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WTO not equipped to deal with China and its industrial policies: US

The Times of India

Washington, October 13, 2018: China's economic system is not compatible with the norms of the WTO, the Trump administration has said, asserting that the international trade body is not equipped to deal with Beijing and its industrial policies.

The Trump administration is also seeking to redefine the term 'developing nations' as countries like China, despite being the world's second largest economy, are being considered as developing, that gives them certain benefits under the World Trade Organization (WTO).

"Too many countries at the WTO self-designate as developing countries. And as a developing country at the WTO, you enjoy additional flexibilities and exemptions from the rules," Dennis Shea, deputy US trade representative and US ambassador to the WTO, told a Washington audience on Friday.

"If you look at who some of these countries are, though, it's pretty amazing that they're claiming to be developing countries at the WTO," he said.

For example, 10 of the G-20 members claim developing country status at the WTO.

China, which is the second largest economy in the world, claims developing country status at the WTO, Shea said.

Five of the six countries with the largest GDP per capita claim developing country status at the WTO, he said during his appearance before the Center for Strategic and International Studies (CSIS), a top American think-tank.

US trade representative Bob Lighthizer, Shea said, raised that issue at the ministerial conference in Buenos Aries in December and has a real conversation going on at the WTO about whether there should be more differentiation among developing countries.

In July, he said, the US offered a paper on China's economic model and the point of the paper was the economic model is essentially inconstant with the WTO norms.

"And I had a big back-and-forth with my Chinese counterpart. In fact, people said it was the most exciting time they've ever seen at a General Council meeting at the WTO. And my reaction was, 'Well, if this is the most exciting time this place must be pretty boring'," Shea said.

Indicating tightening of the US approach against China, Shea said that the middle-of-the-road approach on some of the issues, particularly around China, is no longer viable.

"We really need to recognise that the economic system of China is not compatible with the WTO norms," he said, asserting that other countries need to speak up on this.

The WTO, as currently constituted, is not equipped to handle the China issue.

"One of my jobs is to help educate the membership about the ramifications of China's non-market economy, not just for the US, but for the WTO membership at large," Shea said.

That is the reason why, he observed, the US submitted that paper on the Chinese economic model at the last general council meeting in July.

The US, Japan and the EU are now engaged in the trilateral process, in which they are looking at ways to share information.

"They're looking at a number of areas. One on industrial subsidies and state-owned enterprises; another on the issue of forced technology transfer; and, the third issue on, you know, defining: what are the elements of a market economy? Can we have a common understanding of what a market economy is?" the top US trade official said.

"Part of this effort involves development of new rules. So the US and the EU and the Japan are engaged in discussions, at a technical staff level, about the development of new rules around industrial subsidies and SOEs -- that's the furthest along -- and potentially new rules around forced technology transfer," Shea said.

Responding to a question, Shea said that in China, there is no independent judiciary, which can resolve disputes among stakeholders in China in impartial manner.

"Should China be kicked out of the WTO if the US loses?" he was asked. "You know, yes," he answered.

"We are committed to the trilateral process. We're working, hopefully we'll develop a common understanding what new rules would look like with the EU and Japan, and then branch out from there.

"We are probably a little more skeptical about the viability of rules to actually significantly modify Chinese behaviour. But that does not mean we should not pursue this approach, which we are pursuing," he added.

Developing nations need policy space in ecommerce: India to WTO

KirtikaSuneja, Economic Times

New Delhi, October 22, 2018: India has told the World Trade Organization (WTO) that developing countries need to maintain policy space in certain aspects of ecommerce such as ownership and use and flow of data in “sunrise sectors like cloud computing and data storage.”

Citing gaps in understanding on effects of ecommerce on competition and market structures, India said policy space is needed in the facets related to hosting of servers as well as big data analytics and M2M (machine-to-machine) communication in the era of internet of things.

“Advance of digital technologies, automation and robotisation will result in the loss of a large proportion of traditional jobs in the technology sector,” India said at a meeting of the trade negotiations committee in Geneva last week.

Developing countries, Indian trade negotiators said, are deficient in understanding issues related to technology transfer in the ecommerce space. However, India is committed to reviving work on the multilateral track, with its “non-negotiating mandate” to understand these issues better.

India’s statement comes in the wake of Canada, a proponent of launching ecommerce negotiations at the WTO, hosting a high-level mini-ministerial meeting this week to which New Delhi is not invited. “Canada is hosting a mini-ministerial on reforms…we are not invited,” said an official in the know of the details.

Canadian trade envoys are said to have told the WTO that there is a need to transition to a more concrete phase, while maintaining and broadening the participation on ecommerce issues.

Following the joint statements agreed in the Buenos Aires ministerial conference last year, work is already ongoing in the areas of domestic regulation, ecommerce and investment facilitation.

The European Union, which is also party to these talks, has already asked for establishing disciplines covering digital trade. In its concept paper on WTO modernisation, the EU said it is important to remove “unjustified barriers to trade by electronic means, to bring legal certainty for companies, and to ensure a secure online environment for consumers”.

It highlighted cross-linkages to addressing “forced technology transfers” such as disclosure of source code requirements and said new disciplines should cover not only trade in services, but apply to all economic sectors.

WTO reforms: India against secretariat giving out suggestions

Economic Times, KirtikaSuneja

October 17, 2018: India raised its concern at the World Trade Organization (WTO) about the latter’s participation in a recent report by the World Bank and the International Monetary Fund (IMF) that cast doubt on the efficacy of trade talks involving all nations.

The report said the practice of bundling negotiating issues in “giant all-or-nothing trade rounds” had become “extremely difficult to manage” and suggested plurilateral trade pacts involving fewer countries as the way ahead.

India objected to the report and said the issue of institutional reform at the WTO was best resolved by nations without “the secretariat offering its suggestions” to preserve its memberdriven character.

As per the report, trade reform has been stuck since the early 2000s and the consensus approach, in which all members must agree on issues, is driving negotiating activity outside the WTO, according to the report – Reinvigorating Trade and Inclusive Growth.

“India is deeply concerned at the WTO secretariat becoming a party to the recent report by international organisations on WTO reforms,” India told the WTO on Tuesday.

Emphasising that the issue of institutional reform of the WTO is important, India said the issue was best resolved by members.

“In the absence of any explicit request from the membership by consensus, we expect the secretariat to act with restraint in this matter so that the member-driven character of the WTO is preserved,” the India representative is understood have said at an informal meeting of heads of delegations, according to a person with knowledge of the matter.

“The secretariat has to function impartially and not take sides but some proposals talk of strengthening the role of the secretariat which can go against developing countries. Hence, the secretariat should refrain from expressing its views on delicate areas,” the official said.

Moreover, India has highlighted the problems facing the organisation with trade frictions escalating and the appellate body reduced to three members. This is impeding the WTO dispute settlement mechanism.

“With every passing day, we are moving closer to a trade war and complete collapse of the rules-based system,” India said.

As per a Delhi-based trade expert, the report is aimed at getting rid of the consensus-based system and allowing new issues to be raised, besides diluting the principles of special and differential treatment and the most-favoured nation concept.

WTO sets up dispute panel on India-US case on export subsidies

Economic Times

October 28, 2018: The World Trade Organisation'sdispute settlement body has set up a panel to examine the US complaint against certain export-subsidy measures by India as both the sides failed to resolve the issue at consultation level, an official said.

In March, the US dragged India to the global trade body's dispute settlement mechanism over export subsidies, saying that these incentives were harming the American companies.

"The process of composition of dispute panel is over. The working procedure and the time table for the panel proceedings has been circulated," the official added.

The US has requested for the establishment of a dispute panel to examine the allegations on India's export incentive measures.

Seeking consultation under the aegis of the WTO is the first step of dispute settlement process. If the two nations are not able to reach a mutually agreed solution through consultation, the complainant can request for a WTO dispute settlement panel to review the matter.

The US has challenged India's export subsidyprogrammes such as Merchandise Exports from India Scheme in the WTO, asserting that these initiatives harm its companies by creating an uneven playing field.

They have stated that all WTO members, including India, are required to provide subsidies consistent with provisions of the WTO's Agreement on Subsidies and Countervailing Measures, including refraining from providing subsidies contingent upon export performance.

During the consultation process, the US had alleged that India was continuing to grant these export-contingent subsidies and even expanded the scope and scale of the subsidies.

India had stated that it was disappointed that the US chose to move forward with a request for a panel, as it believed bilateral consultations held on April 11 were constructive.

During the consultations, India provided a detailed understanding of the schemes implemented under its Foreign Trade Policy by answering all the questions raised by the US.

India has also said that the schemes identified by the US do not violate India's WTO obligations and are in conformity with all the elements of the agreement.

India's exports to the US stood at USD 47.9 billion in 2017-18, while imports aggregated at USD 26.7 billion during the same fiscal.

US asks for WTO panel over metals tariff retaliation

The Indian Express

Washington, October 19, 2018: The United States is requesting that a World Trade Organization dispute resolution panel gets involved in a clash over international retaliation over U.S. tariffs on steel and aluminium, according to a U.S. official familiar with the matter.

The requests, filed on Thursday, cover tariffs by China, the European Union, Canada and Mexico, which followed the United States imposing a 25 percent duty on steel imports and a 10 percent tariff on aluminium imports, which it justified on national security grounds.

Canada, Mexico and China had also planned to ask for a WTO panel examining those tariffs, according to another government official familiar with the matter. Earlier on Thursday, Norway said that it, the EU and other countries would seek the WTO dispute group’s help.

China has filed a request with the WTO to establish an expert group to determine the legality of the tariffs, its commerce ministry said late on Thursday. In a statement posted on its website, the ministry said the U.S. decision to adjust the tariffs was an act of protectionism that seriously undermined multinational trade rules.

It said consultations with the United States under the WTO dispute settlement mechanism had failed to resolve China’s concerns, prompting it to ask for the expert group to be established.

Officials representing the other countries' trade delegations could not immediately be reached after normal business hours. The WTO did not immediately respond to requests for comment.

The dispute marks a new dimension to the ongoing skirmish between the United States and a number of its trading partners as well as the WTO itself, where it has blocked appointments of new judges. The WTO is presiding over a record number of disputes, many of them triggered by Trump's tariffs on steel and aluminium and his trade war with China.

Norway earlier said initial consultations with the United States had not led to an agreeable solution, and therefore the Nordic country had joined others in asking the WTO to set up the panel to obtain an independent assessment of the matter.

"We believe that additional U.S. duty on steel and aluminium is contrary to WTO rules," Norwegian Foreign Minister Ine Eriksen Soereide said in a statement.

"Therefore, together with the EU and several others, we asked today the WTO to establish a dispute resolution panel on the U.S. additional duty," she said.

In Brussels, meanwhile, the EU, Norway and Switzerland sought Asian support for free trade, the Iran nuclear deal and fighting global warming at a regional summit that included China, Japan and Russia as a counterbalance to a more protectionist United States.

U.S. Commerce Secretary Wilbur Ross told CNBC on Wednesday that trade negotiations with China appear to have taken a brief pause, and he tamped down expectations that the countries would make substantial progress toward an agreement at an upcoming G20 meeting.

Despite striking a deal with Washington to overhaul the North American Free Trade Agreement (NAFTA), Mexico and Canada remain subject to the metals tariffs. On Tuesday, EU trade chief Cecilia Malmstrom held talks with Ross in Brussels on improving trade relations, though Washington accused the bloc of moving too slowly in negotiations.

Developing nations wary of WTO's reforms proposals

D. Ravi Kanth, Live Mint

Geneva, October 15, 2018:Several developing countries are concerned over a set of sweeping reforms advocated by the World Trade Organization Secretariat, along with the World Bank and the International Monetary Fund, which seeks to terminate the principle of consensus-based multilateral rule-making for pursuing plurilateral negotiations in new issues, said four people familiar with the development.

The proposed reforms include jettisoning the consensus principle, launching plurilateral negotiations on new issues, and introducing a case-by-case approach for availing special and differential flexibilities. "The WTO Secretariat has "opted" for a change by setting aside the consensus principle on grounds that it is disrupting the negotiating activity at the global trade body," said a trade envoy, requesting anonymity.

Clearly, the WTO Secretariat has crossed the "Marrkesh-Rubicon", which had clearly laid out the rules for the conduct of business for the Secretariat, the envoy suggested.

According to the Marrakesh agreement, the WTO Secretariat, unlike the Secretariats in the World Bank and the IMF, is required to remain neutral in negotiating new trade rules without advancing the positions of any one country or groups of countries, and is expected to respect rules in a member-driven, inter-governmental organization, he added.

Significantly, the 34-page report titled, Reinvigorating trade and Inclusive Growth, has called for negotiating new “rules” in five areas--electronic commerce, investment facilitation, disciplines for micro, small and medium enterprises (MSMEs), domestic regulation for services, and gender--that would penetrate into the autonomous space of domestic regulatory structures.

But the report, reviewed by Mint, has failed to answer the vital question as to how these rules were going to be enforced and whether there will be a dispute settlement system to oversee trade disputes arising from these rules in these areas.

“The report’s central goal is aimed at preparing the ground for the WTO’s 12th ministerial conference to be held in Astana, Kazakhstan, in June or July 2020, for a formal burial of the Doha Round, and simultaneous launch of plurilateral negotiations in electronic commerce, investment facilitation, disciplines for MSMEs, domestic regulation for services, and gender,” said a trade envoy from a South American country.

Under the subtitle Role of the International Trading System, the WTO has argued that “the practice of bundling negotiating issues together in giant, all-or-nothing trade rounds (based on the Single Undertaking) has become extremely difficult to manage”.

The report suggested that the “single-undertaking approach”, which implies that nothing is agreed until everything was agreed as in the Doha negotiating framework “became increasingly vulnerable to delays and deadlocks as progress on more feasible issues was held back by a lack of progress on more controversial and intractable ones”.

According to the report, “the multilateral trading system has not always relied on large-scale ‘single undertakings’ like the Uruguay Round”. It spoke about American priorities in the trade policy since 1995, said a trade envoy from South America, who asked not to be identified.

It argued that “many approaches have been deployed over the years, some fully multilateral, and others not”, suggesting that “key parts of the current WTO rule book were initially agreed by and applied (in the 1970s and 1980s) only to those countries adopting the Tokyo Round Codes”.

“In certain areas, especially those emerging issues where policy innovation is needed and where not all 164 WTO members are equipped or ready to engage, some countries wish to move further and faster than others, and are doing so,” said the report.

The “open-plurilateral discussions on e-commerce, investment facilitation, services domestic regulation, and micro, small, and medium scale enterprises (MSMEs)” are not aimed at “exchanging market access concessions, but to improve regulatory coordination, in order to minimize policy frictions and advance shared goals in a ‘least trade restrictive’ way, (and) they could lead to a more cooperative, less mercantilist, approach to WTO negotiations in the future”.

New rules negotiated through plurilaterals in e-commerce, domestic regulation, investment facilitation, disciplines for MSMEs, and gender “would likely be inherently non-discriminatory, because they involve domestic regulations that cannot be easily tailored to benefit specific trade partners, making concerns about “discrimination,” like calculations of “reciprocity,” less relevant”.

The report maintained that the General Agreement on Trade in Services (GATS) offers a structure for new agreements in electronic commerce, domestic regulation for services, investment facilitation, disciplines for MSMEs and gender.

It explained the core features of the GATS, but did not reveal the gross asymmetries in market access commitments of Mode 3 concerning commercial participation and Mode 4 dealing with the movement of natural persons.

On electronic commerce, the report advocated that members must be guided by the Comprehensive Progressive Trans-Pacific Partnership (CPTPP), which had replaced the TPP (Trans-Pacific Partnership) Agreement.

Countries should brace for post-WTO world order

Live Mint, Anil Padmanabhan

October 15, 2018: Late next month US president Donald Trump and Chinese premier Xi Jinping are scheduled for some face time on the sidelines of the upcoming G20 meeting in Buenos Aires, Argentina. Given the ongoing brinkmanship between the two countries on bilateral trade, speculation is building up ahead of the meeting that the two may bury the hatchet—especially since the US would have concluded its key mid-term poll, where confrontation with China is a central point of debate. Basically, we have to see if indeed either of the two leaders blink and they pull their two countries and the world back from a ruinous trade war.

Regardless of the outcome, the world in general and developing countries such as India, in particular, need to start readying for a new world trade order. On the face of it, a rather radical and counter intuitive thought, but it is unfortunately the new reality. The writing has been on the wall for some time; president Trump has only advanced the timeline on hitting the reset on global trade rules.

The backlash against globalization—the backbone of which was booming world trade—hitherto restricted to developing countries, now includes developed countries such as the US, too.

Dani Rodrik, professor of international political economy at Harvard University and author of a new book, Straight Talk on Trade, blames this on severe dilution of the rules for global capital movement, unleashing what we know as the era of financial globalization. “Essentially, globalization went from being a means for national economic prosperity to becoming the end—with national domestic priorities having to adjust to globalization’s needs instead of vice-versa,” he said in an interview published in The Washington Post.

The immediate fallout of this backlash has been a fresh lease of life for populism. It provided an enabling environment to ensure that measures like trade retaliation become the primary weapon to appease the disenfranchised.

It is quite apparent now that the emerging new regime will not be the one defined around the principle of multilateralism embodied in the World Trade Organization (WTO). As my Geneva-based colleague D. Ravi Kanth has repeatedly pointed out in his news reports and columns published in Mint over the last few years, the developed countries have systematically worked to undermine the WTO and deny the inclusive agenda being pursued by developing countries such as India, Brazil and South Africa. The last ministerial conference all but formally buried the WTO.

The new trade order is more likely to be one built around the contours being drawn by a very assertive US under the leadership of president Trump.

The China stand off is of course the high point of this new paradigm. It is part of the carefully developed narrative, which has argued that only China benefitted from the prolonged phase of globalization—which American journalists in their enthusiasm eulogised as the benefits of a ‘flat’ world—enabling it to emerge as the second largest economy in the world; and now threatening to surpass the US.

Growing Chinese hegemony best defined by the One Belt One Road initiative only fuelled this narrative. The perception is that China needs to be contained, especially its peculiar (many would say questionable) ways of acquiring technological prowess. As a good populist, president Trump has been quick to seize the political opportunity to identify China as the prime target.

In fact, the re-negotiated North Atlantic Free Trade agreement (rechristened the US-Mexico-Canada agreement), as reported by the Financial Times newspaper, includes a clause which seeks to isolate China. The relevant section requires a member country to disclose details of any trade negotiations with a 'non-market economy' (read China). Basically, if the US has objections to any detail of such a bilateral trade deal entered into either by China or Mexico, then it can walk out of the agreement.

In the final analysis, it is then clear that the global trade order is poised for a reset. It will entail a lot of pain for sure; worse, global trade and, consequently growth, face a serious downside risk.

Trade chiefs discuss WTO reform, without China and the US

Bryce Baschuk, Bloomberg, Live Mint

Geneva, October 25, 2018:A group of global trade chiefs is meeting to start setting a reform agenda for the World Trade Organization, though it's unclear how far they can take the effort with the US and China excluded from talks.

The discussions on Thursday in Ottawa aim to identify ways to modernize the global body that all -- or at least most -- of the WTO's 164 members can agree to at some point in the future.

The trade gathering comes at a precarious moment for the WTO, which is struggling to contain an escalating trade war between the world's two largest economies. In the past month, the European Union, China and the US have all advanced disputes at the WTO over new American metal tariffs, European retaliation and Chinese intellectual-property practices.

"We're convening a very important meeting of a group of 12 countries that represent every continent -- all of whom believe in a rules-based international trading system," Canadian Trade Minister Jim Carr told reporters in Ottawa Wednesday. "We begin from a group of nations who know that this system is better than no system but we have to improve it. So we are having the first step of a larger conversation."

Though neither the US nor China were invited to the meeting, President Donald Trump's economic battle with Beijing and his criticism of the WTO has in large part sparked the conversation about improving the Geneva-based trade body.

Trump has threatened to withdraw from the WTO, repeatedly attacked the organization as being biased against US interests and is slowly strangling the appellate body, which mediates trade disputes that affect some of the world's largest companies.

WTO Director-General Roberto Azevedo will be among the list of high-level officials attending the Ottawa ministerial, along with European Trade Commissioner Cecilia Malmstrom and Mexican Economy Minister Ildefonso Guajardo. "Without action to ease tensions and recommit to cooperation in trade, we could see serious harm done to the multilateral trading system," Azevedo said in a speech last week.

Carr began the session Thursday saying the nations would discuss what they want the WTO to look like in the 21st century, and work backward from there to determine the changes needed. Trade rules are crucial for investor confidence, he said, particularly in comparatively small countries like Canada.

“It is clear that the WTO is facing serious challenges,” Carr said Thursday, adding: “The problems facing the multilateral trading system were not created by any one WTO member. They are not new and they cannot be solved by any one member.”

Appellate body

The top agenda item will be the WTO appellate body and exploring ways to ensure it won’t be paralyzed by the Trump administration.

Over the past year, the US has refused to consider any appellate body appointments because it says the forum’s current members have strayed from their original mandate. The three judges remaining are the bare minimum required to adjudicate appellate cases. The terms of two of the three expire in December 2019, which would leave the body paralyzed.

Trade ministers in Ottawa plan to address US concerns and consider whether WTO members can offer better guidance to the appellate body about how it should address specific issues.

The agenda for Thursday also includes a discussion of common goals for improving the three core areas of the WTO’s work -- negotiation, dispute settlement and the implementation of WTO agreements. In addition, trade ministers will discuss ways to lighten the appellate body’s load by using alternative means of dispute adjudication and narrowing the scope of their dispute proceedings.

Participants expect the meeting to produce a joint communique, which could be considered at the Group of 20 leaders summit next month in Buenos Aires.

Opinion | The WTO: Is it all over or can something be done?

Montek Singh Ahluwalia, Live Mint

October 29, 2018:Is the World Trade Organization (WTO) in trouble? It certainly seems so, since US president Donald Trump has described the institution as a “catastrophe” and a “disaster”. On 30 August, he went further and declared that the WTO is “the single worst trade deal ever made” and “if they don’t shape up I would withdraw from the WTO”. Previous US administrations have had their problems with the WTO, especially with its negotiating process which is based on consensus, and can prevent trade negotiations from moving forward if even one country objects. But no president has ever suggested that the US might want to leave the WTO. The threat naturally has major trading partners worried.

Unilateral Action and a Trade War

The US has not just criticized the WTO. It has also walked the talk by announcing a series of unilateral tariff increases outside the WTO framework. These include (a) safeguard tariffs to guard against a surge in imports of solar cells and washing machines, (b) imposition of 25% tariffs on import of steel and 10% on imports of aluminium from all countries, (including India) ostensibly on national security grounds and (c) discriminatory tariffs on imports of about $50 billion from China under Section 301 of the US Trade Act. Safeguard action is allowed under WTO, but to be WTO compatible, it has to follow a process that involves consultation between the parties, and a possible resort to the WTO to determine WTO compatibility. No such consultations took place.

The imposition of tariffs on steel and aluminium on national security grounds is even more questionable. Such action is tolerated when taken against imports from countries which are seen as national security threats. In the present case, it is being used against countries some of which are actually allies, and it is directed at specific commodities for purely protectionist purposes.

The imposition of discriminatory tariffs against China is a punitive action taken in response to its non-transparent subsidization of enterprises and also alleged arm twisting to force US investors to part with technology as a condition for entry into their market. This too is inconsistent with WTO, where subsidization has to be addressed through dispute settlement and retaliatory tariffs can only be imposed with explicit WTO sanction.

Predictably, US action has led to retaliatory tariffs being applied by China and the EU. India has said we will consider retaliation but have not imposed tariffs so far. The US has escalated the conflict with China by imposing another 10% duty on other goods, which will go up to 25% in January 2019. China may retaliate if this happens.

All this adds up to a real threat of a trade war, which can easily spiral out of control. In a world characterized by global supply chains, tariffs on China will affect countries upstream of the supply chain. It will create uncertainty about investment decisions and weaken the global economy, which already faces downside risks.

Not surprisingly, the major trading countries are deeply worried. The EU has had a meeting to discuss possible areas of reforms that might address some of the concerns of the US. Last week, Canada invited 12 "like-minded countries" to Ottawa to consider what can be done. The meeting included the EU and Japan and also Brazil, but the two principal contestants— the US and China—were not invited.

What Options Do We Have?

The Ottawa meeting reaffirmed the importance of a "rules based multilateral trading system" and stressed the "indispensable role the WTO is playing in facilitation and safeguarding trade". We can all agree with this part of the communique, although Trump may not agree with the endorsement of the importance of the multilateral trading system. The meeting concluded that action is necessary in three broad areas. No details were provided, but in what follows I offer some comments on each of these areas, and suggest what our position could be.

Improving the WTO's Dispute Resolution Mechanism

One of the major improvements in the WTO compared to its predecessor the General Agreement on Tariffs and Trade was the establishment of a strong dispute resolution system. Disputes are first referred to a dispute resolution panel and appeals against the decisions of the panel go to an appellate board. The US had taken the lead in setting up this system, but it now seems determined to unravel it.

The board has seven members. The US has blocked appointments to replace members retiring at the end of their term, including reappointments. As a result, the board is now down to three members only, which is the minimum for a quorum. One of the members retires in December 2019. If the US does not change its position and agree to new members being appointed, the dispute resolution process in the WTO will be crippled in a little over a year from now.

No one is really sure what the US wants. If the intention is to make the WTO dysfunctional, there isn't much that can be done, though Pascal Lamy, former director-general WTO has suggested that the WTO could go ahead and appoint new members even without US approval on the grounds that this is not an action that needs consensus.

There is some evidence that the US is unhappy about some specific rulings of the appellate board which arise from the board taking too wide a view of what it can pronounce on. If this is indeed the problem, it could be addressed through discussions. This is an area where we should support reconsideration of the practice in dispute settlement as it has evolved.

Monitoring the Transparency of Member Country Trade Practices

This relates to the issue of the practices of member countries in reporting open and hidden subsidies. It is argued that the current provisions are not sufficiently clear, and are also not effectively enforced. Compliance with reporting requirements is largely ignored.

The problem is general and applies to many countries, but the complaint is really directed at China because it is a highly successful competitor. No one really worries about non transparent subsidies to an unsuccessful competitor, but these practices obviously attract attention if indulged in by the world's most successful exporter. This aspect of China's practice is a matter of concern not just to the US, but also to European countries and Japan. China's announcement of its plans to become a world leader in selected high-technology industries by 2025 is seen as a direct threat to hitherto unchallenged dominance of the US in these areas. The prevalence of a very large state controlled sector in China has spurred the demand for greater transparency in subsidy policies.

The problem of non-transparent subsidies is not unique to China. Similar subsidies exist in industrialised countries also. For example, much of the technology behind iPhones, touch screens, and AI, have benefited from defence-sponsored research. It may seem unfair that the issue is being raised now, in the case of China, when it was not in the case of the existing industrialised powers. However, whatever the past practice, it is reasonable that common degrees of transparency should be expected from all countries. It is not clear what exactly can be done to make the system more transparent, but there is surely room for negotiation here, and we should support it.

Reinvigorating the WTO Negotiating Process

The Ottawa communique lists a number of issues related to strengthening the negotiating process which include making progress on new trade issues along with making progress on existing issues, and also keeping the focus on development. This is a tall order, since these issues have proved difficult to resolve in the negotiating process. The communique only says that the officials of the countries will work on these issues and report back when the group meets next in January 2019. One issue that is relevant in trying to break the negotiating logjam is to reconsider the WTOs consensus rule itself. The rule gives each country a veto. We could move to decisions being taken by qualified majority. Voting strength of each country could be based on share in world trade, and the qualified majority needed could be say 85%. This would mean that any proposal accepted by members accounting for 85% of world trade would go through.

An alternative approach would be to allow plurilateral agreements within the WTO which become effective for those members who enter into them. This would enable members who want a higher level of commitment to enter into an agreement provided it is open to other WTO member countries to join later if they wished.

Both these proposals would meet with strong objections. However, we should be willing to consider them if the alternative is the collapse of WTO. Of course for the change to be implemented, the shift would have to be approved under the existing consensus rules

The G20 Could Play a Role

If the multilateral trading system is really as much at risk as many fear, it is an important enough issue for the heads of government of the G20 to get directly involved. The next G20 Summit is scheduled to take place later in November in Argentina and trade is not on the agenda. The next one will be in Japan in July 2019. Perhaps the G20 Summit in Argentina should consider appointing an eminent persons group, which could come up with some core proposals, which the G20 leaders could consider in Japan next year. If Trump can be persuaded to do this we might have an opening for reform a year later.

The G20 summit made all the difference in 2008, when the finance ministers by themselves were unable to agree on how to save the global financial system. Ten years later they need to repeat the performance this time to save the world trading system. Once they have approved a broad approach, the trade ministers could take over again in Geneva.

Commerce ministry working on new WTO-compliant export incentive scheme

Live Mint

New Delhi, October 17, 2018: The commerce ministry is working on a new World Trade Organisation (WTO)-compliant export incentive scheme for merchandise shipments to replace the existing MEIS, an official said.

Currently, exporters of goods avail incentives under the Merchandise Exports from India Scheme (MEIS). In this, the government provides duty benefits depending on product and country.

“The work is going on for the drafting of the new scheme, which will replace the existing MEIS. It will be finalised soon. It could be named as rebate of levies,” the official said.

The WTO is a Geneva-based 164 member body which frames rules and norms for global exports and imports. India is a member of this multi-lateral body since January 1, 1995.

The formulation of the new export incentive scheme also assumes significance as the US has dragged India to the WTO’s dispute settlement mechanism over export subsidies, saying that these incentives were harming American companies. The US has challenged India’s export subsidy programmes such as MEIS in the WTO, asserting that these initiatives harm its companies by creating an uneven playing field. Other export benefit programmes including Export Oriented Units Scheme, Electronics Hardware Technology Parks Scheme; Special Economic Zones; Export Promotion Capital Goods Scheme; and duty free imports have been challenged by the US.

According to Federation of Indian Export Organisations (FIEO), the new scheme should include refund of indirect taxes like on oil and power; state levies such as ‘mandi’ tax and embedded tax.

“The new scheme would help boost the country’s exports,” FIEO president Ganesh Gupta said. India’s exports entered the negative zone after five months, contracting 2.15% in September to $ 27.95 billion even though the trade deficit narrowed to a five-month low of about $14 billion.

World Bank, IMF heads urge US, China to play by trade rules

The Indian Express

Indonesia, October 11, 2018: The heads of the World Bank and IMF on Thursday urged the US and China to play by world trade rules and de-escalate a dispute over Beijing’s technology development strategy that threatens to do lasting damage to the global economy.

Christine Lagarde, managing director of the International Monetary Fund, said she would advise Beijing and Washington to cool down, fix aspects of the world trading system that need fixing and “don’t break it.”

Lagarde and World Bank President Jim Yong Kim spoke separately on the sidelines of the lenders’ annual meeting in a resort zone of the tropical Indonesian island of Bali.

The event brings together finance ministers and central bankers from many economies, amid tight security: a line of armed personnel carriers were lined up alongside a beach path and access to the area was tightly controlled.

Asked about the escalating dispute between the US and China, Lagarde said that so far there had been no “contagion” of major damage from penalty tariffs imposed by the two countries on each other’s exports, but that they do risk hurting “innocent bystanders.”

Lagarde said her advice was in three parts: “De-escalate. Fix the system. Don’t break it.” The rules-making World Trade Organization, based in Geneva, has ways of addressing US complaints that China’s policies unfairly extract advanced technologies and put foreign companies at a disadvantage in its push to dominate certain industries, she said.

But she added that the WTO does need to work on addressing issues like subsidies. “Our strong recommendation is to escalate work for a world trade system that is stronger, that is fairer and is fit for the purpose,” she said in opening remarks.

Lagarde also, somewhat obliquely, said policies aimed toward an excessively “dominant position” were not compatible with free and fair trade.

Earlier in the week, the IMF downgraded its global economic outlook, forecasting growth will be 3.7 per cent this year rather than its earlier estimate for 3.9 per cent growth. It also issued reports on government finance and financial stability that warn of the risks of disruptions to world trade.

Kim said the World Bank was working with developing countries to prepare for a further deterioration. If tariffs were imposed to their most extreme limits there would be a “clear slowdown and the impact on the developing countries would be greater,” he said. “Trade is very critical because that is what has lifted people out of extreme poverty.

“I am a globalist. That is my job. That is our only chance of ending extreme poverty. We need more trade not less trade,” he said.

Kim said the bank had offered help to Indonesia for its recent earthquake and tsunami and other disasters. The people gathered in Bali for the meetings got a taste of such hazards themselves with an overnight earthquake that shook hotels in the resort area cordoned off for the event. Indonesian officials said the worst damage occurred on Java island. There was no evidence of severe damage in the area near the finance meetings.

Bali, a popular tourist destination, reflects both the positive and negative aspects of Indonesia’s own rapid development over the past three decades — Lagarde praised the democratic, Muslim-majority country of 260 million for making huge progress in improving its finances and fostering strong growth. But the byproducts of the tourist boom in largely Hindu Bali have been significant inequality and environmental damage.

The annual meetings take place at a time of growing concern over trends other than trade, such as moves to raise borrowing costs in the US and some other regions to help cool growth and keep inflation in check. Rising interest rates are drawing investment flows out of emerging markets in Asia and Latin America at a time when growth in their exports is likely to slow.

Argentina and Pakistan are among countries grappling with potentially destabilising financial woes. Concerns are growing, also, over slowing growth in China and rising debts among some developing countries resulting from projects associated with Beijing’s “Belt and Road Initiative” to develop ports, roads and other infrastructure.

On Monday, Pakistan Finance Minister Asad Umar said the country would seek a bailout loan from the IMF to address its mounting balance of payments crisis.

Asked about whether such help might amount to a "bailout" for Chinese loans, Lagarde said she had not yet seen a formal request for help but thought she might receive one later in the day when meeting with Umar. Any such help would have to be completely "transparent," she added.

"In whatever work we do we need a complete understanding and complete transparency about the nature of a debt that is bearing on a country," she said.

Leaders of Southeast Asian nations were also gathering in Bali for finance-related meetings, as finance ministers of the Group of 20 industrial nations and officials from the Group of 24 developing economies. The meetings include sideline events staged by non-governmental organizations.

Opinion | The end of America's China fantasy

Brahma Chellaney, Live Mint

October 25, 2018: A long-overdue shift in America's China policy is underway. After decades of "constructive engagement"—an approach that has facilitated China's rise, even as the country has violated international rules and norms—the US is now seeking active and concrete counter-measures. But is it too late to rein in a country that has emerged, with US help, as America's main geopolitical rival?

From Richard Nixon to Barack Obama, successive US presidents regarded aiding China's economic rise as a matter of national interest. Even as China defied world trade rules and flexed its military muscles, the US held onto the naive hope that, as China became increasingly prosperous, it would naturally pursue economic and even political liberalization.

America's "China fantasy", as James Mann calls it, was exemplified by Bill Clinton's argument in favour of allowing China's admission to the World Trade Organization (WTO). Citing Woodrow Wilson's vision of "free markets, free elections, and free peoples," Clinton declared that China's WTO entry would herald "a future of greater openness and freedom for the people of China."

That is not what happened. Instead, China established itself at the centre of global manufacturing value chains, as countless companies moved their production to the country—including from the US—while keeping its markets, politics, and people under tight control. In fact, China's dictatorship has become even more entrenched in recent years, as the Communist Party of China has used digital technologies to build a surveillance state. Meanwhile, the US has run up trillions of dollars in bilateral trade deficits.

Nonetheless, America's China fantasy endured, leading Obama to look on as the country created and militarized artificial islands in the South China Sea. At the height of the Chinese government's island-building, Obama argued that "we have more to fear from a weakened, threatened China than a successful, rising China." As a result, China seized de facto control of a highly strategic sea corridor through which one-third of global maritime trade passes.

Over the last couple of years, however, the China-policy debate in the US has begun to reflect more realism, with a growing number of voices recognizing China's ambition to supplant its American benefactor as the leading global superpower. The US finally called China what it is: a "revisionist power" and "strategic competitor". And, just this month, vice president Mike Pence bluntly accused China of "using political, economic, and military tools, as well as propaganda, to advance its influence and benefit its interests" in the US.

This rhetorical shift is being translated into action. President Donald Trump's trade war, in particular, has grabbed headlines, though many observers have failed to discern the strategy behind the tariffs.

Whereas Trump has used tariffs against allies as leverage to secure concessions and clinch new trade deals, US tariffs targeting China—which could endure for years are intended to bring about more fundamental and far-reaching change. Even the revised deals with US allies are intended partly to isolate China, thereby forcing it to abandon its mercantilist trade practices, such as forced technology transfer.

But what the Trump administration has initiated goes beyond tariffs; it amounts to a structural change in America's China policy that promises to reshape global geopolitics and trade. Because this change aligns with an incipient US bipartisan consensus in favour of more assertive action to constrain China, it is likely to outlast Trump's presidency.

To be sure, this does not mean that the US is going to adopt an overtly confrontational China policy. Nor does it necessarily mean that, as many speculate, a new cold war is in the offing. For example, China still gets a free pass on human-rights abuses, from holding up to a million Muslims from Xinjiang province in internment camps to effectively kidnapping Interpol President Meng Hongwei. And, despite his assertions that the Obama administration's response to China's activities in the South China Sea was "impotent", Trump has done little to counter Chinese expansionism.

Instead, the US seems to hope that it can use primarily economic levers to weaken China. But will it be enough? Or is the US effectively shutting the stable door after the horse has bolted?

China is already challenging the US for technological and geopolitical primacy, and flaunting its authoritarian capitalism as an alternative to democracy. Communism couldn't pose a credible challenge to liberal democracy, but authoritarian capitalism might. In that sense, China's model represents the first major challenge to liberal democracy since the rise of Nazism.

Thanks to its great strides in strengthening its technological prowess and geopolitical clout, China is in a strong position to withstand US pressure to change its ways. It will have to sacrifice some economic growth. But for President Xi Jinping, such a sacrifice would be worth it, if it meant protecting not only his own position, but also his "Chinese dream" of global pre-eminence. Even if US pressure escalates significantly, China will likely adopt a "two steps forward, one step back" strategy to keep progressing toward its ambitious goals.

This is not to say that US efforts are for naught. On the contrary, its policy shift amounts to its last chance to stop China before it secures the critical technologies it needs to gain the upper hand geopolitically in Asia and beyond. Even if it is too late to force China to respect international rules and human rights, it is never too soon to end China's damaging free ride.

Opinion | China-US ties: how to step back from the edge

Lu Ying, Bloomberg View, Live Mint

October 31, 2018: China-US relations have deteriorated faster than almost anyone could have expected. Tensions caused by trade have started to spread to other areas. The US is now claiming that China has become its main strategic competitor, even accusing it of interfering in elections and seeking to challenge American global hegemony.

At the international level, globalism and multilateralism are under attack, and the resurgence of geopolitical and power competition, mixed with populism and protectionism, are weakening the bonds built among countries in recent decades. These uncertainties seem poised to drag the world back to the turbulent years of the early 20th century.

The causes for these tensions are many and various. Competition among the new drivers of growth, industry and technology is a source of unease. So, too, are the seismic political realignments in liberal democracies. It also seems that the US and other Western countries, driven by their suspicion of different political systems, have become more wary or even fearful of China's success under the leadership of the Communist Party.

The US needs to realize that many of its complaints rest on shaky foundations. For instance, the US seems to believe that it's a victim of globalization—even though the numbers tell a different story. The reality is that the US has been the main long-term beneficiary of globalization. US multinationals have earned huge profits. And there's no doubt that Americans' prosperity and high living standards have been helped by low-cost overseas manufacturing, low-priced imports and the global circulation of dollars.

Despite this, some in the US seem to be hoping to "decouple" the world's two biggest economies, to reduce their interdependence and hamper or at least delay China's progress. The demands they've laid out are so extreme they seem designed to leave China no option but to choose confrontation and enter a high-cost power game.

The truth is that China and the US have grown together, in the same global economic system, for 40 years. The deep connections and complementary economic structures mean that decoupling is not immediately possible. If it has to happen, it would probably involve a protracted and painful process, and the extent of the damage to each country and its people's well-being is hard to predict, as well as the damage to the world economy.

Looking back at history, directional change is not made in a particular moment or through a single event but rather through the accumulation of many small adjustments to specific problems. The big picture only reveals itself later. In this light, the choices China and the US make now will reverberate for a long time to come.

That many of the charges the US has levelled against China aren't based on solid facts indicates there is lack of sufficient information about China and its aims and interests. Some of the accusations may be based on individual cases or mishaps, which are being deliberately used to give China a bad name. For example, if a Chinese individual or a member of the news media comments on American politics in a transparent and lawful manner, it should not be misportrayed as official interference. China has been highly sensitive about foreign interference in its domestic affairs and therefore condones no behaviour for such purposes. Accusing China of interference without hard evidence, for any Chinese, is no more than a naïve joke—if not a deliberate demonization.

For its part, the Chinese can do more to dispel such corrosive misconceptions. Chinese officials and scholars can be more active in engaging the American public. Take for example, the 2008 melamine-laced baby formula scandal. Peter Navarro, now a White House trade adviser, twisted the tragic episode in his book, using it to portray the Chinese as so immoral that they would poison foreign customers and themselves. Such distortions wouldn't spread if China had proactively given the world a fuller picture of the episode, making clear that the problem was investigated, that the people responsible were punished, and that laws and regulations were put in place to prevent future such occurrences.

Where there are reasonable requests from the US, the Chinese can candidly acknowledge and try to address them through accelerating reforms. For example, China has announced further steps to open up the financial service sector and bring down tariffs across the board. To better protect intellectual property, the Standing Committee of National People's Congress has just approved changes that will allow second-instance intellectual property cases with strong technical elements to be submitted directly to our Supreme Court so as to unify the standards of adjudication. Since 2014, specialized intellectual property courts in Beijing, Shanghai and Guangzhou have handled a growing number of cases. Violations and disputes are not uncommon; however, a strong emphasis is given to broadening people's awareness and reinforcing the execution of laws. If the US cares for China's IP improvement, it should be China's partner in addressing the challenges.

At this moment, it is important for the Chinese people to understand what is confronting us in our relationship with the US and why. Although events of late have increased apprehensiveness, we have not given up the hope of returning to a place of progress and stability, and we are willing to work toward this goal.

Opinion | Trade deficit with China shows America's strength

Live Mint

October 28, 2018:US President Donald Trump has made closing America's trade deficit with China a top priority. The problem is, it's growing instead. For Trump, that's probably more proof that his tariff-heavy, get-tough approach to China is the correct strategy. For economists, it's not such a big deal. The US economy is roaring, and roaring economies tend to import more.

There's another reason, too, why the trade balance is the wrong figure to focus on. It only captures one part of the greater economic relationship between the US and China — and only as that relationship currently stands. Fixating on it distracts from what ultimately counts: US corporate competitiveness and profitability.

To understand why, consider some new Oreo flavors. In August, US snack food giant Mondelez International Inc. rolled out "hot chicken wing" and wasabi-flavoured versions of the classic American cookie. Not quite to your taste? Well, they may not be aimed at you. The new cookies are being sold only in China. More than that, they were developed at Mondelez's research centre in Suzhou and are produced by factories on the mainland. Mondelez launched the new entries on JD.com, a Chinese online retailer. (The first batch sold out in nine hours, according to Mondelez.)

There are many such examples of US companies localizing their operations to target the Chinese market. General Motors Co. manufactures nearly all the cars it sells in China within the country. It even has a car brand, Baojun, developed for and only marketed to Chinese drivers. The vast majority of what the Procter & Gamble Co. sells to Chinese consumers is made locally. The company boasts nine manufacturing plants in China.

Such sales don't directly factor into the bilateral trade data. Yet it most certainly adds to those companies' bottom lines. GM and its partners sold one million more vehicles in China than in the US last year. China is P&G's second-largest market after the US Only Americans eat more Oreos than Chinese do.

The local sway of US companies is an indication of just how sophisticated and global they've become. With appealing brands and extensive international expertise, American firms very often invest and manufacture in foreign markets instead of exporting their products from the US By contrast, Chinese companies, like those in emerging markets generally, tend to lack brand power and experience operating abroad. So they capitalize on their low-cost base to export to the US and elsewhere.

That's reflected in the great disparity of direct investment between the US and China. Since 1990, US companies have invested almost twice as much in China — $256 billion — as Chinese companies have in the US And a huge chunk of China's investment has been made in only the past two years. To a certain extent, the trade deficit is thus a mark of how much more advanced US corporations are compared to their Chinese counterparts.

Of course, there's been much hand-wringing over the loss of American jobs due to trade with China as factory work has shifted overseas. But in many cases, the plants constructed in China weren't replacements for those in the US; they were built to meet local needs. In certain industries, such as P&G's household wares, shipping from far-off locales is expensive and impractical.

Fortunately, economies are never static and, over time, the disparity between the US and China should narrow naturally. It's almost certain that, barring a complete collapse of relations between the world's two largest economies, Chinese companies will expand their presence in the US market and hire American workers as they become more global.

As Japan's share of the US auto market increased, for instance, so did its investments in the US Japanese automakers have by now built 24 factories and invested a cumulative $48 billion in manufacturing in the US A trade spat between Washington and Tokyo played a role, persuading the Japanese to impose voluntary quotas on car exports in order to reduce tensions. That suggests Trump's tougher tactics on trade may also spur more Chinese investment in the US (though so far, that hasn't happened).

But trade restrictions probably aren't necessary. As companies of all types see their presence in a market expand, it just makes good business sense to get closer to their customers. South Korean automaker Hyundai opened up a US factory, as did its affiliate Kia, even though Washington and Seoul didn't fight a trade war. Automaker Volvo, owned by China's Geely, also recently opened its first car factory in the US.

Such investments may not completely close the trade gap. (They haven't with Japan.) But they'll most certainly stimulate jobs and even exports. Japan's automakers have directly created nearly 93,000 jobs in the US and last year exported more than 400,000 vehicles from their American plants.

There are lessons here for Washington policymakers. Though it's probably wise to restrict Chinese investments in sensitive US technology, they shouldn't scare off Chinese capital entirely. Furthermore, reducing the trade deficit is a sideshow to what will truly help US companies — expanding their ability to operate in and profit from the burgeoning Chinese economy.

Trump would be better served directly pressing Beijing to lift barriers to US business, rather than restricting trade and imposing higher costs on US companies and consumers. It's profits that matter, not deficits.

This story has been published from a wire agency feed without modifications to the text. Only the headline has been changed.

Opinion | How India should play the trade war

Niranjan Rajadhyaksha, Live Mint

October 31, 2018: The recent surge in proposals for greenfield foreign direct investment in some Asian countries should pique the interest of all those who ask whether India can benefit from the intensifying trade war between the US and China. The United Nations Conference on Trade and Development released data last month that shows how international firms have announced plans to pour money into new projects in Indonesia ($28 billion), Vietnam ($18 billion) and the Philippines ($12 billion). It is quite likely that these new greenfield investment proposals—that come in the midst of an overall decline in global foreign direct investment—could be because international firms are trying to relocate parts of their supply chains to other countries in the region, as Donald Trump turns the screws on Chinese mercantilism.

There are lessons for India here. Indian policy makers have been trying to figure out how to gain strategic advantage from the trade war between the two largest economies in the world. The first task is to identify the opportunities. India has few manufacturing capabilities in many of the largest items in the US import bill—mobile phones, telecom equipment, household appliances, toys, televisions, semiconductors, industrial machinery. Where India can get into the game is in sectors such as textiles, clothing, auto components and certain types of chemicals, a government official told me. A similar exercise can be carried out with respect to what China imports from the US. But that is not all.

It is well known that modern trade is dominated by the exchange of inputs—or intermediate goods—through supply chains that straddle across international borders. India has generally been unable to become an active participant in these supply chains. The fact that so much of international trade is now between firms rather than from producer to final consumer means that it is impossible to separate trade policy from investment policy in an interconnected world. That is why the surge in foreign direct investment in Indonesia, Vietnam and the Philippines deserves closer attention in India. It could be linked to US companies gradually increasing their purchases of inputs from Asian countries other than China.

Getting large investment projects—backed by either domestic or foreign money—will thus be central to any strategy to take advantage of the trade war. Such projects will help India plug into international supply chains. A global equity investor I recently met said that many large US companies are actively considering options to reduce their geopolitical risk by shifting some of their suppliers to other Asian countries. This is a strategic opening for India to get into the reckoning, though that will require a comprehensive look at import tariffs, investment policy, ease of doing business and moving to a goods and services tax (GST) that encourages exports by zero rating them (see this 30 July 2018 oped by V. Bhaskar and Vijay Kelkar).

The reality has been messy. India has moved up the ease of doing business rankings of the World Bank. Foreign direct investment has been steadily climbing, though not enough is coming into new industrial projects. The transition to GST as well as the demonetization shock disrupted many existing supply chains. Trade policy seems to be taking a protectionist turn; Abba P. Lerner showed way back in 1936 that an import tariff has the same economic effects as an export tax.

Trump hopes to close the US trade deficit, though it is safe to guess that the largest economy in the world will continue to run a large current account deficit in the coming years because its domestic savings are far lower than domestic investment. However, US trade policy will be disruptive. The key question is whether what Trump is doing will lead to trade diversion away from China or worldwide trade destruction. Trade diversion should benefit India if the government plays its cards well, and that is a big if. Trade destruction will harm all the major economies in the world. India too will get singed. There is reason to bet on trade diversion rather than trade destruction right now.

India has failed to do what Asian countries from Japan in the 1950s to Korea in the 1980s to China in the 2000s did so successfully—export labour-intensive goods to the developed world. At least two contemporary hot-button issues are directly linked to this failure. The first one is job creation in formal enterprises. The second one is recurrent balance of payments scares. Look at the case of textiles, an industry where India has deep historical capabilities. The opportunity that came our way after the multi-fibre agreement was scrapped at the turn of the century was frittered away, even as China, Vietnam, Bangladesh and Sri Lanka grabbed the opportunity.

The trade war could provide another such strategic opening as long as it does not destroy the liberal trading system. However, the Indian response needs to encompass trade, investment, tax, regulatory and exchange rate policies. Trade will not be automatically diverted from China to India. There is a lot of hard work to do. The initial fear is that the likes of Indonesia, Vietnam and the Philippines are walking away with the prize. That should hopefully focus some minds in New Delhi.

Opinion | Must India pay for America's trade war with China?

D. Ravi Kanth

October 24, 2018: If the global trading system is under fire, what should its members do ? That is the question India posed to 163 members at the World Trade Organization (WTO) last week.

For the past two years, a sustained assault by the America First policies has caused a "systemic" tsunami in the multilateral trade order. "We reject the ideology of globalism and we embrace the doctrine of patriotism," US president Donald Trump had said during his address to the United Nations last month.

It is an open secret that globalism was nurtured and sustained by the US over the past 70 years. It forced countries to accord primacy to global trade rules as embodied in the General Agreement on Tariffs and Trade (GATT), later replaced by the WTO.

Undoubtedly, the US made tremendous gains using the globalist framework not just in trade, but in other areas, particularly security. Little wonder, it helped the US to become the global hegemon for policing the international rules in trade, human rights and security, among others, at warp speed.

Against this backdrop, the US now says existing rules it had created over the past 70 years are "rigged" because they help only one country—China. That Beijing is able to game the system of existing rules at the WTO by pursuing allegedly non-market economic policies, which in turn, contributed to its relentless growth since 2001, must now be stopped by any means, the American establishment argues almost in one voice day and night. However, it remains moot whether India and other developing and poorest countries at the WTO must pay a price for Washington's trade war with Beijing. And to address that trade war, reforms are being proposed on a grand scale by different countries and global financial and trade institutions for modernizing the WTO.

The European Union, Canada and the WTO Secretariat-World Bank (WB)-International Monetary Fund (IMF) have proposed reforms. Shockingly, the WTO Secretariat has become a party to these reforms even though it is not permitted to have such a role.

The reforms include junking the "consensus" principle that is the hallmark of the functioning of the GATT /WTO since 1948. The EU (European Union), Canada and the WTO-WB-IMF have insisted that special and differential flexibilities, which provided "policy space" for China, India, Brazil and South Africa, among others, must be curtailed. The principle of non-discrimination in the conduct of commerce among countries must be set aside.

Worse still, there should be no credible and impartial and effective dispute settlement system overseen by the highest adjudicating body, or the Appellate Body, the US has maintained. For addressing the so-called 21st century issues, the WTO members must embark on a new round of plurilateral (two or more countries) trade negotiations for crafting rules in electronic commerce, investment facilitation, disciplines for micro, small and medium enterprises, and trade and gender, among others.

Effectively, plurilateral talks will enable jettisoning the Single Undertaking framework, which ensures nothing is agreed upon until everything is agreed upon. The US, the EU, Japan and Canada , which were earlier called the Quad had forced the Single Undertaking in the previous Uruguay Round that established the WTO. But now, they say WTO does not need that all encompassing/unifying framework.

The list of reforms also calls for disciplines to target state-owned enterprises, trade-distorting industrial subsidies, forced transfer of technologies, and stringent provisions for stopping the alleged threat of intellectual property rights.

Though the proponents of the reforms say they are targeted against China, they could adversely affect India and other developing countries for pursuing autonomous policies. Under the rubric of strengthening the transparency and notification provision, the proposals aim at enhancing the role of the WTO secretariat to conduct intrusive oversight. In short, for the fire that has engulfed the trading system thanks to Trump's incessant attacks, countries like India are being asked to pay a price now.

“Some of the ideas on reforms being floated, in their breadth, novelty and potential impact of akin almost, to launching a new Round, even when we still need to address some of the Doha issues, build on the work done and harvest some outcomes,” India has rightly argued.

Just when a healing touch is needed to enhance trust among members at the global trade body for addressing the outstanding issues, they are being subjected to another daylight robbery under the pretext of dousing the Trumpian flames!

forms maintain that they are specifically targeted against China, in reality, they could adversely affect India and other developing countries for pursuing autonomous developmental policies. Under the rubric of strengthening the transparency and notification provision, the proposed reforms aim at enhancing the role of the WTO secretariat so to conduct intrusive oversight and monitoring jobs.

In short, for the fire that has engulfed the trading system, particularly the WTO, thanks to Trump’s incessant attacks, countries like India are being asked to pay a price now. “Some of the ideas on reforms being floated, in their breadth, novelty and potential impact of akin almost, to launching a new Round, even when we still need to address some of the Doha issues, build on the work done and harvest some outcomes,” India has rightly argued. Just when a healing touch is needed to enhance trust among members at the global trade body for addressing the outstanding issues, they are being subjected to another daylight robbery under the pretext of dousing the Trumpian flames!

Trade pact clause seen deterring China trade deal with Canada, Mexico

The Indian Express

Washington, October 23, 2018: China’s hopes of negotiating a free trade pact with Canada or Mexico were dealt a sharp setback by a provision deep in the new US-Mexico-Canada trade agreement that aims to forbid such deals with “non-market” countries, trade experts said on Tuesday.

The provision specifies that if one of the current North American Free Trade Agreement partners enters a free trade deal with a “non-market” country such as China, the others can quit in six months and form their own bilateral trade pact.

The clause, which has stirred controversy in Canada, fits in with U.S. President Donald Trump’s efforts to isolate China economically and prevent Chinese companies from using Canada or Mexico as a “back door” to ship products tariff-free to the United States.

The United States and China are locked in a spiraling trade war that has seen them level increasingly severe rounds of tariffs on each other’s imports.

Under the clause, the countries in the updated NAFTA, renamed the U.S.-Mexico-Canada Agreement (USMCA), must notify the others three months before entering into such negotiations.

Derek Scissors, a China scholar at the American Enterprise Institute in Washington, said the provision gave the Trump administration an effective veto over any China trade deal by Canada or Mexico.
If repeated in other U.S. negotiations with the European Union and Japan, it could help isolate Beijing in the global trading system.

“For both Canada and Mexico, we have a reason to think an FTA with China is a possibility. It’s not imminent, but this is a very elegant way of dealing with that,” Scissors said. “There’s no China deal that’s worth losing a ratified USMCA,” Scissors added.

After months of bashing its Western allies on trade, the Trump administration is now trying to recruit them to join the United States in pressuring China to shift its trade, subsidy and intellectual property practices to a more-market driven focus.

Beijing has demanded that the World Trade Organization recognize it as a “market economy” since its WTO accession agreement expired in December 2016, a move that would severely limit Western trade defenses against cheap Chinese goods.

But the United States and European Union are challenging the declaration, arguing that Chinese state subsidies fueling excess industrial capacity, the exclusion of foreign competitors and other practices are signs it is still a non-market economy.

CANADIAN SOVEREIGNTY QUESTIONED

Canadian Prime Minister Justin Trudeau’s Liberal government, seeking to diversify Canada’s export base, held exploratory talks with China on trade in 2016, but a launch of formal negotiations has failed to materialize.

Tracey Ramsey, a legislator for Canada’s left-leaning New Democrats, said in the House of Commons on Tuesday that the clause was “astonishing” and a “severe restriction on Canadian independence.” “Part of Canada’s concessions in this deal was to include language that holds Canada hostage to the Americans if we decide to trade with another country,” Ramsey said. “Why did the Liberal (Party) give the go-ahead for the U.S. to pull us into their trade wars?”

Canadian Finance Minister Bill Morneau downplayed the provision, arguing it was not significantly different from NAFTA’s clause that allows any member to leave the pact in six months’ time for any reason.

“It is largely the same. It recognizes though that the non-market economy is of significant importance as we move forward. But I don’t think it’s going to make a material difference in our activities,” Morneau told a business audience.

Mexico’s business community sided with the Trump administration in endorsing the pact.
“We are associating ourselves with countries that promote market freedom and that promote free trade in the world, free trade under equal circumstances,” said Juan Pablo Castañon, head of the ConsejoCoordinadorEmpresarial (CCE), which represented Mexico’s private sector during the NAFTA trade talks.

US-Mexico-Canada trade deal could lead to China's isolation

The Times of India

Beijing, October 3, 2018: The new US-Mexico-Canada Trade Agreement (USMCA) could become a major threat to China as it gives a near-veto power to America over any attempt by Canada or Mexico to try to reach a similar deal with countries of "non-market economy" status which Beijing is yet to acquire, a media report said.

Trade experts said the USMCA agreement, which replaces the 24-year-old North America Free Trade Agreement (NAFTA), could be the forerunner to economic and trade alliance against China.

China, which became a member of the World Trade Organisation (WTO) in 2001, has not yet been granted the market economy status which could lead to radically lower anti-dumping duties on Chinese goods by forbidding the use of third-country price comparisons.

The US and the European Union opposed granting market economy status to China which is a technical distinction in the WTO framework that would reduce the ability of Washington and Brussels to impose trade sanctions on Beijing.

Beijing argues that it is entitled for the status as it has completed 15 years in the WTO. The WTO is yet to give its ruling.

Significantly, the USMCA agreement stipulates that any of the three parties to the deal has the right to be informed about any negotiations on a free-trade agreement with a "non-market economy" at an early stage.

If one of the three countries were to sign a free-trade agreement (FTA) with a non-market country, either of the other two would have the right to terminate the trilateral USMCA with six months' notice, the Hong Kong-based South China Morning Post reported Wednesday.

With the power to review and then impede or effectively veto a possible FTA between China and Canada or Mexico, the US can block potential "backchannels" for Chinese products to enter US markets through its neighbours, and gain a significant advantage in weakening Beijing's negotiating power in future trade talks, the Post reported.

China is Canada's second-largest trading partner after the US. Ottawa is in talks with Beijing since 2016 to work out an FTA.

But the USMCA clause has wider implications. If the US were to insert a similar clause into trade deals it is negotiating with the EU and Japan, it would mean Beijing's best hope of trading with the EU, Japan and Canada to offset an extended trade war with the US would be quashed, Post reported, quoting trade experts.

US President Donald Trump, the architect of the USMCA, is also asking India to sign a trade deal with America.

The US emphasis on trade deals with different countries could, in effect, create a new partnership hemming in China, the experts said.

Song Eui-young, an economics professor specialising international trade at Sogang University in Seoul, said the clause was a sign of Washington's desire to create an "economic alliance" against China.

Trump, who launched the current trade war with China, has changed his early tactic of quarrelling with all of the US' major trading partners simultaneously and is instead pursuing "a new trade stance to unite Europe, Japan and Canada into an economic alliance against China", Song said.

The veto clause, presenting a near-insurmountable obstacle to possible free-trade deals between China and major US trading partners, appears to be a necessary part of any new trade deals, the Post quoted him as saying.

Kotaro Tamura, an Asia fellow at the Milken Institute, said the USMCA "will definitely be the [new] blueprint to contain China in terms of trade", with Washington using the "non-market economy" clause as a loyalty test for its major trading partners.

"The US will try to reach a similar agreement with other countries surrounding China, including Japan," Tamura said.

China looks increasingly isolated despite its repeated claim that it is the true protector of global free trade and multilateralism centred on the WTO, the paper said.

A US-led trade system that excludes China would be the worst-case scenario for Beijing because such a structure could lead to fundamental realignments of international economic relations and global value chains, which in turn could curb China's economic rise, it said.

So far, China has signed 16 bilateral free-trade deals, including those with Australia, New Zealand, Iceland, South Korea, Singapore and the 10-nation Association of Southeast Asian Nations, in total accounting for about a quarter of China's total foreign trade. China has no free-trade deal with Canada, Mexico, Japan, Europe and the US.

Christine Loh, an adjunct professor at the Hong Kong University of Science and Technology, said the US' move to form a new trade alliance during its heated trade war with China would "change supply chains all over the world".

China's Ministry of Foreign Affairs and Ministry of Commerce have yet to comment on the USMCA's impact as China is currently celebrating week long National Day holidays.

India plans trade deal talks to boost exports to China

Shruti Srivastava, Bloomberg, Live Mint

New Delhi, October 24, 2018: India is devising a plan to boost shipments of around 200 products to China as part of a strategy to cut down the deficit with its biggest trading partner, a person with knowledge of the matter said.

The plan includes seeking duty waiver on a raft of products under the Asia Pacific Trade Agreement, the person said, asking not to be identified as the talks are still on. New Delhi wants China to scrap levies on items including uncombed single cotton apart from castor oil, menthol, granite, diamonds and glass envelopes for picture tubes when negotiations for expansion come up in April 2019.

An analysis by Prime Minister Narendra Modi’s administration shows that Southeast Asian nations, Australia, and South Korea among others have competitive advantage over India due to free trade agreements with China. In marine products, especially frozen shrimps and prawns, India loses its competitive advantage due to tariffs while shipments from the Association of Southeast Asian Nations are allowed duty free.

APTA, established in 1975, seeks to create a liberal trading regime between Bangladesh, India, Laos, Korea and Sri Lanka and China. Apart from seeking tariff concessions, the ongoing US and China trade conflict also presents an opportunity to cut down the $56-billion trade gap it runs with China, the person said.

India’s Commerce ministry spokeswoman didn’t immediately respond to two phone calls to her mobile phone.

Is India a tariff king?

Nikita Kwatra, Live Mint

Mumbai, October 16, 2018: Earlier this month, US President Donald Trump described India as “the tariff king”, accusing it of imposing “tremendously high” tariffs on American products. As if to prove him right, India last week introduced a second set of tariff hikes.

While the recent tariff hikes may have been occasioned by the burgeoning current account deficit and the fall in the rupee, they only reinforce a growing trend of protectionism in Asia's third largest economy. While import tariffs may provide the economy with short-term relief, left uncorrected, the country's lurch toward protectionism could extract a steep price in the years to come.

Already, India is among the most heavily protected economies in the world, a Mint analysis shows. And if tariff hikes continue, the "tariff king" title could stick.

In order to compare the rate of protection across countries, we use the "effective average tariff rate" here instead of a simple average of tariffs. This is because a simple average of tariffs across different products might not reflect actual trade patterns and, hence, may not correspond to the tariff walls exporters actually face.

In this analysis, the effective average tariff rate imposed by each country has been calculated as a weighted average of tariffs on different goods, with the weights being the value of aggregate imports by the five largest economies of the world—the US, EU, China, Japan and India. The analysis assumes that trading patterns of most large economies resemble those of this aggregated mega-block, accounting for 70% of the world's GDP.

The analysis shows that India has among the highest effective average rates of tariffs across major economies of the world.

Among members of the BRICS grouping—Brazil, Russia, India, China, South Africa—India has the highest effective tariff rates on food items, automobiles and industrial inputs. In consumer goods and capital goods, Brazil has the highest effective tariff rates (chart 2). The lack of clarity in information on tariffs at a product level in India adds a further layer of protection, according to some scholars.

Data from the Global Trade Alert (GTA) database, which attempts to record all trade-related measures by public authorities, and not just tariffs, shows that India and the US have introduced the most trade restrictions so far in 2018 (chart 3).

No wonder then that it was not just Trump who was complaining about India's trade policies. A recent World Bank report accused India of increasingly resorting to trade remedy measures such as anti-dumping and safeguard actions. According to the report, between 2011 and 2015, India initiated around 10% of global anti-dumping investigations and 17% of new safeguard investigations.

The lurch toward protectionism is especially worrying because it threatens to undo more than two decades of trade liberalization measures that have powered India's growth over the past quarter century, boosting incomes and helping cut poverty levels.

"…While protection succeeded in creating a large and highly diversified industrial base, it led to inefficiency in the use of resources," said a 1993 National Institute of Public Finance and Policy paper on the evolution of India's tariff policies authored by BishwanathGoldar and Hasheem N Saleem.

Trade liberalization fostered an atmosphere of intense competition, leading to better use of inputs and innovation, driving productivity growth. Data from the Reserve Bank of India's KLEMS database show that India witnessed a productivity boom after liberalizing trade in 1991 (chart 4).

The real danger in the recent tariff hikes is that this could set the clock back, and harm the competitive intensity and productivity of Indian firms. Also, protection for one industry, say steelmakers, could end up hurting another—carmakers, for instance. The economy-wide impact of such measures can be prohibitively costly for a developing country like India.

At a time when other economies are also raising trade barriers, it is easy to fall into the protectionist trap. But it is worth noting that India will be hit harder than many other countries if the current wave of trade protectionism escalates and slows down global growth. A recent report by the Organisation for Economic Co-operation and Development (OECD) warned that India, Australia and China would be the biggest losers in terms of per-capita income growth in such a scenario. Escalating the global trade conflict is the last thing the Indian economy needs today.

Opinion | The importance of Asia-Europe cooperation

Rahul Msihra, Live Mint

October 29, 2018:The Asia-Europe Meeting (ASEM) is the highest platform for Asia-Europe dialogue. As such, it could play a substantive role in fostering cooperation among the countries of the two continents. It could also enable them to play a strong role in global politics buffeted by challenges from Donald Trump's America.

Held on 18-19 October in Brussels, the two-day biennial 12th ASEM revolved around these issues. Titled 'Global Partners for Global Challenge', it deliberated on how Asia and Europe could work together to safeguard and preserve multilateralism and issues relating to global commons through multilateral dialogues. Venkaiah Naidu, the vice president, represented India at the summit and highlighted key concerns and priorities for the government.

Established in 1996, ASEM functions as an informal inter-governmental dialogue platform. Through five rounds of expansion, it has registered a two-fold increase in membership, from 26 in 1996 to 53 in 2018. This also includes two regional organizations, the Asean (Association of Southeast Asian Nations) Secretariat and the European Commission. Asia has registered its robust presence with 21 countries, including its prominent major and middle powers such as China, India, Russia, Malaysia, Indonesia, Japan, and South Korea.

India joined ASEM in 2007 after it was inducted during the second round of expansion. Its cooperation with post-war Europe goes back to the 1950s when the European Union's (EU's) precursor, the European Economic Community, was established. India has had its own summit mechanism with the EU from 2000, which was further consolidated with the 2004 India-EU strategic partnership agreement.

ASEM's potential lies in the fact that it encompasses 60% of the world population, more than half of global trade, and around two-thirds of global gross domestic product. Moreover, it consists of four United Nations Security Council members, all BRICS members except South Africa, and 12 of the G20 member states. However, much of this is yet to be translated into real strength.

Nevertheless, ongoing shifts in global power and geo-economics, and convulsions in the liberal international order, make ASEM increasingly relevant. Europe has been a major stakeholder in Asian growth. For one, the EU is one of the biggest trade and investment partners of Asean, India and China. It is the largest source of foreign direct investment in both India and Asean.

Both Asia and Europe are wary of the uncertainties being created by the US. Rising protectionist trade policies, withdrawal from the Paris Agreement on climate change mitigation, and Trump's disregard for multilateral dialogue pose significant common challenges. While China is the main target of the Trump administration's trade tariffs, the EU, Japan and India are vulnerable as well.

Increasingly disillusioned by the Trump administration, post-Brexit EU is likely to be more focused on Asia. Recent trends indicate that it is keen to be more integrated with Asian growth. Major European countries such as France and Germany are getting more involved in Asian security dynamics too.

For Delhi, relations with both China and the US have been a tightrope walk. China's Belt and Road initiative (BRI) and Trump's tariff barriers and H-1B visa issue are prime areas of concern for India. In that context, greater cooperation with the EU and Asian powers could open up new vistas of cooperation. Even on critical strategic issues with economic ramifications such as Iran, India, China, and the EU are largely on the same page. ASEM countries should find common ground on trade liberalization and reduction of tariff and non-tariff barriers, among other things.

Asia-Europe connectivity is another key issue. The EU has recently released a policy document on fostering physical, economic, digital, and people-to-people connectivity between Asia and Europe. Prepared by the European Commission, the document, Connecting Europe and Asia: Building blocks for an EU strategy, emphasizes the need for "sustainable, comprehensive and rules-based connectivity" to enhance "prosperity, safety and resilience of people and societies in Europe and Asia". If the EU is able to move towards operationalizing these principles, it will have significant economic upsides.

This connectivity plan is seen by many as a response to China's multi-billion-dollar BRI project. Major Asian stakeholders have already launched their own alternatives—to varying degrees—to BRI. In addition to their individual connectivity and outreach initiatives, Japan (Partnership for Quality Investment) and India (Sagarmala) are working together on the Asia-Africa Growth Corridor for inter-regional connectivity. With Australia and the US, the two are also working on Indo-Pacific connectivity. In this context, the EU was conspicuous by its absence. Thus, this plan is a good move, even if it has come about more slowly than it should have.

The EU strategy is a good omen for Asian countries which have been looking for a rule-based and transparent multilateral cooperation mechanism that can yield quality investments for greater intra-regional, regional, and inter-regional connectivity. It will also be interesting to see what impact the EU's participation could have on the manner in which China is implementing the BRI.

All of this, however, comes with caveats. Europe is facing a rising tide of nationalism across its member states. Brexit is the most overt symptom, and a disruptive one, but there are many others. As for Asean, its unity is being challenged by widening internal rifts. These could prove to be significant stumbling blocks.

ASEM could play a key role in bringing Asian and European countries closer on a range of issues. This is significant at a time when the US is disrupting the gains of globalization. However, this will require political will in Asia and Europe to back multilateralism and free trade.

Opinion | India and the new face of globalization

Ejaz Ghani, Live Mint

October 24, 2018: Globalization itself is evolving, with changes in global trade flows, capital flows, and the Fourth Industrial Revolution. This has huge implications for India's future. How well placed is India to benefit from the new face of globalization? Trade flows have attracted more attention than capital flows and technological changes as drivers of globalization. But the new technology is changing the global composition of trade flows. Trade in services are now increasing at a much faster pace than trade in goods. The cost differential in the production of services across the world is still enormous. The cost differential in traded services is much greater than in trade in goods. In the past, the only means to narrow such cost differentials was migration. However, global international migration has not increased but instead remained steady at about 3% for decades.

Technology has enabled services to be digitized and transported long distances at low costs without compromising on quality. The internet has enabled firms to sell services without crossing national borders, and dramatically increased the size and the scope for exploiting cost differentials in services compared to trade in goods. India's trade characteristics are well aligned with the new face of globalization. Unlike China, India's global trade has been spearheaded by exports of modern services. Global service trade also tends to be more resilient compared with the goods trade during global downturns. Overall, India is much better off today than before, thanks to the new face of globalization. But there are many challenges ahead.

Globalization of capital flows is also evolving with huge implications for macroeconomic management and growth. Some capital flow tends to be more volatile than others. Remittances, which tend to be more resilient, have been the dominant form of capital inflow into India. They have often exceeded foreign direct investment and other capital inflows in the past (see Rahul Anand and Ejaz Ghani, How will changes in globalization impact growth in South Asia, World Bank). But given that global migration trends are not increasing, remittances are not enough, and new policy instruments are needed to attract more long-term capital inflows to invest in India's human and physical infrastructure. Many long-term investors, such as pension funds and insurance companies, which are ideally suited for human and physical infrastructure investments, see India as an important investment destination. There is increasing interest from global investors in solar power, water management, waste management, affordable housing and much more. Policy makers have many options to attract more remittances inflows, issue non-resident Indian (NRI) bonds, and attract NRI investors from countries with which India has a double-taxation agreement. There is also increasing interest, both from philanthropic and private foundations, in promoting public private partnerships and maximizing finance for welfare development.

Technology has become a bigger force of globalization, changing cross-border mobility of goods and services, and capital flows. New technological revolution has huge spillovers and externalities. Data and information technology is now the lifeblood of the global economy, fuelling ideas for new products and services, and advancing the transnational flow of trade, capital, and ideas. There are at least three times as many connected devices in the world today as there are people. The cross-border flow of digital information—searches, transactions, communications—has increased five-fold since 1990. The shift in value from physical to digital information services will only increase. The new era of innovation, in which cutting-edge technologies are replacing old production methods has impacted everybody. Latecomers to development, like India, face a bigger challenge compared to the US and UK, on how to capitalize on their comparative advantage, benefit from new technology, and create more jobs.

This is where the policy challenges come in. While investment in physical infrastructure has attracted the attention of policy makers in the past, investment in building human infrastructure has become even more important (see Ejaz Ghani, Reshaping Tomorrow, World Bank). Given India's young population, and to benefit from its demographic dividend, India needs to dramatically scale up investments in human infrastructure. India's demographic dividend suggests that 7-10 million people will join the labour force every year. But less than 4 million receive skill training. Early learning and stimulation interventions for children under three are virtually non-existent. Less than 17% of government schools provide one or two years of pre-primary education. Less than 15% of rural children in grade 2 can read at the expected level. Technological change has one key message: invest in people—through education, health, nutrition, social protection, and skills. Human development is the sturdiest way forward. If workers are to stay competitive against machines they need to be able to learn new skills and be better trained from the start.

India faces a dual challenge—demographic dividend and rapid technological change. Technological progress is placing a higher premium on skills, and any failure of countries to lay the groundwork for their citizens to lead productive lives will not only carry high cost, it will also generate more inequality and conflict. In most countries, children born to more affluent parents start having access to better opportunities early in life, and these lead to lifelong advantages, whereas children born to poorer parents miss out on these opportunities. If policy makers make more effort to make early childhood development programmes universal, income inequality would fall.

Technology is now the largest sector of the world economy, eclipsing even financial services, and includes five of the top 20 public companies by market capitalization. Spillovers and externalities associated with the Fourth Industrial Revolution are global in nature and call for global coordination as well as national level interventions. Late comers to developments can better manage trade-offs between economic growth and environmental degradation, thanks to technological progress that can increase both economic growth and better management of resource. Scaling up investments in human capital to promote growth and prevent digital divide is an easy call for the policy makers.

India feels RCEP may frame tighter rules on state-owned enterprises

Asit Ranjan Mishra, Live Mint

New Delhi, October 10, 2018: With the US, the European Union (EU) and Japan planning new rules on industrial subsidies and state-owned enterprises (SOEs) specifically targeting China to fix its market-distorting behaviour, India believes member countries of the Regional Comprehensive Economic Partnership (RCEP) led by Japan may formulate tighter rules on SOEs in the ongoing negotiations.

A joint statement issued last month by the three economies after a meeting of their trade ministers said new rules on SOEs will aim at creating a more level playing field for their workers and businesses.

“The ministers highlighted the importance of securing a level playing field given the challenges posed by third parties developing SOEs into national champions and setting them loose in global markets, resulting in distortions that negatively affect farmers, industrial producers, and workers in the ministers’ home countries,” it said.

The regulations are expected to focus on lending by state-owned banks to a company irrespective of its creditworthiness, including due to implicit government guarantees, subsidies to an ailing enterprise without a credible restructuring plan, and subsidies leading to or maintaining overcapacity.

“The trilateral partners continue exploring how to increase the costs of transparency and notification failures and how to strengthen the ability to obtain information on subsidies. The ministers also confirmed their commitment to continue working together to maintain the effectiveness of existing WTO (World Trade Organization) disciplines,” according to the joint statement.

An Indian trade ministry official said India will not oppose more stringent rules on SOEs though central public sector enterprises (CPSEs) play a significant role in the Indian economy.

“We are very transparent. All the records of our CPSEs are on the internet. Their purchase transactions are also public,” the ministry official said.

India’s former commerce secretary Rajeev Kher said India should not shy away from negotiating tighter regulations for SOEs just because it also has large CPSEs. “China is not a market economy and there is a lot of opacity in the way it functions. State capitalism in China gives a lot of protection to SOEs. India should push for stringent rules on SOEs under RCEP because China’s SOEs are so expansive in magnitude that we stand nowhere close to it,” he said.

In China’s economy, the private sector is dominant in industries such as clothing, food, and assembly for export, while companies are predominantly state-owned in sectors such as energy, utilities, and transport, financial, telecom, education, and healthcare services. China’s overcapacity in steel production has been of particular worry to all major economies.

State trading enterprises in China have the exclusive right to import or export products such as grain, sugar, tobacco, rice, corn, cotton, coal, crude oil, processed oil, chemical fertilizers, tungsten, tea, silk, antimony and silver.

After many years of downsizing, SOEs started growing after the global financial crisis, accounting for three-quarters, or 60 percentage points, of the rise in corporate debt/GDP since then, and now have assets of over 200% of GDP, the International Monetary Fund noted in a report in August last year.

Data is new oil, and RBI says store it in India: Here's all you need to know about data localisation norms

Krishnanand Bhat, Financial Express

October 29, 2018: The new buzz in the technology world has now gained momentum, given the strident stand of the governing bodies of our nation. The deadline for the mandate for gathering, processing, analyzing, storing, etc, personal information, declared by the Reserve Bank of India for all the FinTech companies, has passed.

While the payment companies are doing their best to request for relaxation of this norm, including some requesting an exemption, the Reserve Bank of India currently does not seem to be willing to give in.

India, being the second most populated nation in the world, gathers information that could amount to around 1 million petabytes, if the internet sources are to be believed. With stakes such high, the issue of data localisation within the nation has gained a global spotlight, with WTO calling for a ban on the same and US senators requesting for softening of the norms stating, 'free trade'.

While we are debating on the pros and cons of data localisation, the most important fact that must be investigated is – 'Are we ready to handle the data?' As Mr Clive stated,'Data is the new oil'; and if it is so, then are we prepared to handle this new resource? The relevance of data is limited to its accessibility. Storage of data in a specific geographic location should not be that big a concern if the accessibility of the same is restricted.

What does this mean?

The objective of Data Localisation as presented is to ensure that all 'personal information pertaining to the citizens of the country including financial information resides within the country.' It is preferable to know where the information is lying for better visibility.

However, with the increase in the number of cyber attacks and cyber threats of criminal nature, uncertainty on the below issues has left consumers in the dark:

- Who is responsible for the data stored locally
- What measures should be taken to ensure the data is protected throughout its life cycle– obtain-process-store
- What is the retention period of the information stored locally
- Is the governing body geared up for handling this mammoth task
- Can the process and procedures in place handle data-breach situations
- How is access to this information prevented from outside the country

How companies are reacting:

This mandate has got most of the payment companies on their toes, trying to find a suitable solution to meet the requirement. There is little doubt that it clearly means a big blow to their financials, as meeting the requirements would need huge investments both in the cases of infrastructure and security of the same. However, home companies like Paytm and Phonepe are welcoming this move and strongly advocating it as a positive step towards building a stronger compliance.

What it means for consumers:
Easy and free access, as provided by the foreign entities, could now be at stake if companies fail to meet the mandate. The consumer is left wondering if their freedom to make independent choices is being curtailed by such measures that are being taken by the government.

Global take:
While there are other nations like China, Russia, North Korea, and Europe who have adopted similar to stringent policies, they have adopted suitable measures to ensure that such information is safeguarded. While experts believe this move to be in the positive direction to help build stronger cybersecurity control, what we need to watch is whether it would be able to withstand the economic pressure or end up as a failed project. The Indian authorities need to take a balanced approach to handle this new oil, keeping in mind that we are at the cusp of innovations and digital transformation, which should not be stopped at the cost of protectionism.