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Centre for WTO Studies, 5th to 8th Floor, NAFED House, Siddhartha Enclave, Ashram Chowk, Ring Road, New Delhi - 110014
*Tel: ********* Ext- *** Fax: ********* Email: cws@iift.edu.*
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US considers withdrawal of zero tariffs for India: Report

Sanjeev Miglani, Neha Dasgupta, Reuters, Live Mint

10 February, 2019, New Delhi: India could lose a vital US trade concession, under which it enjoys zero tariffs on $5.6 billion of exports to the United States, amid a widening dispute over its trade and investment policies, people with close knowledge of the matter said.

A move to withdraw the Generalised System of Preferences (GSP) from India, the world's largest beneficiary of a scheme that has been in force since the 1970s, would be the strongest punitive action against India since President Donald Trump took office in 2017 vowing to reduce the US deficit with large economies.

Trump has repeatedly called out India for its high tariffs.

Prime Minister Narendra Modi has courted foreign investment as part of his Make-in-India campaign to turn India into a manufacturing hub and deliver jobs to the millions of youth entering the workforce.

Trump, for his part, has pushed for US manufacturing to return home as part of his Make America Great Again campaign.

The trigger for the latest downturn in trade ties was India's new rules on e-commerce that restrict the way Amazon.com Inc and Walmart-backed Flipkart do business in a rapidly growing online market set to touch $200 billion by 2027.

That, coming on top of a drive to force global card payments companies such as Mastercard and Visa to move their data to India and the imposition of higher tariffs on electronic products and smartphones, left a broader trade package the two sides were working on through last year in tatters.

The GSP was tied to the trade package and since that deal had slipped further away, the United States was considering withdrawing or scaling back the preferential arrangement, people familiar with the matter said.

The US Trade Representative (USTR) was completing a review of India's status as a GSP beneficiary and an announcement was expected over the next two weeks, they said.

"(The two sides) were trying to sort out the trade package, but were not able to actually finish the deal. In the mean time these other things, data localisation and e-commerce, have come along," one of them said. "In a sense it's like someone has rained on the parade."

India and the United States have developed close political and security ties. But bilateral trade, which stood at $126 billion in 2017, is widely seen to be performing at nearly a quarter of its potential.

US Commerce Secretary Wilbur Ross is due in New Delhi next week where he is expected to raise concerns about the e-commerce policy and data localisation, officials said.

Various new policies

New Indian rules announced in December for the e-commerce sector banned companies such as Amazon and Flipkart from striking exclusive deals with sellers, restricted their ability to offer discounts and barred them from selling products via vendors in which they have an equity interest.

The move disrupted product listings on Amazon's India website and forced it to change its business structures. Amazon and Walmart, as well as the U.S. government, had lobbied against the move, *Reuters* reported earlier.

The new rules, coming ahead of a general election, were seen as a bid by Modi to placate small traders, who had for years complained about business practices of large e-commerce players.

They form a key voter base for Modi who is facing a tightening election in the next few months.

Also read: What are India's new foreign direct investment rules for e-commerce?

The idea of the policy was to foster healthy competition and promote India’s e-commerce, a government official involved in trade issues said, defending the curbs on the big firms.

But companies disagree and decry such sudden policy changes.

"These types of actions can really put a negative view on India as an investment destination," one of the sources said.

India last year also announced proposals to force foreign companies to store more of their user data locally, in a bid to better conduct legal investigations. US lobby groups had voiced concerns about those proposals too, saying they made it difficult for companies to do business in the country.

Possible India setback

If the United States eliminates duty-free access for about 2,000 Indian product lines, it will mostly hurt small businesses such as jewellery, said one of the sources. The number of goods qualifying for preferential treatment could be reduced, or the whole programme could be withdrawn.

There was no response to a request for comment from the USTR or the US Embassy. India's trade ministry also did not answer questions emailed to them about trade differences with the United States.

But a government official briefed on the trade discussions said the trade package under which the two sides were negotiating better access to each other's farm and dairy markets was unlikely until the elections in India this spring.

Talks on US demands to relax India's decision to cap prices of medical devices made in the United States had also got stuck, the official said.

"The list of grievances is getting bigger, now with e-commerce added in," he said.

India fears Trump may demand a free trade agreement if both sides fail to reach a compromise on the trade package. Such a pact would mean zero tariffs for US goods arriving in India, further threatening local industry.

Opinion | Donald Trump shouldn't take the easy way out over China

Live Mint

12 February, 2019: When it comes to the trade talks with China, US President Donald Trump and his negotiators have more leverage than any US administration has ever had. Chinese policymakers are desperate for a trade deal with the US in order to avoid more damage to China's economy by further pressuring its trade surplus and export industries.

There is speculation that Trump has told his negotiators to "get a deal done" in order to put an end to recent market volatility, but that would mean foregoing a historic opportunity to come to a major restructuring of America's relationship with China at a moment when China is most inclined to agree to concessions. We have come too far for Trump to take the easy way out.

"Water keeps the boat afloat but can also sink it" is a Chinese proverb that neatly summarizes the nation's current economic predicament. The debt that has hydrated the Chinese financial system for the past 10 years is now drowning it. During the darkest days of the financial crisis in 2008, China launched a 4 trillion renminbi ($593 billion in today's dollars) infrastructure plan that was accurately described as pulling the global economy out of recession. This infrastructure stimulus plan never ceased, and by 2017 the 4 trillion of spending ballooned to 14 trillion, according to China's National Bureau of Statistics.

At first, China benefited from the economic reforms of the 1990s, its ascension into the World Trade Organization (WTO) and the resultant inflow of foreign investment by Western companies. By 2009, the previous decade of strong growth meant wages and price levels had risen such that China was no longer a low-cost manufacturer. This made it implausible that exports could drive economic growth. Therefore, China's central bank printed money to fund a gargantuan stimulus program.

History tells us that growth that is funded by excessively rapid credit and money creation can lead to a variety of asset bubbles and to financial, credit and currency crises. A broad measure based on data from the People's Bank of China and other agencies that includes both bank assets and shadow banking assets such as wealth management products, trust beneficiary rights and trust loans, places China's total credit at $48 trillion, about 3.7 times its gross domestic product.

That compares with $24 trillion for the US despite China having an economy that is 37% smaller.

China's decade of rapid credit creation and investment spending has led to soaring property values, despite high vacancy, and low wage levels. These led to tepid export growth and a stagnating economy as the export industry lost competitiveness.

The last 12 months have seen key Chinese economic indicators such as industrial production, car sales, retail sales and investment all decline to multi-year lows as the previous round of stimulus abated and China's debt burden continued to cause a downward economic spiral. The world is finally waking up to the risks to the precarious position of the overleveraged Chinese financial system, which is why we have seen its stock market fall as much as 25% over the last year.

US negotiators are focused on asking China to make two changes: (1) buy more US goods, and (2) abandon an industrial policy that grants unique advantages, namely widespread government subsidies, protected domestic markets and regulatory preferences, to Chinese government-affiliated national champions.

Primarily focusing on the first objective is a mistake because it will ultimately erode the advanced parts of the US economy which support the most valuable jobs in the US. This does not advance America's long-term interest and is only a short-term fix for a very complex problem.

Reducing tariff rates and adjusting foreign ownership rules would be a good thing, but this would not end China's long-standing policy of bulk economic espionage and theft, which annually costs America's economy at least $300 billion, according to US government estimates. Multiple US administrations have sought to engage China on these issues for more than two decades, and the commitments made to the US have rarely been fulfilled. America needs a commitment from China's government that it will put an end to espionage and theft and agree to legal and financial repercussions for their theft. Trump's administration should continue to push for this and not end talks until there is permanent change in China's behaviour.

For China to be a constructive member of the multilateral world trading system it must grant foreign companies, operating either inside China or outside, the same rights and privileges as party-affiliated national champions. The current mercantilist system, based on subsidies and preferences, needs to be dismantled, but the concessions offered to date lack commitment.

The Trump administration needs to fully understand the leverage it has today—and the increased leverage that it will have after 1 March, the end of the 90-day reprieve from the imposition of additional tariffs—is the most the US will ever have. To squander this opportunity would be a catastrophe not only for Trump's administration but for the West.

View: India should call a truce in its trade conflict with US

Mihir Sharma, The Economic Times

New Delhi, 14 February, 2019: U.S. and Indian officials are meeting in New Delhi today for what promises to be a tetchy summit. The trade relationship between their countries has never been easy. The fact that India has a $22-billion trade surplus with the U.S. -- despite running a deficit with many of its other major trading partners -- is particularly annoying to the Trump administration. The total might seem insignificant compared to America's $566 billion trade deficit with China. For its own sake, though, India would be address rather than try to minimize U.S. complaints.

That's not only because the U.S. seems to be preparing heavy-duty retaliation. It might remove Indian exports from the "General System of Preferences" tariff plan, which ensures that about 2,000 different kinds of goods -- "product lines," as the trade negotiators call them -- can be imported into the U.S. without any tariffs being levied. Washington seems serious: In November, 50 Indian product lines were removed from the GSP.

Normally, Indian negotiators would point out that Indo-U.S. trade isn't particularly unbalanced, that we're still a developing country and should get a few concessions, and that we're all in this together against China, aren't we?

That argument rings increasingly hollow, however. It isn't just Trump's fixation on Harley-Davidson motorcycles: He famously complained that Harleys imported into India were subject to a 50 percent tariff, even after Indian Prime Minister Narendra Modi called the U.S. president personally to tell him tariffs were being cut. "They think they're doing us a favor," Trump fumed. "That's not a favor."

More genuine is concern about India's growing protectionism. Indian tariffs on solar panels (ironically, meant to control Chinese imports) prompted a U.S. complaint at the World Trade Organization. Then, an Indian attempt to fix the price of stents caused the U.S. medical equipment industry to rise up in protest.

Now, India has chosen to wage battle against U.S. companies on a completely new front: data localization. The Reserve Bank of India told all payments companies to “store the entire data related to payments systems” solely in India. The government followed up with two separate draft policies, one of which ordered e-commerce companies to store user data in India and one which tells all internet companies to store personal data of Indians in India. The latter policy doesn’t even pretend to be anything other than an attempt to make it easier for Indian companies to do business at the expense of foreign ones. And, incidentally, it’s terrible news for any Indian who doesn’t want all her data made available to an unaccountable and intrusive national security bureaucracy.

E-commerce has also been a major flashpoint. The government is going after foreign-owned e-commerce web sites such as Amazon, telling them that they can’t hold any inventory or allow their platform to be used by companies they’d invested in. In other words, Amazon needs to find a middleman to sell Kindles or Echos on its Indian website. Local companies face no such restrictions.

The U.S. can certainly be faulted for not seeing the bigger picture. It’s China that’s distorting the global playing field, and U.S. trade policy should be focused on finding and building alliances with countries such as India to combat that larger problem. India has the potential to be a giant market, which U.S. companies might need if they’re slowly squeezed out of China.

But, India’s negotiators, too, should recognize two basic facts. First: The world isn’t going to take its rising protectionism lying down. If the country starts closing off its market, which right now remains more potential than reality, it will find doors closing to its exports as well. That in turn would reduce its attractiveness as a manufacturing base.

This leads us to the second fact, which is that India can’t manage without preferential trade deals. A quarter of the GSP goes to benefiting India, about $5.6 billion. This allows a lot of smaller, labor-intensive -- and otherwise uncompetitive -- Indian exporters access to the vast and lucrative U.S. market.

Not only can’t India afford to lose that, we need more such deals. Indian exports have largely remained flat, or even declined in real terms, since Modi took office. They were $314 billion in 2013-14 and are about $300 billion now. Protecting big business in India needs to take a back seat to the very real crisis facing Indian exports.

India among countries to benefit from US-China trade war: UN

The Indian Express

February 18, 2019: India is among a handful of countries that stand to benefit from the ongoing trade tensions between the world’s top two economies – the US and China, the UN has said in its latest report.

The US and China are locked in a trade war since President Donald Trump imposed heavy tariffs on imported steel and aluminium items in March last year, a move that sparked fears of a global trade war.

In response, China imposed tit-for-tat tariffs on billions of dollars worth of American imports. The United Nations experts said Monday that the tit-for-tat trade dispute between China and the United States may do little to protect domestic producers in either country and could have “massive” implications on the global economy unless it is resolved.

Of the USD 250 billion in Chinese exports that are subject to US tariffs, only about six per cent will be picked up by firms in the US, according to a report by the UN Conference on Trade and Development (UNCTAD).

And of the approximately USD 85 billion in US exports that are subject to China's tariffs, only about five per cent of this will be taken up by Chinese firms, according to the UN research.

In a bid to meet the US' demand of bringing down the USD 375 billion bilateral trade deficit, China has pledged to take measures to step-up American imports and investments. March 1, 2019 is the deadline for implementing the measures.

Unless the US and China agree to drop their tariff dispute by March 1, duty on each country's products will rise to 25 per cent, up from the current 10 per cent level, the UN said.

Countries that are expected to benefit the most from the trade war are the EU members as exports in the bloc are likely to grow by USD 70 billion. Japan and Canada will see exports increase by more than USD 20 billion each, it said.

Other countries set to benefit from the trade tensions include Australia, with 4.6 per cent export gains, Brazil (3.8) India (3.5), Philippines (3.2) and Vietnam (5), the study said.

Quoting former US Secretary of State Cordell Hull, UNCTAD's Pamela Coke-Hamilton repeated his description of protective tariffs as "a gun that recoils on ourselves", which had also contributed to the Great Depression of the 1930s and the rise of extremism.

"I think that is a single lesson from what we have had here today. If – barring an agreement between the US, China on March 1 – tariffs will escalate to 25 per cent, which is a significant difference from the 10 per cent as it currently exists," Coke-Hamilton said.

The implications of such a development would be "massive", the UNCTAD Director, Division on International Trade in Goods and Services, and Commodities, continued, adding that its effects would, first of all, involve "an economic downturn… due to instability in commodities and financial markets".

The UNCTAD study also warns that the spat could hit East Asian producers the hardest, with a projected USD 160 billion contraction in the region's exports unless discussions between China and the US are resolved before the March 1 deadline.

The study also underlines the "common concern" that trade disputes have an unavoidable impact on the "still fragile" global economy, particularly on developing, commodity-rich countries that are dependent on exports. "One major concern is the risk that trade tensions could spiral into currency wars, making dollar-denominated debt more difficult to service," the report added.

Imposing tariffs make US-made products cheaper than imported ones and encourage consumers to buy American.

Why on earth is the US batting with China against India?

Pranab Dhal Samanta, The Economic Times

11 February, 2019: Why is it that US President Donald Trump speaks in admiration of Chinese President Xi Jinping even though the US has the highest trade deficit for 2017 with China — $566 billion — but taunts India for a $22-billion deficit? In his State of the Union address on February 5, Trump emphasised US efforts for a trade deal with China, said he had 'great respect' for Xi while earlier he had mocked Prime Minister Narendra Modi when listing India's developmental aid in Afghanistan.

But the trade deal with China still looks out of grasp as Trump's March 1 deadline draws closer while the pressure on India grows by the day, through threats like withdrawal of trade benefits under the Generalised System of Preferences (GSP).

This time, it's said, the provocation has come from India's decision to go ahead with its 'toughened' e-commerce policy, even though US companies affected by this move have found innovative ways to beat the problem — for now. More importantly, both sides had agreed that they will insulate trade negotiations from other commercial policy matters.

Then, why bring in GSP, especially during election year in India? There are many legitimate reasons to be frustrated with India's tariff levels, its policies and red tape. But New Delhi has also demonstrated more than just intent to address Trump's trade concerns.

US exports to India have grown at about 28% in the first six months of 2018-19 which is roughly two-and-a-half times faster than Indian exports to the US.

This indicates that the trade deficit, an issue red flagged by Trump, will maintain a declining trend this year. It's quite possible that India may just drop off Trump's list of top 10 countries, which have large deficits with the US.

Export Growth

The prognosis is even better. The biggest US export growth has been in oil and gas, which is at $4.5 billion. This will further grow once US adds some necessary infrastructure to meet Indian demands. Nearly 300 Boeing aircraft are to be sold to India over the next seven years. This amounts to about $39 bn, and deliveries are expected to start 2019-20.

Even in defence, where much more could have been done, it's noteworthy that the US has secured $18 billion worth of contracts in the last decade.

High-end, expensive purchases, like the armed Sea Guardian drone, are in the pipeline. So, business has essentially flourished in favour of the US despite an overall grim global picture.

Yet, the GSP threat looms on India. Let's analyse this. The oft-quoted figure is that Indian entities corner $5.6 billion of the $23-billion benefits the US doles under its GSP system. This is roughly 25%, which is significant.

But there's another way of looking at it. How much more would Indian entities have to shell out if these benefits were withdrawn? The back-of-the-envelope calculation, as the Indian side has worked out, would cost exporters $190-200 million at current US tariff levels outside GSP. In fact, regardless of the politics, it's time Indian business starts thinking of ways to gradually reduce its dependency on the GSP system.

Politics of the Situation

So why is the US unwilling to recognise Indian efforts at narrowing the trade deficit? The answer, perhaps, lies in the politics of the situation than in the data and substance of trade.

A giveaway on this is the US demand to lower customs duties on information & communication technology (ICT) products in line with the World Trade Organization's (WTO) 1996 Information Technology Agreement (ITA). This covers a range of electronic items, including smart mobile phones for which India is now the second-largest assembly point after China.

India has levied 10-20% duties, and has argued that since these items did not even exist when the ITA-1 was signed in December 1996, it's under no obligation to keep them at low tariff levels. Which is why India has also stayed out of ITA-2 that was agreed two years back.

What’s flummoxing is that the US is batting with China against India on this, least realising that Chinese phones, not US ones, will flood the Indian market if Delhi lowers tariffs. In other words, the US is picking a fight with India to get Chinese phones gain easier access into the Indian market.

Clearly, Trump wants a big political victory on trade after South Korea and Mexico. And if it’s not going to be China, then it ought to be India. More importantly, it should not be projected as some mutually agreed halfway house, but a deal dictated on India.

The idea is to, perhaps, demonstrably underline the power differential, which goes with the style that prompts mockery of the Indian leadership and its efforts. A lot is possible among strategic partners. But a client State-like behaviour may not be one of them.

The US needs to reset the political tone of this conversation, especially after the doubts Trump’s shift on Pakistan (to negotiate a deal with the Taliban) has created. Else, it runs the risk of widening the rift where actually not much beyond medical goods, boric acid and dairy goods exist.

India hopes to sign FTA with EU in ‘foreseeable future’

Financial Express

February 8, 2019: The government Friday expressed hope that it would be able to sign a free trade agreement with the European Union (EU) in the “foreseeable future”. “We will find the necessary balance between ambition and sensitivity in the foreseeable future to have trade agreements with various countries including the EU…The FTA will happen soon I am sure,” Commerce Secretary Anup Wadhawan said on the sidelines of the National standards conclave organised by the commerce ministry and CII.

Asked if auto is the only concern, he declined to elaborate but said that auto component is one of the few sectors something which is at the cutting edge of global standard and “we have to virtual find a way forward.” He also added that the EU has expressed some concerns about India’s service sector. Wadhawan seemed optimistic about India surpassing the export level that had peaked during 2013-14.

“We will reach a peak level this year. Our exports had peaked at USD 314 billion in 2013-14 and I think we will go past that peak,” he said. In 2013-14, the country’s merchandise exports touched USD 314.4 billion level. After that, exports came under immense pressure again due to global slowdown. On the agriculture exports showing inactivity, he said, “food exports stagnated a bit because of price issues.

Global commodity prices have fallen but the volumes have not come down. The quantities are still rising. We export over USD 40 billion worth of agriculture products. We are the largest exporters of rice in the world.” The third quarter showed a slowdown in exports but the secretary attributed it to the global prices. “Petroleum prices are coming down. Our exports are 15 per cent petroleum products and that 15 per cent is lagging.

Agriculture commodity prices have come down worldwide and agriculture export is about USD 40 billion out of over USD 300 billion. So all the pressures are there and the global slowdown is coming so that will obviously have its effect,” he said. He added that certain categories like grapes have recorded a huge jump on the back of the trade war between China and US. Asked how free trade and opening up of borders would materialise in future when global giants US and China are at loggerheads, he said,”I am sure better sense will prevail at a global level and countries will not destabilise the WTO.”

It is a very very useful framework, a very useful set of rules which brings some order and predictability to global trade, so I am sure the world community and the community of nations will not allow the WTO to be disrupted, he said.

Indo-US talks: Jobs, tech transfer top agenda; ecommerce, tariffs skipped

The Economic Times

New Delhi, 14 February, 2019: Job creation and technology transfer dominated the India-US talks on Thursday while the contentious issues related to data localisation, ecommerce and US' likely withdrawal of benefits to Indian exports were not discussed.

The two sides will set up groups on financial services, healthcare and defence to accelerate bilateral trade and investments.

The three working groups will be in addition to four such groups which were established to deal with issues concerning energy, water and environment; ICT, emerging technologies and digital infrastructure; entrepreneurship, inclusive growth and promoting small business; and infrastructure and manufacturing.

"Suresh Prabhu and Wilbur Ross had one to one bilateral telephone conversation and discussed various aspects of India-US trade and commerce relations," the commerce and industry ministry said in a statement.

However, in the absence of US secretary of commerce Wilbur Ross, who cancelled his visit due to inclement weather and technical problems, there was no joint statement. He participated in most of the sessions remotely via teleconference.

Officials who attended the India-US Commercial Dialogue and the CEO Forum said there was no discussion over the contentious trade issues.

India recently tightened foreign direct investment policy for ecommerce firms and the US is likely to withdraw preferential benefits to Indian exports. "They could have come up if Ross was here," said one official.

Another official said the issue of trade deficit, that the US is concerned about, was also not discussed but both sides emphasised on employment opportunities in their countries.

The two countries have been embroiled in a series of trade spats including the eligibility of Indian products for preferential or duty-free access to its market under the Generalized System of Preferences (GSP), US' demand for unconditional approval to its dairy exports and lower tariffs on ICT products.

These issues are being negotiated with the United States Trade Representative as part of a trade package.

Separately, India also has put on hold its plan to impose retaliatory tariffs on certain American imports in response to heavy duties on imported steel and aluminium items by the US.

SME Focus

"India's MSME ministry was made part of the process for the first time," the second official said.

Appreciating the pivotal role of small businesses, including small and medium enterprises (SMEs) in the areas of manufacturing and services, the sides expressed interest in facilitating partnerships among businesses and institutions with a view to encourage best practices, conducive policies, and collaboration for SMEs in both countries.

“The US Department of Commerce has taken the initiative to organise Trade Winds event, which will bring in a lot of SMEs having interest in India in May, 2019,” the government said in the statement. Both sides agreed to constitute a private sector-led SME initiative on the sidelines of this event.