Michigan, Delaware and Minnesota in the energy sector" violated several provisions of the Trade-Related Investment Measures (TRIMs) Agreement and Subsidies and Countervailing Measures Agreement.

The panel urged the US to bring the eight states in conformity with US obligations under Article III:4 of "national treatment". Under the national treatment provision, foreign producers must be treated on a par with domestic producers.

Among others, New Delhi had challenged the "renewable energy cost recovery incentive payment programme" implemented by the state of Washington, California's self-generation incentive programme, Montana's tax incentive for ethanol production, Michigan's renewable energy credits programme, Delaware's solar renewable energy credits and the Made in Minnesota renewable incentive programme.

Citing 'judicial economy' (limited resources of the panel to go into all the issues raised by India), the panel said, "In the light of Article 3.8 of the DSU [dispute settlement understanding], the panel concludes that, to the extent that the measures at issue are inconsistent with Article III:4 of the GATT (General Agreement on Tariffs and Trade) 1994, they have nullified or impaired benefits accruing to India under that agreement."

The US can still challenge the panel's ruling before the Appellate Body (AB); however, the AB itself is feared to have become dysfunctional after 11 December because the US has been blocking appointments to it.

The WTO panel was set up last year to examine whether renewable energy programmes in the US states constituted prohibited subsidies and violated national treatment provisions. India also argued that some of the renewable energy programmes administered by the American states violated core provisions in the TRIMs agreement by insisting on mandatory domestic content requirements.

The ruling contains several "systemic implications" and exposed the illegal measures adopted by the US and its states, said a Geneva-based legal analyst, who asked not to be named. Firstly, it would show the US and its federal states maintain WTO-inconsistent programmes in the renewable energy sector. Secondly, it is a lesson to the US that it should not undermine renewable energy programmes in other countries such as India on grounds that they violate global trade rules when Washington and its federal states adopt much bigger programmes worth billions of dollars that violate global trade rules, the analyst said.

In 2014, the US had launched a similar trade dispute against India's Jawaharlal Nehru Solar Energy Mission, on the grounds that it included incentives for domestically produced solar cells and modules. WTO's Appellate Body had upheld the US complaint against India in that case.

Thursday's ruling could provide India the much-needed strategic leverage normally open to WTO members in tit-for-tat trade disputes. At a time when the US is pursuing several trade disputes against India, particularly against the nation's export-related schemes, a victory in the renewable energy sector could help India in settling other disputes with Washington, the analyst said.

India-US trade: Are we reaching a point of no return?

Amitendu Palit, Financial Express

June 25, 2019: India's relations with the US have entered a particularly rocky phase due to differences over trade. The US Secretary of State Mike Pompeo's visit to India as part of his four-nation tour of Asia is expected to focus on progress on clearing trade hurdles in the relationship. While there might not be enough time to reach specifics before Prime Minister Modi and President Trump's likely meeting at G20 in Japan, many quarters feel some encouraging signals from the Secretary of State's visit might revive hopes of future breakthroughs.

India and the US have hardly seen eye to eye on trade. Even then, the current hostilities, are different from those in the past for various reasons. A close look at these reasons reveal why moving ahead would be exceptionally difficult.

First, President Trump's tenure reflects major changes in the US approach to trade, now characterised by disregard for global trade rules, treating all trade relations exclusively and with American interests uppermost, and pulling trade and security interests as close as possible. The impact of these new characteristics in the US trade vision has been substantial for its major trade partners, including India. Nothing makes Indian trade policy czars more uncomfortable than talking trade outside of the WTO. The US emphasis on drafting deals bilaterally, with scant attention to what that might mean for greater collateral obligations at the WTO, is of distinct discomfort to India. It is equally uncomfortable for India to visualise the prospects of paying a 'price' for safeguarding a major strategic relationship, where defence alliance has begun playing a prominent role. For India, which has preferred keeping the two components of the relationship at arm's length, the US determination to pull security and trade interests closer for 'selecting' partners is a tough call to reciprocate.

Second, is the change in India's way of looking at the world. Pushing national economic interests is at the centre of India's current external engagement vision. Such a vision, at best, permits selective opening up after very careful assessment of the impact on domestic economic actors. The US demands for greater tariff liberalisation from India are in sectors like dairy, medical equipment and automobiles. Indian policymakers and trade negotiators believe impact of tariff cuts on these sectors would be significantly adverse. One might well differ with this view. But, Indian authorities are unlikely to buckle to US pressure on tariff cuts in these areas, unless something really significant is offered in return. A trade-off on lesser terms would be taken as compromising on national economic interests—an impression that could run counter to the narrative that has helped the current government obtain political extension and legitimacy.

Third, India-US trade talks are taking place in the context of troubled times for global trade. The trouble goes well beyond overall technological disruptions, and their impact on the character and pattern of global trade. The US-China trade war is an unavoidable context. The former is not limited to unilateral tariffs and counter-responses. It is about long-term global control over future industries that would be at the forefront of Industrial Revolution 4.0. By now, it is clear that the US is looking to curb China's technological dominance in several industries—such as electric vehicles, renewable energy and digital AI-based solutions—which would determine wealth generation in future global economy. Parallel talks by the US with its other trade partners cannot avoid apprehensions of the latter that the US wouldn't want them to get away with what it is denying China.

A fourth further reason, drawing from the above, is India's realisation that what the US would want most is for its data-intensive businesses to have unfettered access to India's digital economy. India realises it sits on a mine of data wealth and, arguably, the best way of harnessing that wealth in national economic interests is to make its first use at home. It is determined to pursue hard data localisation rules. In recent months, multiple critical references by the US to India's data rules have made it clear that more than tariffs, this is where the 'juice' lies for the US.

Safeguarding local data for exclusive use by locals, notwithstanding the potential ramifications of such insistence, resonates with the core principles of India's current external engagement policy.

The final fifth reason coming in the way of progress in India-US trade talks is the conspicuous lack of trust between both sides. The US proclivity to resort to unilateral actions notwithstanding done deals, such as for Mexico, hasn't helped in boosting trust in its trade promises. On the other hand, India's stubbornness in refusing to back down on core US demands and the latest defiant act of following up with retaliatory tariffs on a handful of US imports clearly show that India is not in a mood to relent. Barring a strong dose of injection of trust, the India-US trade talks are likely to move to a point of almost no return.

Washington apples in soup as India imposes tariff

Business Line

June 19, 2019: Washington state's apple industry is a worried lot after India hiked duties on the fruit. They said that it is very hard to sell products to other markets when one loses a reliable and established market.

India announced a hike in customs duties on as many as 28 United States (US) products, including almond, apple, pulses and walnut, in response to higher tariffs imposed by Washington on Indian products like steel and aluminium.

India imported a record 7.8 million 40-pound boxes of the fine quality 2017 Washington state apple crop as of mid-June last year, media reports stated.

India would ultimately pass Canada as Washington's No 2 export market, reaching eight million boxes by the season's end, it said. Currently, Mexico is the No 1 export market.

However, India had imported far fewer boxes of the 2018 crop. As of June 15, Washington state had shipped about 2.6 million boxes to India.

It is expected to slow down even more with India slapping a 20 per cent retaliatory tariff on apples, bringing the total duty to 70 per cent, the report said.

Washington state usually exports about 30 per cent of its apple crop, it said.

Mark Powers, president of the Northwest Horticultural Council, which represents the region's tree fruit industry in public policy issues, last week discussed several key issues with the Trump administration in Washington DC, including the US trade dispute with India.

"Frankly, we didn't hear any rays of optimism on that front," he said.

President Trump is scheduled to meet Prime Minister Narendra Modi on the sidelines of the G20 summit in Osaka, Japan next week.

Once the dominant variety, most 'Red Delicious' apples now are exported. They made up 90 per cent of the apples shipped to India last year, Powers said.

China, which has a large population, could have been another destination, had it not been involved in a trade war with the US, too, he said.

If the industry is not able to find alternative export markets, those apples could end up in the domestic market and depress prices for all growers, Powers said.

"When you lose a reliable and an established market, it's very hard to force that product to other markets," he added.

The Washington state apple industry began shipping to India in 1999. Still, India maintained a high tariff rate — 50 per cent — for any World Trade Organization (WTO) member that ships apples to the country.

The tariff on US apples now provides an opportunity for other apple-producing countries, including New Zealand and Chile, the report said.

The record 2017 Washington apple crop shipments to India happened after New Delhi stopped importing apples from China, said Tori Lynn Adams, spokeswoman for the Washington Apple Commission.

Even the prospect of a tariff had hurt Washington apple exports to the India market this year, she said, adding that it caused “some waves in the market”.

Trade winds: Big jump in electronics exports allays deficit fears

Banikinkar Pattanayak, Financial Express

June 24, 2019: Massive electronics imports and their debilitating impact on trade balance have long pressured the country’s current account, but a spurt in electronics exports since last year has pleasantly surprised policymakers.

Having jumped 39% year-on-year to a record $8.9 billion in FY19, electronics exports surged 28% y-o-y in April to $715 million and an impressive 51% in May to $911 million, according to “quick estimates” by the commerce ministry. In contrast, total goods exports grew just 0.6% in April and 3.9% in May.

Exports of telecom instruments, including mobile phones, jumped almost 70% to $195.3 million in April (up to which segregated data are available), while electronics instruments saw an over 27% rise to $228.3 million — albeit on low bases.

“The electronics segment is turning out to be one of the biggest drivers of our merchandise export growth, as far as high-value categories are concerned. It could be a success story of Make in India, as local assembly/production has gone up, leading to higher exports,” a senior commerce ministry official told FE.

For instance, Samsung last year expanded its mobile phone factory in Noida, touted to be the world’s largest, to double its capacity to make cell phones from 68 million units to 120 million units a year, in a phase-wise expansion that will be completed by 2020.

Around 30% of these phones are targeted to be exported, according to a senior industry executive. Although it’s still time before Samsung is able to ship out the targeted 30%, a substantial number of phones, no doubt, is being exported. However, local value addition still remains low, as most of the components are imported in completely or semi knocked-down conditions and are shipped out after assembly here, according to industry executives.

Importantly, the surge in electronics imports — the largest contributor to the country's trade deficit after petroleum in FY19 — lost some pace this fiscal, albeit on a high base. Such imports rose 4% y-o-y in April to $4.3 billion before contracting 3.2% to $4.8 billion in May. In FY19, electronics imports had scaled a record peak of around $56 billion.

Analysts have pointed out that the nature of electronics imports, especially in the mobile phone segment, is changing. Purchases of components from overseas for local assembly/manufacturing are rising at a faster pace than those of completely-built units (CBUs).

Telecom instruments made up for roughly a third of overall electronics imports in FY19, followed by electronic components (28%), computer hardware and peripherals (16%), electronic instruments (14%) and consumer electronics (9%).

In FY19, exports of telecom instruments (including mobile phones) had jumped a massive 125% year-on-year to $2.5 billion — the highest since FY14, just before the Nokia plant closure — and emerged as the largest segment within the electronics exports category. However, as has been pointed out by experts, such exports are still far below potential. In fact, from $3.06 billion in FY14, telecom instrument exports crashed to just $1.07 billion in FY15, mainly due to the Nokia plant closure (in October 2014), show the DGCIS data.

According to an ICEA-McKinsey report, the latest resurgence in mobile manufacturing was built on the back of strong domestic demand, with the introduction of the Phased Manufacturing Programme encouraging import substitution. Between 2014 and 2017, the Indian smartphone market grew over 37% in value per annum, from $9 billion to $22 billion. In volume term, sales of smartphones rose from 70 million units in 2014 to 150 million units in 2017.

Pankaj Mohindroo, chairman of the India Cellular & Electronics Association, said despite the recent spurt in exports, India's share in global electronics trade is less than even 1%. Our electronics exports this fiscal may jump by 70-100% only if export incentives under the Merchandise Exports from India Scheme (MEIS) continues or a suitable alternative is implemented. (MEIS and other export subsidy schemes have been challenged at the WTO).

Double farm incomes by investments, not subsidies

The Financial Express

June 22, 2018: If anyone thought the government could double farmers' income by 2022—a Narendra Modi promise—by a sharp hike in farm subsidies or in PM Kisan-type income transfer schemes, they just need to look at the global reaction to the government's plan to spend Rs 25 lakh crore on agriculture and rural development to know this is impossible. As FE reported a few days ago, after the government announced its Rs 25-lakh-cr plan, a host of countries have begun asking whether or not this will affect India's WTO commitments that put a cap on how much farm support the government can give. Since the WTO principle is that government policy shouldn't distort export markets, the US has, for instance, asked what step India is taking to ensure its large wheat stocks won't distort global markets. Thanks to the high MSPs fixed by the government, FCI accumulates stocks far in excess of what is needed and, in order to clear them, FCI usually sells them at a discount later; to the extent the stock is bought by traders who export it, this gets counted as distorting export markets through subsidies. Right now, India has breached WTO norms of 10% subsidy/support in crops like wheat and rice. It is true, as Icrier professors Anwarul Hoda and Ashok Gulati point out, that the WTO is not taking into account inflation since the agreement was signed—once this is done, India's support levels fall dramatically, from 26%, in the case of rice, to 2.9% (bit.ly/2XiVNgL), but till the WTO accepts India's interpretation, the argument is moot.

Fortunately, increasing subsidies—such as those on MSP-based procurement—is not the only way to boost farmer income, and that is why Modi's Rs 25 lakh crore plan can coexist with India's WTO commitments. Public capital formation in agriculture fell from 3.9% of agri-GDP in 1980-81 to 2.2% in 2014-15, before recovering a bit to 2.6% in 2015-16 while, at the same time, input subsidies rose from 2.8% to 8%. So, if Modi were to switch expenditure from subsidies towards investment, that would help raise farmer incomes while not affecting the WTO equation. According to Gulati, every rupee spent on agricultural R&D adds Rs 11.2 to agriculture GDP while the same amount spent on roads adds a much smaller Rs 1.1; and just 88 paise gets added if the money is spent on fertiliser subsidy. That means if the government spends on R&D and on roads instead of on various input subsidies, doubling farmers' income while staying WTO-compliant will not prove difficult since such spending is in the 'GreenBox'. And while India hardly has much of a government R&D budget, a friendly policy towards seedtech firms like Monsanto, as opposed to today's outright hostility, would boost productivity without any extra government investment.

And, according to an ICRIER-OECD study on agricultural policies in India, by not allowing farmers to get global prices, India taxed its farmers by 14% (of gross farm receipts) for the years 2000-01 to 2016-17. For the entire period, that means farmers lost Rs 45 lakh crore (at 2017-18 prices), or around Rs 2.6 lakh crore per year. While this is why Modi has been trying to push the pan-India electronic or eNAM market, it has not been successful; but were a successful attempt to be made, farmers can get 10-14% more income right away. The other advantage of supporting farmers the smart way is that if, for instance, subsidies aren't given on water and electricity—and MSP not used to dictate what farmers grow—this will also ensure farmers don't grow the wrong crop; as a result, with less damage to the soil, overall productivity will rise. Agriculture reform is a big agenda item for the government, and, if is done right, the impact on farmers and the economy will be huge.

Australia, EU laud Narendra Modi govt's PM-Kisan scheme at WTO meeting

Amiti Sen, Business Line

New Delhi, June 7, 2019: The Narendra Modi government’s flagship scheme, the PM Kisan Samman Nidhi Yojana, which promises income guarantee to farmers, drew praise from Australia and the EU at the World Trade Organization (WTO). Both Australia and the EU said that such schemes should be expanded in India to cover more products.

However, the country’s other farm sector schemes such as the Transport and Marketing Assistance scheme for specified products, dairy policy, public stockholding of wheat and transparency with green box measures, came under attack from a number of countries at the recent meeting of the WTO’s Committee on Agriculture (CoA).

“Australia said, in contrast with its contentious pulses and sugar polices, India’s PM-Kisan income guarantee scheme is a welcome move, marking a switch from indirect income support to direct income support. It encouraged India to further expand such schemes to cover more products. The EU shared the view,” a Geneva-based trade official told *BusinessLine.*

PM-Kisan is a cash transfer scheme which proposes to give Rs. 6,000 to small and marginal farmers in three instalments annually.

“While the cash transfer scheme will help poor farmers live a better life, it is also essential for India to continue with its minimum support price (MSP) and other schemes for the agriculture sector as these address different needs of the poor farming community,” a government official said, adding that cash transfer schemes can’t replace all other schemes.

At the CoA meeting, India admitted the new Transport and Marketing Assistance scheme is an export subsidy but insisted that, as a developing member, it is entitled to continue such subsidies till 2023. “India’s TMA scheme was introduced in 2019, so it is in compliance with Nairobi Ministerial Decision on Export Competition,” India’s representative pointed out.

US subsidy package flayed

Several WTO members, including India, China, Australia and the EU, also targeted the US’two subsidy packages worth up to $28 billion announced recently and said they were worried that it might happen again in the future. Australia said the amount of subsidies was equivalent to two-thirds of Australia's agriculture output and the US set a very “dangerous precedent” for its policies which risk distorting the global market.

Government’s transport assistance for farm produce exports under attack at WTO

Amiti Sen, Business Line

June 23, 2019: The new transport and marketing assistance scheme for farmers announced by the Union government in March has raised the hackles of some developed countries which are now questioning it at the World Trade Organization (WTO).

While Australia has said that the scheme may have flouted a decision on limiting such subsidies taken at the WTO's Nairobi Ministerial meet in December 2015, the US has sought more details on the items being given such subsidies.

"The questions submitted by Australia and the US to India on its transport and marketing assistance scheme will come up for discussion at the Committee on Agriculture meeting on June 25-26. More countries may join the discussion at that time," a Geneva-based trade official told *BusinessLine*.

The scheme under scrutiny provides assistance for the international component of freight and marketing of agricultural produce which is likely to mitigate the disadvantage of higher cost of transportation of export of specified agriculture products due to transshipment and also to promote brand recognition for Indian agricultural products in specified overseas markets. These include North America, the EU, some countries in South America, China, the ASEAN, New Zealand and Australia.

It is currently available for exports from March 1, 2019 to March 31, 2020. Its applicability will be specified from time to time.

Pointing out that the assistance provided under the scheme qualified as an export subsidy under the WTO agreement, Australia said that the move went against the Nairobi Ministerial commitment of reducing such subsidies rather than increasing them.

Australia's submission acknowledged that the Nairobi decision was to allow developing countries to continue to give transportation and marketing subsidies till 2023, but there were also some caveats.

"India is also obliged by the subsequent paragraphs of the Nairobi Decision, which note that members shall not apply export subsidies in a manner that circumvents the requirement to reduce and eliminate all export subsidies; members shall seek not to raise their export subsidies beyond the average level of the past five years on a product basis; and members shall ensure that any export subsidies have at most minimal trade distorting effects and do not displace or impede the exports of another member," the submission stated.

Australia has asked India to explain how the transport and marketing assistance scheme is in tandem with the Nairobi Ministerial decision and what step the country has taken to ensure that it will have minimal trade distorting effect on other members.

The US asked India to disclose how much the government had budgeted for the scheme in the on-going year and also give details of other subsidies given to products getting assistance under the new scheme.

We should join WTO e-commerce talks

Arpita Mukherjee, Business Line

June 18, 2019: E-commerce and growing protectionism were two key topics of discussions at the G20 ministerial meeting at Tsukuba, Japan, on June 8 and 9. New Delhi will soon have to take a decision on whether or not to join the WTO's plurilateral group on trade rules in e-commerce. Earlier this year, 77 WTO member-countries came together to negotiate trade rules in e-commerce. India is negotiating an e-commerce chapter in the Regional Comprehensive Economic Partnership (RCEP) agreement. Among the 16 RCEP member-countries, 11 (including China) are a part of the plurilateral group. It is, therefore, important for the new government to review India's stance.

In the past decade, fast growth of technology and development of different business models have led to double-digit growth of trade in e-commerce. UNCTAD estimated that the global e-commerce market was at $29 trillion in 2017. India was ranked ninth in terms of global e-commerce sales then. The flow of data now contributes more to the world's GDP than flow of physical goods. The rise in importance of data and its intangibility have made the regulatory framework governing data flows complex.

While it is increasingly difficult for countries to regulate technology, there are concerns that growing digitalisation may increase the risks to national security and consumer privacy. To enforce government right to vigilance and consumer data protection, a number of developed and developing countries are implementing data localisation measures.

The European Union (EU) has implemented the General Data Protection Regulation (GDPR), while China's Cybersecurity Law of 2016 prohibits or severely restricts routine cross-border transfers of information. India's Draft National E-commerce policy is aimed at enacting a data protection regulation based on the Srikrishna Committee recommendations.

Two concerns of WTO member-countries are localisation and the growing oligopolistic powers of few global multinationals. The plurilateral group created by the WTO member countries is negotiating global trade rules in e-commerce. To understand whether India should be a part of the plurilateral group, a survey of 50 stakeholders was conducted by researchers in ICRIER. Majority of the respondents opined that India should participate in the plurilateral e-commerce negotiations so as to play a major role in decision-making.

Participation matters

Most Indian business and export promotion councils feel that taking a hard position of staying out of the negotiations can adversely impact India' trade relations with key export markets such as the US. In this regard, a submission made by Express Industry Council of India, on the Draft National E-commerce Policy, stated that: "We encourage the GOI to embrace the concepts currently under consideration by the WTO e-commerce initiative, recognising that this plurilateral effort is a means for India, should it join the effort, to adopt policies that will facilitate the growth of India's e-commerce market."

Some survey participants felt that the disincentive to participate may be due to the lack of data and information and/or lack of preparedness. In this context, the government may start sponsoring research for data collection on what component of the SME businesses are through e-commerce platform, whether such platforms have helped SMEs to access the global market and integrate into global value chains, and what is the business model of the e-commerce companies and their source of funding, among others. They also suggested that India should enact the Personal Data Protection Bill based on the Srikrishna report to ensure data security.

The survey also found that barriers which adversely impact efficient business models and restrict investment in logistics infrastructure but are not able to help the domestic companies to gain global scale should be reviewed and replaced by policies which address the issues faced by domestic start-ups and SMEs.

A number of e-commerce companies and their express delivery service providers pointed out that commitments to deliver within a certain date and/or time cannot be made to customers unless e-commerce companies and/or the express delivery companies in their network have control over the inventory.

Thus, the restrictions on FDI in inventory-based model cannot be adhered to if a firm, on the one hand, has an efficient business operation which meets customer requirements and satisfaction and, on the other, has a fast-track growth strategy. Indian express delivery companies pointed out that being a part of the network of global e-commerce companies have led to 40 per cent increase in their B2C sales and 20 per cent increase in their B2B sales. Given that GST supports a single market model, if the restrictions on inventory-based models are removed, they can be a part of the most efficient inventory management system, which will reduce logistics costs.

Data security

While all survey participants agree on the need for data security and protection, they have raised concerns about the way in which the policy have been implemented and, at times, without stakeholders' consultations. For example, they cite the RBI notification in April 2018 on storage of payment data. The RBI said that the entire data relating to payment systems should be stored in a system "only" in India. While the payment companies had no objection to share the data real-time with the RBI, they are concerned about their ability to do risk management and fraud in the context of international trade-related payments if data mirroring/sharing is not allowed.

Localisation of data has been a key component of the Draft National E-commerce Policy, but the policy fails to define key terminology like community data and sensitive data. Lawyers are also divided as to what are the constitutional rights of citizens in a democratic country and how that is ensured under the proposed policy. While the policy is drawn with the objective of creating infrastructure and jobs in the country, there are no studies on how much infrastructure is needed, do we have the capacity to manufacture to meet the requirements, can we meet the requirements in three years as proposed, and what would be the impact on trade balance and imports.

Given these policy gaps, the high-level trade committee may review the current regime, look at global best practices, examine the inputs given by different stakeholders and then develop India's e-commerce policies and negotiating strategies at the WTO.

India must reclaim its lost digital space

Business Line

June 15, 2019: India will not join the e-commerce negotiations at the WTO until issues like data flow and welfare to the poor are resolved. This firm articulation by Commerce and Industry Minister Piyush Goyal at the G20 Ministerial at Tsukuba, Japan, on June 8 and 9 underlined that India would not bow to pressure on an issue on which India's digital future hinges on.

Most of us are unaware that away from the public glare a quiet battle is raging for control of the global digital business. At the core is the US quest to continue its dominance of digital business. Today, US technology firms dominate the digital business. But continued dominance would require the free flow of data across countries. The US and its allies are doing everything to ensure this. The outcome of this battle would decide the fate of the digital business in most countries. Let us understand the changing landscape. And what should India do?

The US firms Google, Facebook, Amazon, Airbnb, Visa/Mastercard, Uber, Netflix and Instagram may appear to be doing different activities. But, their main business is data. They track our digital transactions, chats, roads we travelled, countries we visited, hotels we stayed, restaurants we ate, food we ordered, medicines we bought, and bars we visited. The game is in collecting extensive data free of charge and selling value-added services created from this data.

Data has another significant use. Remember Siri or Alexa. Developing such Artificial Intelligence (AI) tools requires scanning terabytes of unstructured data to identify patterns of our thoughts, actions, behaviour and create applications for all conceivable areas. The problem is most data is generated in China and India. India produces more data than the US and the EU put together. China does not share data with US firms. So if India also restricts data flow, it will hit the US-AI strategy.

Today the US is collecting data freely from all countries, except China. But the US knows this will change soon. Technology and business models are easy to replicate at low cost. Soon as India and other countries develop similar tools, they may regulate data flows preferring local firms over the US firms. Or these countries may decide to charge for data. Any of this will kill the US business model. The US is putting in all its might to stop this from happening.

Main disadvantages

The US strategy is to persuade or force countries to join WTO negotiations and agree to the free flow of data. The US hopes this would ensure its digital dominance in perpetuity. Excellent for the US but for many countries like India, allowing the unrestricted flow of data has two significant disadvantages.

First, governments would have no control over violations caused by digital business. Online sites recruit terrorists, peddle child porn, traffic drugs. We have seen the allegations that Russia manipulated US presidential elections in 2016 through social media. Facebook peddles fake news, and Google search results can distort public opinion. National laws will not apply as people behind such sites sit in other countries.

Second, free flow of data creates digital monopolies that hurt competitors, so crucial for the growth of the sector. Monopolies make competition difficult for new firms, buy the promising ones, and if nothing works, copy the best features. The deep pockets allow e-commerce firms to use billion dollar sales, discounts and cash-backs to lure buyers. Domestic stores can never survive such onslaught. Countries suffer all adverse consequences but get no payments even though the data belongs to home users. As digital business becomes big, payment for import of digital products would soon be a significant forex issue.

To have a prosperous digital economy and reclaim our digital space, we need to adopt a four-point plan.

Quickly introduce central laws regulating e-commerce, data protection, data localisation, cyber security, etc. New draft e-commerce policy is a welcome step. Clear laws with proper regulations on data flow will signal global and local firms to invest in India.

Develop national champions. This has been our weak area. Set up free email service, and create an India focussed search engine. Invest in high capacity cloud servers, and make them available at low prices. Hosting on Indian servers must be attractive for local businesses. NIC has the expertise and already developed many platforms for government uses. The government may revive NIC, hiring the best talent for AI research and other vital areas.

Create a coalition of like-minded countries. Countries still do not grasp the significance of data flow, server localisation, etc. India must educate them. Once our laws and platforms are ready, we may take the call to join any international negotiations.

Be aware of the consequences of not joining the negotiations. Few experts argue India should join the talks and say what suits it. They forget the history of WTO negotiations. The US writ always prevails. The US uses grants, diplomacy, threats and sanctions to pursue its agenda.

Today, only 73 of the 164 WTO members support negotiations on e-commerce. If India, viewed as a software giant, joins, all remaining countries will participate. This will soon ensure the de facto dominance of the US in digital business becomes de jure.

On the business side, few experts fear that India's ITES exports will suffer if we do not join the WTO negotiations. The truth is, US commitments under the WTO rules on services govern India's access to the US market. New e-commerce rules cannot take liberty back.

Digital business accounts for a third of global GDP now, and its share will only increase. Reclaiming our lost digital space should be our top priority as best jobs and high growth would flow from this. An important enough issue to invest our national pride.