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

WTO, members differ on resolution of impasse over special treatment

Asit Ranjan Mishra , Live Mint

May 15, 2019: The developing countries and the World Trade Organization(WTO) Secretariat differed on the way the current impasse over the special and differential (S&D) treatment should be resolved, at an informal two-day meeting of a select group of trade ministers in Delhi on Monday and Tuesday. The different proposals indicated a widening of the gulf between the developing countries and the Secretariat.

The S&D status available to developing and least developed countries (LDCs) gives them more time for implementing multilateral trading rules and commitments.

The US has submitted a proposal at the WTO stating that as several developing countries such as China and India have made significant strides in development, countries that are members of G20 or Organisation for Economic Co-operation and Development, as well as those classified by the World Bank as a high income country or those with 0.5% share in world merchandise trade should not get S&D benefits in trade negotiations.

As many as 17 of the 22 members present at the meeting of trade ministers and senior officials of developing countries and LDCs organized to find common ground on issues of concern brought out a Delhi Declaration insisting on safeguarding S&D provisions. Five members—Kazakhstan, Turkey, Argentina, Brazil and Guatemala—did not sign the joint statement but did not specify the reason for this.

“Special and differential Treatment is one of the main defining features of the multilateral trading system and is essential to integrating developing members into global trade. Special and differential treatment provisions are rights of developing members that must be preserved and strengthened in both current and future WTO agreements, with priority attention to outstanding LDC issues," the joint statement read.

However, WTO director general Roberto Azevedo said on Monday evening that the S&D mechanism must be innovative to address the impasse. “If left unaddressed it may go either way. The ideal way is to have a benchmark because the differentiation is already happening and is essential for small developing countries. The best way forward is to have a trade-facilitation-agreement-type model where countries may set their own benchmarks," he said, according to a statement by India’s commerce ministry.

The joint statement did not mention the plurilateral negotiations on e-commerce among a group of 76 countries, including China, which were represented at the Delhi meeting. It, however, stressed that the outcome of such initiatives “should be conducive to strengthening the multilateral trading system and be consistent with WTO rules".

Azevedo said plurilaterals should not be seen as a division between developed and developing countries as they contain members from both sides.

The statement said the ongoing impasse has weakened the dispute settlement system and threatens to completely paralyse it by December 2019.

“We, therefore, urge all WTO members to engage constructively to address this challenge without any delay in filling the vacancies in the appellate body, while continuing discussions on other issues relating to the functioning of the dispute settlement mechanism," it said.

WTO Appellate Body member condemns US in farewell speech

D. Ravi Kanth, Live Mint

Washington (D.C.), May 30, 2019: The United States is determined to 'eliminate' the highest adjudicating body for global trade disputes within next six months to ensure that “economic and other might trumps legal right", says an outgoing judge of the World Trade Organization.

The Appellate Body (AB) is reckoned as the jewel in the WTO's dispute settlement system. It has issued binding rulings on governments in trade disputes involving illegal anti-dumping duties, subsidies and countervailing actions, restrictive trade measures, and environmental concerns. The US, which has won many trade disputes against the European Union, China, and India among others, has also lost some important cases in which Washington was found to have violated core WTO rules.

But successive US administrations waged a fierce war against AB's rulings that are not favourable to Washington. The US has repeatedly accused the WTO’s adjudicating body- called the Appellate Body- on grounds that it had failed to adhere to the WTO’s dispute settlement understanding (DSU).

In response to concerns raised by the US about the functioning of the AB, more than 20 members, including India, along with the European Union and China, made proposals for the reform of the

WTO appellate review. The reform proposals are aimed at addressing the US' concerns relating to the alleged 'overreach' by the WTO's Appellate Body, the precedential effect of WTO's case law, the 90-day time frame for issuing the rulings by the Appellate Body, and the AB's review factual findings, including the findings on the meaning of the domestic law, among others.

So far, the US has refused to engage on any of the reform proposals during the current facilitator-led process that is being chaired by Ambassador David Walker of New Zealand. Even though some of the reform proposals would 'significantly' change essential features of the current system, the US chose not to engage with other members until now.

"It is, however, not clear to me, as I am sure it is not clear to most of you, whether any reform of the current system, short of its virtual elimination, will satisfy the United States," said Peter Van den Bossche, an outgoing judge of the WTO's Appellate Body, in his farewell speech on 29 May.

Despite sustained efforts by members and the facilitator, "it is ever more likely that the current crisis [in the Appellate Body where the US has blocked the selection process for filling vacancies] by 11 December 2019," the judge said. The AB, which will be reduced to one member from the requisite seven members "will no longer be able to hear and decide new appeals from that day onwards", the outgoing judge opined.

After the Appellate Body is paralyzed after 11 December, said Bossche, "the losing party will in most cases appeal the panel report [which is the first stage for resolution of trade disputes followed by the final Appellate review in the second stage] and thus prevent it from becoming legally binding."

"As from 11 December 2019, it is therefore not only appellate review [conducted by the Appellate Body] but also the entire WTO dispute settlement system that will no longer be fully operational and my progressively shut down," the judge maintained. "While the United States may welcome such an outcome, most other WTO members obviously would not… A return to some kind of pre-WTO dispute settlement system means a return to dispute settlement in which economic and other trumps legal right," Bosche maintained.

India, which hosted a ministerial meeting of developing countries earlier this month, consistently demanded the resolution of the worst crisis at the Appellate Body before addressing reforms to the WTO. "Most WTO members do not want international trade without rules, or to be more precise, the international trade with rules that are whatever the strongest party to a dispute [such as the US] says the rules are," the outgoing judge maintained.

WTO quarterly trade growth indicator remains at nine-year low

Live Mint

Geneva, May 20, 2019: The World Trade Organization's quarterly outlook indicator showed on Monday that global goods trade growth was likely to remain weak, with a reading of 96.3, unchanged from February, the lowest since 2010.

"The outlook for trade could worsen further if heightened trade tensions are not resolved or if macroeconomic policy fails to adjust to changing circumstances," the WTO said, adding that the latest indicator did not reflect major trade moves in the last few days.

New SEZ policy bats for easy exits and flexibility in leases

Kirtika Suneja, The Economic Times

New Delhi, May 26, 2019: India is set to revamp the special economic zones (SEZs) framework to house a wider range of companies, allow flexible long-term leases and make exits easy to lure investment. Apart from this, non-processing areas in such enclaves can be used to boost exports and employment generation.

"We need bold measures to revive investment, promote manufacturing and exports from SEZs, and boost job creation," said a senior government official aware of the deliberations. "The new SEZ policy needs to be future-ready, investor-friendly and correspond to global market needs."

India had 232 SEZs, of which 25 are multi-product ones and the rest are sector-specific ones, with 5,109 approved units, as of March 31. The sector-specific SEZs are meant for IT and IT-enabled services. Under the proposed policy, these could be opened up to sectors such as tourism and multimedia services.

The policy will seek to provide ease of operation and exit, procedural relaxations, and uniformity in administrative and financial matters among all SEZs. It could also provide easier subcontracting for customers outside the zones. The units now need permission to subcontract any part of their production or production process to units in other SEZs.

The government is also looking to create an integrated online portal for processing new investment requests.

"These proposals have been under consideration. The government is keen to ensure the productivity of SEZs increases," said another official aware of the details. Exports from SEZs rose 21% to Rs 7 lakh crore in FY19.

A committee set up by the commerce and industry ministry under Bharat Forge chairman Baba Kalyani to look into the SEZ policy framework had suggested that the government devise measures to make them focussed on services including information technology, medical tourism and financial services to draw investors.

The committee has suggested SEZs be converted into employment and economic enclaves (3Es) with efficient transport infrastructure NSE 0.32 %, uninterrupted water and power supply.

"There is a long-felt need to reform the current SEZ system to simplify the procedures," said Bipin Sapra, partner at EY. "The administrative reforms of SEZ should be coupled with reforming the goods and services tax compliances required for claiming the zero-rated benefits."

The overhaul plan comes as the US has challenged the SEZ scheme at the World Trade Organization.

The crucial role of New Development Bank in the future of BRICS

Prof. Karin Costa Vazquez, Financial Express

May 27, 2019: The big emerging markets of Brazil, Russia, India, China and South Africa (BRICS) have come a long way since their first summit in 2009, proving to be more than an "arranged marriage" as recently proclaimed in the media amid disagreements among the five members on

Venezuela and WTO reform. Looking back in the history of the group, even the Doklam standoff and the China-India disagreement on Pakistan had a negotiated solution. The question therefore is not what separates the BRICS – as political divergences will always exist in any country arrangement – but what still holds the five countries together one decade after the creation of the group.

In order to answer this question, it is important to understand that the BRICS emerged not as a group whose strength lay in the individual capacity of each country but as a pragmatic relationship that pools the influence of its members to achieve common objectives. This is the case of the New Development Bank (NDB) and its potential to reshape the world of development finance. Three key features set the NDB apart from existing multilateral development banks: its commitment to close the infrastructure gap in emerging and developing countries without delays nor imposing conditionalities; sustainable development; and equity in power-sharing.

In less than four years of operations, the NDB seems to have laid down fairly solid foundations. It received AA+ international credit rating and built a portfolio of 35 projects worth USD 9.2 billion – nearly half of World Bank lending in 2018. During its 4th annual meeting last month, the NDB stressed the need for investments in social infrastructure in addition to its current lending for physical infrastructure development in recognition that both soft and hard infrastructure is needed to meet the developing needs of member countries. Once a contender, India also gave the green light to the expansion of the NDB membership. While helping to improve credit rating and increase the bank's subscribed capital, there is still no consensus among the five members on who should be invited.

As the NDB consolidates its operations, it is challenged by its commitment to sustainability. In 2019, five new projects totaling about USD1.2 billion were approved. Yet, the criteria under which these projects are selected and monitored remain unclear. So are the development results achieved to date. In South Africa, questions mark NDB loans to the indebted power utilities company Eskom. The expansion of the Durban port and the retrofitting of the Medupi coal-fired power plant also raise local communities' concerns about ecological degradation and increasing carbon emissions. In India, a road modernization project in Madhya Pradesh is suspect of land grabbing and property destruction. Failure to consult the stakeholders directly impacted by the projects as well as disclose project documents and social-environmental assessments can compromise the bank's development impact.

Assessing the development impact of NDB's projects and their contribution to the Sustainable Development Goals will become even more critical as the bank initiates the mid-term review of its general strategy later this year. So will hiring women for senior management and leadership positions, mainstreaming gender into the bank's operations, and securing a balanced loan allocation among the five members. This year China passed India as the top recipient, with 34 percent against 27.3 percent. Russia and South Africa follow in third place with 16 percent each. Brazil receives the lowest amount, totaling approximately USD621 million (6.7 percent). Dubbed as a differentiating feature of the NDB, the equal say in the bank's governance would be short-lived without a balanced allocation of loans among the five members.

Those who dismiss the BRICS as little more than an acronym might feel justified in their skepticism as political and economic turmoil shake emerging economies. Yet, their most tangible creation is making a surprising headway in establishing itself as a viable business. As the New Development Bank enters its fourth year of operations it must now prove the "development" in its name.

India looks to fight alone at WTO on global e-commerce rules

Sidhartha, The Economic Times

New Delhi, May 20, 2019: India is looking to fight a lonely battle on global rules for e-commerce trade at the World Trade Organization (WTO) with close to 70 countries siding with the US to have a multilateral mechanism.

The pressure on India is evident at most global gatherings. Much to its embarrassment, the government had to drop a mention of the issue in a declaration issued after the mini-ministerial meeting hosted by it here last week, with only South Africa on its side. The draft prepared by Indian officials had talked about restraining from plurilateral agreements, where a group of countries and not the entire WTO membership came together for a deal. Already, the US, Europe, Japan and China are seeking some sort of rules that will benefit the likes of Amazon, Alibaba and Uber by opening doors to markets across the globe.

India along with South Africa and Saudi Arabia have, so far, been the naysayers. Government sources, however, said that at a recent G-20 meeting, even South Africa indicated that there is little support for blocking an international framework on e-commerce or digital trade, with a large bloc from the African continent "beginning to see the gains" that may accrue to them.

Government officials said India is going to hold firm as very little benefit accrues to consumers and domestic players. "Even if it is 160 countries in favour of global e-commerce rules, India will seek to stop it," said a source.

India's concern stems from the absence of a domestic policy as well as free data flow being pushed by the US and Europe. In addition, the government fears that the architecture being proposed may force developing and least developed countries to lower duties and ease restrictions on services trading, something that was being done autonomously. In fact, in its submission to WTO, the European Union has sought an expansion of the Information Technology Agreement (ITA) to cover more goods, something that India has sought to avoid and has not signed ITA-2. Many policymakers believe that signing ITA-1 was a mistake as it restricted the government's ability to impose import duty on several electronic goods.

The US and EU members, for instance, have openly sought removal of data localisation requirements, although they recognise that privacy needs to be protected. Already, fintech companies and the likes of Amazon and WhatsApp have been complaining about the requirement with the Trump administration backing them. On its part, China has been less ambitious in its proposals.

India rejects attempts by US, others to deny policy space at WTO

D. Ravi Kanth, Live mint

Paris, May 26, 2019: India has firmly rejected attempts by the United States and several other industrialized countries for introducing "differentiation" to deny policy space through special and differential flexibilities for India and other developing countries in the multilateral trade agreements, say trade ministers.

At a closed-door informal meeting of select-trade ministers in Paris on 23 May, India reiterated that it "cannot agree to any approach which undermines the centrality of the development dimension in the WTO". South Africa, and the representative of the biggest coalition of developing and poorest countries called the ACP (Africa, Caribbean, and Pacific) group supported India's position to ensure the "development dimension" in global trade.

The US and other industrialized countries seem determined to bring about “graduation and differentiation" among developing countries for availing of special and differential flexibilities in the current and future trade negotiations at the World Trade Organization.

The US deputy trade representative Ambassador Dennis Shea told his counterparts at the Paris meeting that Washington will pursue its proposal for differentiating developing countries to ensure that leading developing countries such as India from availing special and differential treatment flexibilities in the current and future trade negotiations, said a participant, who asked not to be quoted.

India, which is facing a barrage of trade disputes because of subsidies provided to its farmers and increasing import duties on information and technology products, is being told by the US and its partners that New Delhi cannot avail policy space that is made possible through special and differential treatment (S&DT) flexibilities for developing countries.

The Modi government which will retain reigns for the second time in New Delhi faces a grim battle on the trade front as the big boys in the global trading system led by the US are saying that New Delhi cannot avail policy space for industrialization in several sectors.

In response to the stand taken by the US and other industrialized countries at the meeting, India maintained “the reality remains that developing countries continue to face formidable challenges in integrating with global trade and in addressing their development goals".

India urged the US “to refrain from this divisive debate now and instead focus on strengthening the WTO and reviving the negotiating agenda". The reform proposals by US and its partners lack balance while pushing “for one-sided narrative with disregard for issues of importance and concern to developing countries", Wadhawan maintained.

“WTO reform initiatives must keep development at the centre, promote inclusiveness and non-discrimination, build trust and address the inequalities and glaring asymmetries in existing agreements, which are against the interest of developing countries," India argued at the Paris meeting.

Moreover, the Indian official maintained, “the first priority for us should be to address the ongoing impasse in the Appellate Body with a sense of urgency to launch the process of filling up the vacancies before December 2019."

According to the Indian official, “any new disciplines (for fisheries subsidies) must also consider the capacity constraints of developing countries in conducting regular stock assessment based on the best scientific evidence available to them."

He warned against the recent US-Australia proposal for capping fisheries subsidies at the current level, saying “the proposed new approach of capping of subsidies will unfairly impact developing countries and it will reward the big subsidizers by giving them higher caps, and thus create a permanent asymmetry."

“Further, the capping proposals do not have an S&DT component, thereby denying much needed policy space to developing countries to develop their livelihood oriented fisheries sector," the Indian official maintained.

According to the Indian official, “subsidies, both specific or non-specific, have the same adverse effect on sustainability of fish stock." “The attempt by some members to discipline only specific fuel subsidies will result in a large proportion of operating cost subsidies being left out of the disciplines," he argued.

Chinese Taipei seeks to join WTO consultations over India’s ICT products tariff

Financial Express

May 20, 2019: Chinese Taipei Monday expressed interest in joining consultations in a case filed by Japan in the WTO’s dispute settlement body against India’s import duties on certain ICT products, including mobile phones. According to a communication of the WTO, Chinese Taipei said that the separate customs territory of Taiwan, Penghu, Kinmen and Matsu has a substantial trade interest in information communications technology (ICT) goods.

On May 14, Japan has dragged India to the World Trade Organisation (WTO) over the import duties imposed on certain electronic goods including telephones for cellular networks; machines for reception, conversion and transmission or regeneration of voice, images or other data; and parts of telephone sets.

They have alleged that imposition of import duties on these products by India infringes WTO norms as India has committed zero per cent bound tariffs on these products. While bound tariffs or duties refer to the ceiling over which a WTO member country cannot impose import duty, the applied tariff is the duty which is currently in place.

The communication said: “The separate customs territory of Taiwan, Penghu, Kinmen and Matsu hereby notifies the consulting members and the dispute settlement body of its desire to be joined in these consultations”. As per WTO rules, seeking consultation is the first step of dispute settlement process.

If the bilateral consultations requested by the EU with India do not result in a satisfactory solution, the EU can request the WTO to set up a dispute panel to pass a ruling on the matter. Chinese Taipei requires approval from India and Japan to join the consultation process. A WTO member country can file a dispute if it perceive that another country’s trade policies or actions are violating global trade norms.

EU, China, Thailand join hands against India’s ICT products tariff

Financial Express

May 23, 2019: The European Union, China, and Thailand have expressed interest to join consultations in a case filed by Japan at the WTO against India’s import duties on certain information and communication technology products, including mobile phones. Singapore, Canada and Chinese Taipei too have earlier sought to join this dispute consultation against India under the WTO’s dispute settlement body.

According to a communication of EU, China, and Thailand to the World Trade Organisation (WTO), these countries claimed that they have a substantial interest in the trade of information and communication technology (ICT) goods and in joining the consultation process. On May 14, Japan dragged India to the WTO over the import duties imposed on certain electronic goods, including telephones for cellular networks, machines for the reception, conversion and transmission or regeneration of voice, images or other data; and parts of telephone sets.

It alleged that imposition of import duties on these products by India infringes WTO norms as India has committed zero per cent bound tariffs on these products. While bound tariffs or duties refer to the ceiling over which a WTO member country cannot impose import duty, the applied tariff is the duty which is currently in place. In a separate communication, China said that it has a substantial trade interest in the consultations as it is one of the main exporters of information technology products in the world.

“In 2018, China’s export of telephones for cellular networks to India amounted to USD 1.9 billion, base stations amounted to USD 0.23 billion, and machines for the reception, conversion and transmission or regeneration of voice, images or other data amounted to USD 0.28 billion,” it said.

The EU, which has already filed a similar dispute case against in India in the WTO, stated that in light of its substantial trade interest, it desires to join the consultations. Similarly, Thailand claimed that the import duties on these goods by India may “substantially” affect Thailand’s sales and exports of these products. “As a result of this substantial trade interest, Thailand requests that it be permitted to join the consultations in this dispute,” it said.

As per the WTO rules, seeking consultation is the first step of the dispute settlement process. If the bilateral consultations requested by the complainant (in this case Japan) with India do not result in a satisfactory solution, Japan can request the WTO to set up a dispute panel to pass a ruling on the matter. All the countries that are seeking to join the consultations require approval from India and Japan.

A WTO member country can file a dispute if it perceives that another country’s trade policies or actions are violating global trade norms and impacting their trade. European Union, China, and Thailand are key trade partners of India.
In October last year, India hiked import duty on certain communication items, including base stations, to up to 20 per cent as part of efforts to check a widening current account deficit by curbing imports.

Road ahead for the Commerce ministry: Boosting exports, resolving trade issues key focus areas

Prabha Raghavan, The Indian Express

New Delhi, May 31, 2019: The commerce ministry has its work cut out in the coming months, with issues such as a subdued outlook by the World Trade Organisation (WTO) on global trade, a widened trade deficit and a multitude of challenges on the bilateral and multilateral fronts confronting the new Narendra modi government. A downward slide in Foreign Direct Investment inflows and flagging merchandise exports are other areas of concern.

Over the last five years, the previous NDA government focused on increasing exports, including through identifying newer markets it could tap. By the end of the 2018-19 financial year, the commerce ministry announced that the country had achieved a record high of around $331.02 billion in merchandise exports. Yet, it reportedly missed its own internal goal of crossing $350 billion.

The country also experienced a high trade deficit for merchandise goods at $176.42 billion and an overall trade deficit of $95.85 billion for that period. India had also taken measures to improve its ease of doing business ranking, managing to secure 77th position towards the end of last year, up from over 140 in 2015. It further tried to encourage foreign investment through schemes like ‘Make in India’ and by relaxing rules for Foreign Direct Investment (FDI) in several sectors.

Yet, recent government data shows that FDI fell for the first time in six years, dropping around 1 per cent to $44.4 billion in the 2018-19 financial year. The telecom sector, due to its stressed financial condition, and pharmaceuticals sector, due to uncertainty in regulations, took the highest hit.

The government has reportedly begun work on boosting exports as part of its 100-day agenda, considering measures like a new major export promotion scheme and pushing exports through e-commerce. India exported products valued at $1.2 billion through e-commerce in the last financial year and there is “tremendous scope” of increasing and diversifying exports through this mode, according to a presentation by the ministry earlier this week.

Yet, the ministry should think further ahead, according to trade expert Biswajit Dhar, Professor, Centre for Economic Studies and Planning, Jawaharlal Nehru University.

“The need for the government is to actively engage with the industry, and actually on the sectors where they feel there is export potential,” he told The Indian Express. “I’m a little more surprised than worried, because we’re still thinking short-term, whereas the need of the hour is to think longer term,” he added.

For instance, India has been facing “enormous” pressure from the Trump administration, which had raised tariffs on steel and aluminium imports from the country last year. India’s retaliatory tariffs on 29 goods, including almonds, has been deferred several times over the last year.

In March, the US also announced its intentions to withdraw India’s benefits under a preferential trade scheme, the Generalised System of Preferences, which would impact around 1,900 products exported from the country.

India’s trade deficit with China, another major trading partner, still remains high at over $50 billion. This has reportedly spurred recommendations in a commerce ministry strategy paper to push exports, cut import dependence and attract foreign firms looking to shift base from China. However, areas like India’s focus on its agricultural sector, including in negotiations on the Regional Comprehensive Economic Partnership (RCEP) and in ongoing WTO disputes over its support to sugar cane producers, require a stronger focus as well, he added.

Piyush Goyal takes charge as Commerce Minister, says will study ‘all issues’

The Indian Express

New Delhi, June 1, 2019: A day after he took oath to serve in the new Narendra Modi government, BJP-member Piyush Goyal took charge as the new Commerce Minister.

Accompanied by former Minister for Commerce and Industry, Suresh Prabhu, Goyal said he was humbled to step into his shoes and would try to do his best to take the ministry’s work forward. He added that he would study “all issues” related to India’s trade and industry, prepare himself to deal with issues that required immediate attention and seek Prabhu’s guidance in performing his duties.

Goyal held several ministerial posts in the previous NDA government, first as the Minister of State for Power, New and Renewable Energy, Coal and Mines, and later as the Union Minister of Railways. In 2018, he temporarily took additional charge as Finance Minister during Arun Jaitley’s absence due to medical issues.

The Commerce Ministry has its work cut out in the coming months, with issues such as a subdued outlook by the World Trade Organization (WTO) on global trade, a widened trade deficit and a multitude of challenges on the bilateral and multilateral fronts confronting the new National Democratic Alliance government.

A downward slide in Foreign Direct Investment inflows and flagging merchandise exports are other areas of concern. Over the last 5 years, the previous NDA government focused on increasing exports, including through identifying newer markets it could tap. By the end of the 2018-19 financial year, the Commerce Ministry announced that India had achieved a record high of around $331.02 billion in merchandise exports. Yet, it reportedly missed its own internal goal of crossing $350 billion. The country also experienced a high trade deficit for merchandise goods at $176.42 billion and an overall trade deficit of $95.85 billion for that period.

India had also taken measures to improve its ease of doing business ranking, managing to secure 77th position towards the end of last year, up from over 140 in 2015. It further tried to encourage foreign investment through schemes like 'Make in India' and by relaxing rules for Foreign Direct Investment (FDI) in several sectors.

Yet, recent government data shows that FDI fell for the first time in six years, dropping around 1 per cent to $44.4 billion in the 2018-19 financial year. The government has reportedly begun work on boosting exports as part of its 100-day agenda, considering measures like a new major export promotion scheme and pushing exports through e-commerce. India exported products valued at $1.2 billion through e-commerce in the last fiscal.

Govt proposes WTO-compliant schemes to boost Make in India

Asit Ranjan Mishra, Live Mint

New Delhi, May 27, 2019: The commerce ministry under outgoing trade minister Suresh Prabhu has come up with a World Trade Organization (WTO)-compliant export promotion scheme along with a production based support scheme to boost Make In India as part of its 100-day action plan ahead of prime minister-designate Narendra Modi's swearing in ceremony on Thursday.

The new export promotion scheme may replace the existing Merchandise Export from India Scheme (MEIS) as the US has challenged India's existing export subsidy schemes at the WTO on the grounds of its incompatibility with multilateral rules.

"The new scheme will be on the nature of refund of all un-rebated central and state taxes and levies scheme on inputs consumed in exports in all sectors," a commerce ministry official said on condition of anonymity.

The major un-rebated levies are state value added tax/ central excise duty on fuel used in transportation, captive power and farm sector, mandi tax, duty on electricity, stamp duty on export documents, purchases from unregistered dealers, embedded central goods and services tax (CGST) and compensation cess, coal used in production of electricity.

The production-based support scheme will also aid Indian exporters in the absence of an export subsidy scheme and promote Make In India. "Promotion of certain high potential sectors like electronics and telecom, hi-tech engineering products, medical devices, pharmaceuticals, technical textiles is very essential. We are consulting the stakeholders to propose a production-based government assistance. We will finalize the architecture of the scheme very soon," the official said.

Under the special and differential provisions of the WTO's Agreement on subsidies and countervailing measures, so-called least-developed countries and developing countries whose gross national income (GNI) per capita is below $1,000 a year at the 1990 exchange rate are allowed to provide export incentives to any sector that has a share below 3.25% in global exports.

However, they need to stop all export incentives if per capita GNI crosses $1,000 for three straight years.

According to a notification by the committee on subsidies and countervailing measures in 2017, India's per capita GNI crossed $1,000 for three consecutive years in 2015. India has argued that as countries that were already above $1,000 were given eight years to adjust to the new regime, it should also get similar time to change its exports policy.

The commerce department has also started work on launching a new five-year foreign trade policy on 1 September as the term of the current policy is set to end on 31 March 2020.

"The thrust of the new foreign trade policy would be to boost exports of goods and services which are bought in large values by the world and where India has strong competitiveness. The launch of the new foreign trade policy will also include the state of art information technology (IT) systems with end-to-end integration with all agencies," the official said.

US-China trade war gradually destabilising world economy

Sushim Banerjee, Financial Express

May 21, 2019: The issue of US China trade war is gradually becoming a critical factor in destabilising the world economy in a number of areas. Thanks to an ever-awaken media coverage, each and every progress on this issue by declaration, notification, address, interview, personal visits or even similar contemplation, anywhere in the globe, finds a mention in any discussion on current affairs. The direct and indirect significance of this event on the world economy, individual country's economy and the security considerations appears to engulf the welfare of all concerned.

All that started in March 2018 with US President Donald Trump's announcement of imposing a unilateral duty of 25% and 10%, respectively on all steel and aluminium imports to the US under Section 232 of US Trade Act associating the surge in imports with the national security considerations of the country. It was explained that steel imports from China were used to make defence equipment and hence considered unsafe from the national security points of view. However, for the next 8-10 months, the shock treatment to the global steel and aluminium trade in the aftermath of all imports to the US containing these two categories made import access ineffective and gave ample scope to US steel industry to gradually replace costly import with supply of domestically manufactured steel at competitive prices.

The current capacity utilisation of US steel industry at 82% is significantly higher by 10% as compared to the level achieved prior to March 2018. The US economy as a whole enjoyed the benefits — unemployment rate reached 3.6%, manufacturing sector displayed higher productivity and industrial production rate rose.

Simultaneously, the US announced a number of stimulus measures of investment in infrastructure where the existing Make in USA policy and costly steel imports benefited the indigenous steel manufacturers to derive maximum benefits by raising steel prices.

The agitated user industry in the US specifically, the pipes and tubes manufacturers, engineering industry using high performance steel not domestically available, the joint venture entities contractually bound to use imported special grade steel were served with exemption certificates (more than 4,000 in numbers) enabling them to continue the operations unabated by introducing pragmatic policy prescriptions.

The immediate response from the steel exporting countries was to impose retaliatory tariffs on US imports. EU issued definitive safeguard measures (diverted US exports adding to EU imports) culminating in settling at quota type restrictions amounting to 70% of last 3 years' exports. The affected countries, namely South Korea, Japan, Turkey and China got some reprieve. However, it was short lived as more threats came from US China trade war. What was initially thought to be a passing phase with both the warring groups agreeing to sit at negotiating table, the trade tensions went on. The US had already announced a 25% duty on $200 billion worth of Chinese exports and additional 25% duty on $325 billion of Chinese goods. In retaliation, China has threatened to fix 25% duty on imports of crude oil and LNG from the US. Meanwhile, as US removed the MFN (most favoured nations) duty facility on GSP (generalised system of preferences) preferences from India, the retaliation by India in terms of enhancing duties on 29 products imported from the US has been extended in anticipation of resuming this facility by the US.

The US sanction on trade with Iran (including metal products) got intensified and paved way for disrupting the world oil trade. The 6 month deadline on US sanction on Iran which allowed oil imports from Iran by countries like India is over and India now has to look for other oil sources, including the US, to make up the shortfall. Thus, it is not only steel, but other goods of trade, including agricultural, petroleum products and IT services are subject to a great deal of uncertain future. The rebuff on the steel trade and the continuing protests of job losses inside the US arising out of hassle free entry of IT savvy personnel from other countries including India made the US adopt a hardened policy on visa entries by foreign nationals to the US.

India exports to the US an average 100 mt of steel (semi-finished steel, bars and rods and pipes) and imports from the US, average 85-90 MT, comprising of tinplates, pipes and melting scrap. The US market for Flat/SS Flats is inaccessible to India due to ADD/CVD imposed by the US. It is therefore not difficult for Indian steel exporters to find alternate markets for its exports. But in the post March 2019 scene, India has been receiving significant US diverted exports from China, Japan and South Korea at competitive prices. India, as the rising consumption point for many capital, consumer and infrastructure products, would require good amount of steel in the coming months/years that may be targeted by exporters from China, Korea and Japan. The US is also attempting to destroy WTO, specifically its Dispute Settlement Body's power to protect the Special and Differential Treatments granted to the developing countries in trade disputes nullifying the appeals made by India, South Africa, Brazil and a host of other countries.

Apart from the above implications of US action on India, there is a distinct plausibility of the US enhancing domestic interest rate to attract FII (Quantitative Easing) to support its investment need and this may usher in a sudden flow of capital from India. The battle between two large entities has the potential to sweep across the fertile terrains of all countries and leave them barren, and rocky.

Trade troubles

The Indian Express

May 17,2019: India's trade deficit surged to a five-month high of $15.3 billion in April with merchandise export growth slumping to 0.64 per cent — the slowest pace since December 2018. These numbers suggest that the high export growth observed in March may indeed have been an aberration. This subdued performance in April comes after recent data showed that industrial production had contracted by 0.1 per cent in March. With both consumer durables as well as capital goods segments contracting sharply — the latter is a proxy for investment demand — it suggests that the underlying drivers of growth are sputtering.

According to the latest trade data, at the aggregate level, exports grew by a mere 0.64 per cent in April. But, strip away the spurt in petroleum exports, and the remaining exports actually contracted by 3 per cent in April. The lacklustre performance can be traced largely to the contraction in exports of engineering goods as well as subdued growth of major labour intensive segments. For instance, gems and jewellery contracted by 13.4 per cent, leather products by 15.25 per cent as did man-made and cotton yarn. Growth of the ready-made garments segment also slumped to 4.4 per cent in April, down from 15 per cent in March. This does not bode well for job creation. On the other hand, imports rose by 4.5 per cent in April, on the back of higher crude and gold shipments. But what is worrisome is that imports, excluding oil and gold, which give a better sense of domestic demand, contracted by 2.2 per cent in April, after contracting by 2.67 per cent in the previous month.

The near-term prospects for exports appear to be muted. For one, the escalation of trade tensions between the US and China is likely to impact global growth and trade. In fact, last month, the World Trade Organisation (WTO) lowered its projection for global trade growth. It now expects merchandise trade volume growth to fall to 2.6 per cent in 2019, from 3 per cent in 2018. Clearly, the next government has its task cut out. It will have to carefully navigate the intensifying trade war between the US and China while putting in place measures to boost competitiveness and revive exports. Perhaps, easing the compliance burden of the goods and service tax (GST) would be a good starting point.

How India can capitalise on US-China trade war

Jayant Dasgupta & Harsha Vardhana Singh, The Economic Times

May 28, 2019: In the major trade standoff between China and the US, US President Donald Trump is steadfast in his approach of raising tariffs and using other policies for pressurising China. On his part, China's President Xi Jinping has indicated that China will not give in to pressure from the US. "We are now embarking on a new Long March, and we must start all over again," Xi stated recently.

Even if solutions emerge, the problem will keep festering. Thus major international firms that invest in China are examining options to spread their risks and shift some of their existing and new investments to other countries.

Several persons have written about the possibility of India benefiting through increasing exports to the US and a shift of foreign direct investment (FDI) to India. However, to substantively benefit from this situation, India requires a strategic approach to convert this opportunity into a major gain. India needs to focus on becoming a new powerhouse as a global hub for exports, with a major positive impact on competitiveness and job creation.

China's merchandise exports are almost the same as India's GDP. Even a 10% shift from Chinese exports to Indian exports would imply over 75% increase in Indian exports. India needs to develop a strategy and vision for itself and the world to make this a reality. Its recent tepid export performance suggests that investment from large global companies is the transformative path for India, provided certain key points are kept in mind.

Moving Up The Value Chain

First, India is only one among the alternative countries being considered by major international companies as an investment destination. Indonesia, Malaysia, Mexico, Thailand and Vietnam all have relatively easier access to large markets.

Second, India's domestic market is large, but the focus of most large firms with major international brands and global presence is on exports and maintaining their global value chains (GVCs). China's 2018 exports to the US at $560 billion were nearly double of India's total exports. According to United Nations Conference on Trade and Development (Unctad), multinational companies account for 80% of GVCs.

Third, India's aspirations to double its exports and create jobs depend on its success to link up effectively with GVCs. As the seventh largest global economy and the 20th largest goods exporter, India is not yet a significant presence in GVCs.

Fourth, to establish domestic capacity for export hubs and GVCs, strong presence of 'lead firms' that manage the GVCs becomes essential. These 'lead firms' are usually those with major global brands that can place their exports in most markets of the world.

Fifth, for competing with other nations to attract major investments away from China, India needs to emphasise and improve implementation of support policies, with a new flagship programme, 'India: Making for the World'. Major global companies make investment decisions significantly based on ease of operational conditions and stable policy regimes.

All alternative countries under consideration focus on creating and effectively implementing investment-friendly regimes - that is, taking a step beyond policy announcement.

It is noteworthy that even China, in these difficult times, is increasing its incentives and project support to retain and attract additional investment. Even with a trade war, US investment in China during January 2019 reportedly doubled, with foreign capital in China's hi-tech industry increasing by 41%.

Create Export Hubs

Against this background, India needs to take its vision of ease of doing business and Make in India to the next level, devising its strategy for 'India: Making for the World'. Very soon, an announcement should be made to commence with an initial 100 days plan. The 100-day period would quickly signal to global firms making investment decisions and provide a broader platform for meeting major 'lead firms' when attending major meetings such as G20, UN, World Bank/IMF meetings during Q3 2019.

To give specific focus, certain selected sectors significant for employment, technology and exports should be identified for launching the programme. These 'champion' sectors could be textiles and apparel, automotive products and electronics (with emphasis on mobiles), to be supplemented with a few other sectors later. These three sectors in India are likely to contribute over $1 trillion by 2025.

India should identify about five key companies - lead firms - in each sector and open immediate negotiations with them to facilitate either shifting or adding new capacity in the country to boost exports. These policies which would pave the way for export hubs in India, need to be administered by relevant government agencies, and, thus, should to be framed and managed in a coordinated and facilitative manner.

A new mechanism, approach and political commitment at the highest levels would be required. A senior official or minister reporting to/in the PMO should coordinate, monitor and manage effective implementation of the supporting policies and timelines. GVCs work only with timely and consistent high-quality response from different producers linked to the value chain. The coordinated approach must focus on addressing in a timely manner the actual operational problems identified through feedback from exporters.

Christian Scherer: 'US-China tariff war not to benefit Airbus; Boeing to lose more with elevated trade barriers in Europe'

Pranav Mukul, The Indian Express

May 27, 2019: Concerned about increasing protectionism in the US, Airbus Chief Commercial Officer Christian Scherer said that its rival Boeing has more to lose if trade barriers were elevated in Europe for the US-made airplanes. Speaking to PRANAV MUKUL at the company's headquarters in Toulouse, he also said that contrary to what is perceived, trade tensions between the US and China are not beneficial for Airbus. Scherer also spoke about the air safety regulator's role in light of recent crashes. Edited excerpts:

How worried are you about increasing protectionism in the US?

You have the threat of US protectionism, which is a pretty severe concern, which I must say, we thoroughly regret because we could be supplying in the prime market of this category of airplanes (A220 aircraft), which is North America. If you threaten to impose a tariff on the product at the border, it makes the product more expensive.

The Trump administration is ready to impose tariffs on fuselage parts, wings, other components that will be going to the Mobile plant in Alabama…what do you see as the risk there that could negate the benefits of Mobile?

It is a risk. What specific risk? It's the risk of the content that goes into these airplanes that come from countries that would be the target of these tariffs. The immediate risk is that it will increase the cost and therefore the price of these airplanes. Is that good for an industry that by definition works across borders? No, it sounds like something that goes against grain.

Delta has made it clear that they will not absorb cost of any tariffs in the Bombardier trade. What about the other airlines? Will Airbus absorb the cost or will it be passed on to the customers?

That is privileged information that's contractual between us and our customers. What I can say though is that you have to imagine that if one side goes through with process of imposing tariffs, you have to imagine that the other side will naturally retaliate. So, is that in interest of our competitor to see trade barriers being elevated in Europe on Boeing airplanes? I'd say there's more to lose for them than for us. So, I hope this leads to a settlement very quickly.

Are you concerned that some political elements could be introduced to regulation and certification that could impact sales?

I am generically concerned about politics mixing in a business that should be very much commercially and financially driven. So be it on this topic or any other topic, what I do want to say is that the suggestion that I have heard by some that somehow Airbus is in cahoots with EASA (European Aviation Safety Agency) — I want to violently reject that as being borderline insulting. If there's an insinuation that somehow the European regulators are playing it a little bit harder than others and that is somehow related to Airbus, I want to absolutely deny that. I am an industrial guy and what I want is a set of rules that safeguard the checks and balances in the industry and puts safety as the number one priority. How the regulators and the governments elect to do that is really up to them. They are more competent in that role than we are. There is a disequilibrium in the mandate. The FAA (US Federal Aviation Administration) has a mandate of supporting industry and safeguarding the safety of flight. That is not symmetrical with EASA or other regulators around the world. But that is not a suggestion from our part that there's anything wrong with the FAA.

But there's a paradigm shift after the Boeing 737MAX crisis, do you feel the change…

We are not the regulator, we cannot influence the regulation. What we can do is show the regulator our design, our production system and get approvals. Occasionally we have to do a little course correction and that is perfectly fine. What I fear most in this very unfortunate situation that our competitor is in is the public reaction. The loss of trust in specific products perhaps and the industry as a whole. As an Airbus guy, my concern is that a specific issue turns into a generic problem.

The bilateral aviation safety agreement signed between the EU and China seen along with the souring of relations with the US in light of the WTO case and tariff impositions — could this be seen as Airbus taking sides in the trade wars?

That's a huge question. I would answer that with a bit of generality but I think that ultimately relations with China will normalise whether they are with the US or the Europeans and we will continue to supply to China like we used to. Do the trade tensions between the US and China work in the advantage of Airbus? No, because you can imagine that big-ticket items such as airplanes are part of this discussion so it's not necessarily the situation as it meets the eye of the layman.

You mentioned that the industry has become less cyclical. Does this mean reducing dependency on oil prices?

The industry's strength is mainly going to be driven by the fuel prices and the cost of money. If we have high cost of money and fuel, there will be a slowdown. From that perspective, sure, it will be cyclical. But I meant that we don't have predominantly North American market and when North America goes well, the whole industry goes well. What we have now is compensation between various geo-political arenas. We are developing our presence in Asia.