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

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

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Trade liberalisation, but on our terms

Sanjay Chadha, Business Line

March 20, 2019: India has a whopping $104-billion trade deficit with the 16-member Regional Comprehensive Economic Partnership (RCEP) grouping, which was 64 per cent of India's total trade deficit of 2017-18.

No wonder, there is a raging debate on opening up a very significant portion of the market, given the sensitivities around agriculture- and labour-intensive domestic industries. Several other trade agreements are also in various stages of negotiations.

Long-term, back-ending of tariffs or spreading tariff eliminations over a longer period of time has been our palladium of trade negotiations in the past. However, it need not continue to be so for all lines in which concessions are eliminated. The introduction of Tariff-rate quotas (TRQs) can be a more germane transitional tool; providing a degree of safeguard to the future demand growth in a rapidly expanding market. This is particularly useful while negotiating with countries which have saturated markets.

A TRQ is a mechanism that allows a set quantity of specific products to be imported at a low or zero rate of duty. TRQs are established under trade agreements between countries. They do not function as an absolute limit on the quantity of product that may be imported. The "TRQ commitment" does not apply any limits on the quantity *per se* of import of a product, but applies a higher rate of duty for that specific product once imports up to the "TRQ commitment" have been reached.

For example, the US cotton tariff quota protects US cotton growers while allowing textiles manufactures to import some cheaper cotton also. The quota component works together with a specified tariff level to provide the desired degree of import protection. Essentially, a TRQ is a two-tiered tariff instrument. Imports entering within the quota portion of a TRQ are subject to a lower tariff rate called the tariff quota rate or TRQ rate. The later imports that are unable to make it to the quota's quantitative threshold face a much higher tariff rate, which is normally the MFN tariff.

(MFN tariffs are what countries promise to impose uniformly on imports from other members of the WTO.) In other words, TRQ is a limit on the quantity eligible for lower or zero duty.

The use of this instrument is globally quite prevalent. It is estimated that as many as 1,200 TRQs are operated each year by WTO members including EU, Japan, Canada and the US. This ensures that limited volumes of these sensitive products can enter their market at a low tariff, whereas the tariff outside the TRQ quantity is kept high to offer a degree of protection to the domestic producers.

Why TRQs

TRQs protect domestic producers from having to face competition from large quantities of imports. They also allow consumers and producers in the importing country to get enjoy a benefit, albeit a limited one, of lower priced products.

Tariff quotas are used on a wide range of products. Most are in the agriculture sector: cereals, meat, fruit and vegetables, and dairy products are the most common. Sugar is protected in most producing countries with tariff quotas.

TRQs have now become a way of reaching a consensus with trading partners. The EU-Japan bilateral deal was finally unblocked with a TRQ for cheeses including mozzarella, Brie, Camembert and feta.

As for the proposed EU-Mercosur deal, EU TRQs for beef and ethanol are the main event as far as Brazil and Argentina are concerned, though they represent a fraction of total EU consumption.

TRQs face their share of criticism. Trade liberalisation proponents argue that while TRQs allow imports, they do so in an inefficient manner. Yet,TRQs now appear to be a permanent fixture of global trade.

The reason is not far to see. On the one hand, TRQs are used as sweeteners to help reach a consensus in trade negotiations, while on the other, TRQs help overcome traditional domestic opposition to trade deals — they are a trade-off between the broader interests of consumers and the degree of protection afforded to the competing domestic producers.

The challenge lies in addressing the concerns of domestic industry. If duties are zero, who will make in India? Does a reasonable duty wall bring in investments?

For example, global car majors invested in India on account of an import duty wall. A possible clue in addressing this concern lies in surveying the happenings in global trade, especially in regard to China.

The Chinese example

China has built its global leadership in trade on the strength of its investments. As per the recent Nomura report on Sino-US trade war, 43 per cent of China's exports are by foreign owned companies, bringing up the pertinacious need for inducing investments in manufacturing – more so today than ever before, as industries in China are relocating or diversifying their production base.

The TRQ administration system must not 'impair or nullify the market access commitments negotiated'. It should be transparent, minimising transactional costs for traders.

Historically, the quotas are allocated through a slew of processes. These are:*Auction* , where importers bid for shares or licences; *first-come, first-served* , where physical imports are charged in-quota tariffs until the quota is filled;*licence on demand* where allocation is made in relation to quantities demanded (first-come-first served with a sort of pro rata element); and finally, import by*state trading entities* .

Tariff arbitrage is an effective tool for inducing local manufacture or at least domestic value addition in the country.

It has been a basic tool in the country's Phased Manufacturing Programme policy. If we are to induce investments in manufacturing, then we need not be committed entirely to a zero tariff regime, however back ended.

A quantity linked tariff elimination could also be considered in the long run, keeping aside our future demand growth as an inducement for investments and expansion of domestic manufacturing.

India must support all options to end crisis at WTO's dispute settlement system, says expert

Amiti Sen, Business Line

New Delhi, March 26, 2019: India must play an active role in resolving the WTO's Appellate Body crisis triggered by the US by supporting feasible options for the appointment of judges, a top legal expert has said.

"There is a big chance that the US may declare the Appellate Body of the WTO non-functional in December 2019, as there would be just one judge left. India and other countries must then support Mexico's proposal of appointing judges through an administrative majority decision (selection done on the basis of majority of vote cast)," said Ernst-Ulrich Petersmann, Emeritus Professor, Department of Law, European University Institute, in an interaction with *BusinessLine*.

Petersmann is here to deliver a lecture on the WTO's Appellate Body crisis at the invitation of the Centre for WTO Studies and the Centre for Trade and Investment Law. The Appellate Body is the top decision-making body that hears appeals from reports issued by panels in disputes brought on by WTO members.

The WTO's dispute settlement system is facing a crisis as the US has blocked the appointment of appeals judges since last year, which has now resulted in the shrinking of the numbers from seven to three. Two of the three judges are scheduled to retire on December 10, following which appeals made by WTO members on panel reports can't be entertained.

Call for change

The Donald Trump regime had initially said the Appellate Body's functioning needed to be improved and that the body had been over-reaching and creating laws through legal rulings. The EU and several other members including India subsequently came up with proposals for inter-governmental reforms of the dispute settlement system, but Washington's goal posts changed.

"The US' blocking strategy seems to be now aimed at gaining leverage for WTO reforms in areas such as market access, notifications, state-owned enterprises, subsidies and least developed countries. The proposals on reforming the dispute settlement system is something it is unlikely to agree to," Petersmann said.

Initiating an administrative majority decision, which is provided for in Article IX of the WTO ('where a decision cannot be arrived at by consensus, the matter at issue shall be decided by voting'), would require a meeting to be convened by the General Council or the Dispute Settlement Body, the trade law expert added.

Asked whether going in for an administrative majority decision before the two judges retire in December would be a good move, Petersmann said it would be desireable but WTO diplomats are not likely to do so. "Members are more likely to wait and see as they do not want to provoke the US more at the moment," he said.

For developing countries, special and differential treatment still holds the key

Anil K Kanungo, Financial Express

April 10, 2019: The issue of special and differential treatment (S&D) has resurfaced in a contentious manner in the WTO negotiations as the US started redefining the rules of the game again. This was possible to an extent because Jair Bolsonaro, the President of Brazil, agreed to forgo S&D treatment at the WTO during his March 19-20 visit to the US. S&D treatment has been one of the cardinal principles of WTO functioning to keep the developing and developed countries under one roof and to sustain the interest of developing countries in multilateralism.

Since the inception of GATT, the rules of multilateral trade policy regime haven't adequately addressed the needs and concerns of developing countries. The adjustment costs borne by these countries in adapting to a changed environment have been disproportionately high. As a result, developing countries argue that taking on multilateral commitments and obligations would be difficult as they are currently in different stages of economic, financial and technological developments. Leaders of these countries further insist that special advantages and flexibilities may be provided to them so that they are in a position to adopt appropriate national policies to support their trade regime. This, in essence, came to be known as S&D provisions.

However, the concept and interpretation of S&D provisions have changed over the years. From GATT to Uruguay Round (UR) to the establishment of the WTO in 1995, S&D provisions have undergone dramatic changes. Prior to the UR, the focus of S&D treatment was to recognise the special problem of development faced by developing countries and offer necessary flexibilities to pursue policy options appropriate for industrialisation and economic development, whereas in the UR it was geared towards recognising the special problems that developing countries may face in the implementation and signing the agreement as a single undertaking. Such a shift in focus tends to provide limited policy flexibilities for developing and least developed countries (LDCs) to negotiate on crucial issues such as agriculture, NAMA and services.

During the Doha Round of negotiations, the issue of S&D gained prominence as it had a direct bearing on the overall development dimension of developing countries. It was realised that to empower developing countries, it is important to strengthen S&D provisions. Member countries in the Doha Declaration agreed that all S&D treatment provisions should be reviewed with a view to strengthening them and making them more precise, effective and operational.

However, negotiations on S&D provisions for so many decades have led to serious differentiation between developed and developing countries, as it has become difficult to identify and assess countries with ‘developing-developed’ status as S&D provisions were primarily meant only for developing countries. According to these, it is only the developing countries that need to be benefiting from the system.

Currently, the US, under the leadership of Donald Trump, feels that many developing countries are taking the advantage of the provisions and the system because the way they have declared themselves as developing countries under self-declaration and self-selection is not correct, rather it’s mischievous or misleading. Trump is of the view that some developing countries have become major players in global markets in their own right. Their exports have grown to equate almost half of total world exports, with a group of largest developing countries accounting for some three-quarters of that share. Thus, the US believes such developing countries should be declared as ‘developed countries’ instead of them being called ‘developing’.

The US, in an attempt to redefine S&D provisions, has proposed to limit WTO’s practice of allowing countries to self-declare their developing status in order to receive special treatment. The US expects all large players—advanced or emerging—to play by the same rules. China, India and others have reiterated that their self-declaration is appropriate in the WTO context, highlighting the importance of S&D treatment for development. They argue that holding a high share in world trade doesn’t necessarily make a country ‘developed’. China, India and others rebut that per capita indicators have priority when assessing development levels, and it’s not the share in global trade beyond certain percentage points that can disqualify them to be termed as ‘self-selection or self-declaration developing country’.

Yet, in practice, the issue of heterogeneity across developing member countries and differentiation is seen. Implementation of the WTO Trade Facilitation Agreement (TFA) has witnessed significant differentiation as countries self-determine their need for transition periods and technical assistance. Nine developing members have notified their readiness to immediately implement all of their obligations, and 30 others—including Brazil and China—immediately implemented more than 75% of their commitments. Taiwan has also recently decided to give up S&D provisions.

This possibly convinces the US to take a fresh look at revisiting the terms and conditions of S&D provisions. To bridge the developed-developing country dichotomy among WTO members, a combination of actions may be considered. Countries can follow Taiwan’s example—and now Brazil’s—and not claim differentiated treatment, without the need to first declare themselves as ‘developed’. However, developing member countries argue technical assistance and capacity-building support for development and reform in developing economies is essential for success, and is in the interest of both the recipients and providers of assistance.

New WTO rules may favour the US, denying India policy space

D. Ravi Kant, Live Mint

Geneva, 25 March, 2019: India is facing a grave crisis in global trade as the US attempts to change the rulebook of the World Trade Organization by working “closely with the very-able director-general, Roberto Azevedo". According to trade envoys who spoke on condition of anonymity, the US has made it almost clear that it will effect far-reaching changes in the WTO rulesso as to ensure that India and other developing countries are denied ‘policy space’ to address their specific trade needs.

“We have been very active at the WTO [and] we work closely with the very-able director-general, Roberto Azevedo" for addressing the specific concerns bothering the US, said Ambassador Robert Lighthizer, the US Trade Representative, during a hearing of the US Senate finance committee on 12 March.

Soon after terminating benefits worth billions of dollars accruing to Indian exporters under the generalized system of preferences (GSP) scheme on 5 March, the USTR and his team had embarked on proposals that would deny India and other developing countries flexibilities accorded under global trade rules. The US, for example, declared that India and other developing countries such as South Africa cannot avail of special and differential treatment (S&DT) in any current or future trade agreements on grounds that they are members of the G20 which was created by Washington following the 2008 financial crisis.

Without naming India, the USTR said, “many members self-declare themselves to be developing countries even though they are among, in many cases, the richest in the world" to avail of special and differential treatment. The US proposal to deny S&DT, India warned on 28 February, “can cause lasting damage to the multilateral trading system."

S&DT enables developing countries like India to take commensurate trade commitments based on their economic capacity. It allows developing members like India to formulate “their domestic trade policy, in a way that helps them to reduce poverty, generate employment and integrate meaningfully into the global trading system."

While developing countries made progress on some economic indicators since the inception of the WTO in 1995, “the old gaps in the levels of development are far from being bridged, and in some areas, have even widened," India cautioned. But the US turned a deaf ear to the calls from India and a large majority of developing countries about the denial of S&DT. India, for example, is unlikely to secure any flexibilities for safeguarding livelihood concerns of its fishermen in the new trade rules for fisheries subsidies because of the US proposal to deny S&DT, said a trade envoy from Africa, who preferred anonymity.

Ambassador Lighthizer accused the WTO for having transformed into a “litigation forum" with its dispute settlement system for resolving global trade dispute having breached its mandate. The WTO members had established a facilitator to address the specific issues raised by the US early this year. But the US chose to cock a snook at proposals during the meetings specifically convened to address Washington’s special concerns about improving the functioning of the appellate body. India expressed alarm at a meeting convened by the facilitator Ambassador David Walker of New Zealand on 21 March that the US has not submitted any proposal on how to address the issues it had raised.

The US, which had blocked the selection process for filling vacancies at the appellate body, the highest adjudicating mechanism for resolving global trade disputes, seems determined to decimate the appellate body by the end of this year, said several trade envoys, who asked not to be named.

World trade order, or US trade order?

Abhijit Das, Business Line

April 25, 2019: It has been a year since US President Donald Trump roiled international trade by imposing tariffs on steel and aluminum on the dubious ground of protecting security of the US. What has he achieved through this illegal action and other questionable measures? Also, what might be his ultimate aim? Let us examine these questions.

First, President Trump has resorted to the time-tested strategy of the US of erecting barriers to exports from other countries, in order to coax them to come to the negotiating table and accept even the most unreasonable demands of the US business and trade.

The illegal steel and aluminum tariffs, as well as the threatened withdrawal of GSP benefits to India, should be viewed as integral parts of this line of action by the US. The US had unleashed this strategy during 1986-1993 and arm twisted Brazil, India and Thailand to agree to the Agreement on Trade-Related Aspects of Intellectual Property Rights. The ongoing bilateral negotiations between China and the US for addressing the concerns of the latter is a further testimony to the success of this strategy.

Second, by compelling some countries to accept export quotas as a condition for exporting steel to the US, Trump has rendered the WTO prohibition on such quotas as being irrelevant for the US. Through this tactic Trump has pushed countries back to the era of managed trade.

In this framework, the pattern of international trade will be determined unilaterally by the commercial interests of the US and not by multilateral rules. This type of power play, which was evident in the textiles sector during 1960s and up to the early years of the 21st century, has staged a come back with greater force for serving the economic interests of the US.

The message to the world is loud and clear — a country would be permitted to export to the US exclusively on terms and conditions decided by the hegemon.

Third, the US has taken pre-emptive action in order to prevent countries from meaningfully challenging the illegal actions of President Trump under the WTO's dispute resolution mechanism. By refusing to nominate new members to the Appellate Body, the highest judicial body at the WTO for adjudicating trade disputes, the US would have rendered the WTO's dispute resolution mechanism dysfunctional in December 2019.

Blow to DSB

However, the US does not appear to be prepared to wait that long. It has recently dealt a deep blow to multilateral dispute resolution by not allowing the meetings of the Dispute Settlement Body (DSB) to proceed on the pretext that the US does not recognise the diplomats at the WTO appointed by President Nicholas Maduro of Venezuela.

By sabotaging the DSB, the US has ensured that other countries will not have an avenue for seeking redress against its dubious and illegal actions.

This provides the US an unfettered environment for brow beating countries through its illegal actions and pressurising them to meet its ever-growing demands.

The fourth element in the overall strategy of the US is to undermine the concept of special and differential treatment (S&DT) during trade negotiations. By shredding the concept of S&DT, a fundamental pillar of both the GATT and the WTO, the US wants the same rules to apply to the developed countries and to some of the larger developing countries.

This would severely erode the ability of India and similar other countries to protect vulnerable sections — particularly fishermen and farmers — from the market-grabbing designs of the US. India has stood up firmly to the US on this issue and has also succeeded in mobilising about a dozen developing countries to oppose any dilution of S&DT.

However, the US may not hesitate to wield the big stick, yet again, in order to coerce countries such as India to 'voluntarily' renounce any claims to S&DT provisions in the future.

Digital trade, e-commerce

The final element in this grand strategy is to bulldoze negotiations at the WTO on the key issue of its interest — digital trade and electronic commerce. While there is no multilateral consensus on initiating negotiation on this issue, this has not prevented the US from pushing ahead with negotiations with 74 other countries. It is also using all available platforms, such as the United Nations, to champion the supposed gains for developing countries if they agree to negotiate binding rules at the WTO on digital trade.

Further, strong pointers already exist suggesting that at the forthcoming summit of G20 leaders to be held in June, President Shinzo Abe of Japan will lend a helping hand to the US in nudging India, South Africa and Indonesia to join the bandwagon of negotiation on digital trade. The outcome of these negotiations would be totally asymmetric and skewed.

Developing countries would be compelled to give up the data generated in their country for free to the digital giants in the developed countries. This would fuel the business of the digital giants, without any benefit accruing to the developing countries.

In conclusion, viewed individually, the illegal actions of the US over the past one year may not provide any inkling of an underlying coherent strategy. However, join the dots and it becomes clear that the US is resorting to all tricks, fair and foul, for rewriting trade rules to further bend the international trading system in its favour.

So far, India has firmly resisted the US pressure. In order to further strengthen its hands, India needs to explain the dangers of the US strategy to other developing countries and get them on its side. This is the only effective way to prevent the US from pushing ahead with its own commercial interest, while totally ignoring the development concerns of other countries, including India.

Developing country tag: US seeks review at WTO, targets China, India

Banikinkar Pattanayak, Financial Express

April 15, 2019: The US has sought a review of the 'developing country' status at the World Trade Organization (WTO), claiming several members, including China and India, that have moved up fast on economic and social ladders since the formation of the multilateral body in 1995 are still enjoying special and preferential trade treatments by "self-designating" themselves as developing nations.

In a separate paper, presented at the WTO, India, China and some others have rebutted US claims, asserting that in various key indicators, ranging from per capita income and human development indices to agriculture, the gap between them and the rich nations is too stark to miss.

Analysts say while the US demand for a change in the status quo has some merit, as some of the richest countries — such as Singapore, South Korea, Saudi Arabia, Brunei, Hong Kong and Qatar — and the world's largest goods trader, China, claim to be developing to enjoy certain benefits, targeting India in the same breath is disingenuous by any stretch of imagination.

Since human beings are central to any debate on development, per capita income is the most crucial indicator of their progress. In 2017, the per capita gross national income (as per Atlas method) of India was just $1,800, way below $54,530 in Singapore, $28,380 in South Korea and $8,690 in China, according to the World Bank data.

Special and differential treatment allows developing countries longer time frames to implement commitments and greater flexibilities in adopting measures to improve their presence in global markets. For instance, developing countries are allowed to provide considerably larger input subsidies and minimum price support (they can offer product-specific farm subsidies up to 10% of the value of production, against 5% for developed countries, although the latter enjoy other flexibilities). Further, developing countries will continue to provide indirect export subsidies, covering internal transport and marketing, until 2023, five years after the deadline for elimination of all forms of export subsidies.

Abhijit Das, head of the Centre for WTO Studies at the Indian Institute of Foreign Trade, said: "It would be extremely iniquitous if India is to be treated on a par with the US (developed countries) at the WTO, given that the per capita income of the US is over 30 times higher than India's."

Biswajit Dhar, professor at the Centre for Economic Studies and Planning of JNU, questioned the need for New Delhi to partner China in opposing the US demand for a review of the developing country status, saying the Chinese economy is over four times larger than ours and it's a global trading power unlike India. He argued that India can't be treated as a developed country merely on the basis of its aggregate GDP number (The country is the world's 6th largest economy): "India is home to the largest number of the world's poor and undernourished. When two-thirds of its population can't afford food grains at market prices, prompting the government to bring in a food security law, how can India be treated as a developed country at the WTO?"

According to the World Bank data, as high as 21.2% of the Indian population was poor (earning less than $1.90 a day as per 2011 purchasing power parity), against just 0.2% in South Korea and 7.9% in China. In Singapore, poverty is virtually non-existent. Moreover, 14.8% of population is undernourished in India, against 2.5% in South Korea and 8.7% in China, according to the World Bank. In Singapore, again, such undernourishment doesn't really exist.

In the Human Development Index of the UNDP, India occupied the 130th position in 2017, while Singapore ranked 9th, Korea 22nd and China 86th. In the 2018 Global Hunger Index, India ranked an abysmal 103rd out of 119 countries. In contrast, both Singapore and South Korea didn't feature in the list, while China ranked 25th.

The paper submitted by India, China and some others, too, point at certain facts. The US' domestic support per farmer was $60,586 in 2016, 267 times of India's ($227), although Beijing's support ($863) was almost four times of New Delhi's. Massive subsidies have led to huge competitive advantage of farm products of developed countries in the global market. While agriculture accounts for less than 2% of the total employment in the US, it is as much as 44% in India and 20% in China, suggesting much lower level of industrialisation in these countries.

Ram Upendra Das, head of the Centre for Regional Trade, said: "I don't think review (of the developing country status) per se is problematic. However, what is more important is a balanced approach to evaluate a country's development status. Any such review criteria have to factor in equity in both economic and social parameters and regional disparity."

Donald Trump has a message for the World: My trade wars aren't over yet

Financial Express

April 10, 2019: President Donald Trump is sending a clear message to the economic policy makers gathering in Washington for the IMF and World Bank's spring meetings: My trade wars aren't finished yet and a weakening global economy will just have to deal with it.

With his latest threat to impose tariffs on $11 billion in imports from the European Union — from helicopters to Roquefort cheese — the U.S. president offered a vivid reminder that, even as he moves toward a deal with China to end their tariff wars, he has other relationships he's eager to rewrite. That's not encouraging for global growth, with the International Monetary Fund and others pointing to the uncertainty over Trump's assault on the global trading system as a damper on business investment and sentiment.

Should they materialize, the new tariffs will be in retaliation for what the U.S. has long claimed are illegal subsidies to Airbus SE and cap a 14-year fight between Boeing Co. and its European rival at the World Trade Organization. Importantly, the U.S. has said it will wait for the WTO, which has already deemed the subsidies illegal, to rule this summer on the exact amount of retaliation allowed.

That is potentially good news for the WTO and the broader system Trump has often said he wants to blow up. The Airbus-Boeing fight also predates Trump and it's fair to say any U.S. administration would be willing to use WTO-sanctioned retaliatory tariffs.

Trump Restrained? He's Still Fighting, But Playing by the Rules

"It's a good sign," Simon Lester, an associate director at the Washington-based Cato Institute, said in an interview. The Trump administration has been "sending some mixed signals about the World Trade Organization, but this action suggests they still value playing by the rules."

But Trump has deeper issues with the EU. And that's the problem hanging over the global economy, which the IMF predicts will grow this year at its slowest rate since the aftermath of the global financial crisis a decade earlier.

"The EU has taken advantage of the U.S. on trade for many years. It will soon stop!'' Trump said on Twitter on Tuesday.

The two sides have kept a fragile truce since July when Jean-Claude Juncker, the European Commission president, and Trump agreed to launch talks on reducing industrial tariffs. The move put on hold Trump's threat to impose separate tariffs on imports of cars and parts from the EU.

But the negotiations have yet to get underway in earnest with the EU's 28 members only expected to give the European Commission the mandate it needs to begin talks in the coming days and casting a wary eye on European elections due next month. Moreover, Trump faces a decision in May on how he wants to proceed with the auto tariffs, though White House officials have been telling their European counterparts that there is a high chance that the duties could be delayed.

Firing Line

The EU isn't the only one in Trump's firing line, of course.

U.S. and Chinese officials are continuing their talks aimed at closing a deal within the next month. Next week, a Japanese delegation is due in Washington to begin negotiations over a bilateral deal with the U.S. that American companies and farmers are clamoring for to make up for Trump's decision to pull out of the Trans-Pacific Partnership.

The threat of auto tariffs that could batter Japan's economy has forced Tokyo back to the negotiation table. Their chief point man on trade, Toshimitsu Motegi has insisted that any deal must be mutually beneficial, suggesting that Japan won't easily cave in. It's unclear what the scope of the talks will be, after an agreement between Prime Minister Shinzo Abe and U.S. President Donald Trump in September referred to both goods and services.

Canada and Mexico are continuing to push for the U.S. to lift steel and aluminum tariffs imposed on them as all three countries work to have their legislatures ratify Trump's replacement for Nafta. India is also threatening tariffs on U.S. apples and other products in retaliation for Trump's threat to kick the South Asian country out of a preferential trade scheme for developing nations.

"We're still in the same tariff world that we were last year," said Wendy Cutler, a former senior U.S. trade negotiator now at the Asia Society.

That still carries risks and lots of uncertainty, though Trump has been able to use tariffs to force the EU, Japan and other trading partners into negotiations, Cutler said. "The question is at what point does it backfire. At what point do countries just say enough is enough?"

Trump urged to delay decision on terminating India's preferential trade status

The Indian Express

Washington, March 28, 2019: President Donald Trump should delay his decision to terminate the preferential trade status granted to India till the general elections in the country are over, several influential US lawmakers, including Democratic presidential aspirant Tulsi Gabbard, said on Wednesday.

Trump this month informed the US Congress about his intent to terminate the designation of India as a beneficiary developing country under Generalized System of Preferences (GSP) programme that facilitates duty-free import of certain products from underdeveloped countries to help grow their economies.

Under the United States GSP programme, nearly 2,000 products including auto components and textile materials can enter the US duty-free if the beneficiary developing countries meet the eligibility criteria established by the Congress.

India was the largest beneficiary of the programme in 2017 with USD 5.7 billion in imports to the US given duty-free status, according to a Congressional Research Service report in January.

"My hope is that we can delay, the termination of these GSP preferences until after the elections in India so that we can have a non-political conversation that is very focused on how we collectively can move forward together," Gabbard, the first Hindu US lawmaker, said at a conference on "The US-India Partnership: Economic, Immigration & Strategic Issues."

Speaking at the conference organised by the US-India Friendship Council, Gabbard acknowledged that bilateral relationship was facing a challenge in the field of trade.

"We have some trade challenges that we need to resolve as well as trade opportunities. I think that we have to make sure that cooler heads prevail as we deal with some of the differences that exist," she said.

"Obviously each country (is) advocating for what is in their interest, but recognising that we have great potential and opportunity in many different areas, the announcement to terminate the GSP preferences for India, I think speak to some of those differences," Gabbard said.

Republican Congressman George Holding, who is Co-Chair of the Congressional India Caucus, agreed with Gabbard, saying that India has been in the generalized system of preferences for three decades and it's just not the right time to address that.

India, he said, is no longer that underdeveloped country when GSP was first granted. There has been a lot of changes in the country since then.

"We do probably need to revisit that. But we don't need to revisit it right before a general election," he said.

Swadesh Chatterjee, chair of US-India Friendship Council, said that Trump's decision to terminate GSP for India would impact the country's export of about USD 5.6 billion. This is more than 10 per cent of the total goods and services between the US and India and this suspension of GSP will definitely create some issues between the two countries.

Senator Thom Tellis from North Carolina praised the contribution of Indian Americans in the economy and development of the United States.

“I developed a greater appreciation for their culture, their dedication to education and their dedication to excellence,” he said.

Referring to the growing defence ties between India and the United States, Indian-American Congressmen Ami Bera underscored the need of the two countries to work in areas like artificial intelligence.

“We’d like to authorize the Department of Defense (DoD) to assist India in reducing purchases from countries that we may mutually view as adversaries and certainly that we may view as adversaries,” Bera said.

He said that Indo-US partnership in the area of defence is critical and the two countries have been conducting major defence and naval exercises together.

“We would like to require the DoD to conduct regular military engagements and dialogue with India, particularly in the Western Indian Ocean region. We recognize that India strategically has a vital role in protecting the Indian Ocean region and in keeping those lanes of commerce open,” he said.

Major decline in India’s steel export to US; increase in aluminum: report

The Indian Express

Washington, April 15, 2019: India’s steel export to the US in 2018 declined by 49 per cent to USD 372 million, while that of aluminum increased by 58 per cent to USD 221 million, the independent Congressional Research Service (CRS) said in its latest report.

In 2018, the US imports of steel and aluminum products totalled USD 29.5 billion and USD 17.6 billion respectively, the report said adding that over the past decade steel imports have fluctuated significantly by value and quantity, while imports of aluminum have generally increased.

“The largest declines in US steel imports, by value, were from South Korea (-USD 430 million, -15 per cent), Turkey (-USD 413 million, -35 per cent) and India (-USD 372 million, -49 per cent) with significant increases from the EU (+USD 567 million, +22per cent), Mexico (+USD 508 million, +20 per cent) and Canada (+USD 404 million, +19 per cent),” the report said.

“The largest declines in aluminum imports were from China (-USD 729 million, -40 per cent), Russia (-USD 676 million, -42 per cent), and Canada (-USD 294 million, -four per cent) with major increases from the EU (+USD 395 million, nine per cent), India (+USD 221 million, 58 per cent) and Oman (USD 186 million, +200 per cent),” the report added.

The countries with permanent exclusions from the tariffs (all except Australia are instead subject to quotas) accounted for 18.4 per cent of US steel imports in 2018 and 4.4 per cent of US aluminum imports.

Last year President Donald Trump used Section 232 to apply new tariffs to steel and aluminum imports and potentially on automobile and auto parts and other sectors currently under investigation.

These actions have raised a number of policy issues and some members of Congress have introduced legislation to revise various Section 232 authorities.

Global overcapacity in steel and aluminum production, mainly driven by China, has been an ongoing concern of the US, the report said adding that the George W Bush, Obama and Trump Administrations each engaged in multilateral discussions to address global steel capacity reduction through the Organisation for Economic Co-operation and Development (OECD).

“While the US has extensive anti-dumping and countervailing duties on Chinese steel imports to counter China’s unfair trade practices, steel industry and other experts argue that the magnitude of Chinese production acts to depress prices globally, it added.

Effective March 23, 2018, Trump applied 25 per cent and 10 per cent tariffs, respectively, on certain steel and aluminum imports.

The President temporarily exempted several countries from the tariffs pending negotiations on potential alternative measures.

Permanent tariff exemptions in exchange for quantitative limitations on US imports were eventually announced covering steel for Brazil and South Korea, and both steel and aluminum for Argentina.

Australia was permanently exempted from both tariffs with no quantitative restrictions.

In August 2018, President Trump raised the tariff to 50 per cent on steel imports from Turkey.

India protests against US-EU move at WTO

D. Ravi Kant, Live Mint

April 15, 2019: India, South Africa and China are among those that have pushed back against a joint US-EU proposal to call out and punish countries that have not followed notification requirements under various World Trade Organization (WTO) agreements. The countries feel it is unfair to impose harsh requirements on developing countries facing deep capacity constraints, and are reminiscent of colonial era rules.

As part of proposed reforms to the global trade body, the US and EU, along with Japan, Canada, Australia, Costa Rica, Argentina and Taiwan, on 11 April, sought to impose stringent notification requirements, including financial penalties, on countries for failure to comply.

At the meeting of WTO’s Council on Trade in Goods (CTG), the US justified the proposal on grounds of “chronic low level compliance with existing notification requirements under many WTO agreements (by members)". It seeks to allow “a counter-notification of another member concerning notification obligations".

Under this practice, deemed controversial by many countries, a WTO member can issue a counter-notification against a member, claiming the latter had breached its commitments under that specific WTO-agreement.

Recently, the US had filed counter notifications claiming New Delhi’s subsidy schemes, especially minimum support prices for rice, wheat and cotton, breached India’s scheduled subsidy commitments to the WTO.

India, however, rejected the US stand saying it was based on flawed assumptions and erroneous practices. The counter-notification by the US on Indian grains and cotton was based on data from American farm lobbies, which reckon India as a major threat to its subsidized-exports to countries, said a trade envoy, who asked not to be named.

The sponsors also proposed “administrative measures" in case a member “fails to provide a required notification by the deadline provided under an agreement". These would kick in after a member fails to provide notifications within one year of the deadline, and would include barring representatives of the erring country from presiding over WTO bodies and even financial penalties.

Administrative measures will also include naming and shaming provisions such as “the Member shall be designated as a Member with notification delay; (ii) representatives of the Member will be called upon in WTO formal meetings after all other Members have taken the floor, before any observers; and (iii) when the Member with notification delay takes the floor in the General Council, it will be identified as such."

In an overwhelming rejection of the proposal, many developing countries rallied around India and South Africa, saying there was no place for such a proposal in the 164-member inter-governmental trade body.

According to an Indian official who attended the meeting, India rejected the proposal saying it is “difficult to agree to such a proposal which provides for penalties and administrative actions in case of default, rather than making an effort to understand the difficulties, a large number of developing members are facing." India also sought to know why the sponsors were silent on complying with the notifications on trade in services, particularly filing notifications on the movement of short-term professionals under Mode 4 of the General Agreement on Trade in Services, and in trade-related intellectual property provisions.

Opinion | India needs to join WTO talks on e-commerce, for MSMEs' sake

Pradeep S Mehta, Live Mint

4 April, 2019: India has released its draft e-commerce policy for stakeholders’ comments two months after tweaking its foreign direct investment (FDI) rules on e-commerce. Also, the draft policy e-commerce was released about a month after the World Economic Forum’s Davos gathering, where 76 countries—including China, the US, and of the European Union—agreed to negotiate international rules on e-commerce at the World Trade Organization (WTO). India, too, should join the talks and align its domestic policy with the contours of an international agreement in line with our vision of becoming a $10 trillion economy.

The demand for a national e-commerce policy was triggered, inter alia, by two factors: big multinationals like Amazon.com Inc. and Walmart Inc. entering the online retail market with small retailers howling, and second, the call for multilateral rules on cross-border e-commerce. We are confused, but yet must analyse the draft e-commerce policy from at least the perspective of these international negotiations.

It must be noted that China, which has a very strict “data localization" policy—a step that India seems to be imitating—joined the proponents of international negotiations despite simultaneously calling for “global data governance" at the 2019 WEF meet, hinting at a freer flow of cross-border data. For an answer to why China has joined these proponents, one needs to draw insights from its approach to e-commerce.

The possible reasons for China joining the WTO negotiations, despite a strong undercurrent for the freer flow of data among proponents, are many. First, China seems to be confident that a set of global rules will be conducive for its domestic suppliers to gain from cross-border e-commerce. It has already shown the world its competitiveness in manufacturing.

The powers in India, on the other hand, don’t seem to be confident and have hence adopted a guarded stance in the country’s draft e-commerce policy. Not only that, India appears reluctant to join the international negotiations.

Secondly, China is home to a globally competitive e-commerce platform in the form of Alibaba Group Holding Ltd, where India lags. According to its domestic e-commerce policy, India is endeavouring to give an advantage to domestic platforms, but without distinguishing between small and big domestic firms. This domestic flavour, pushed by vested interests, can clearly be gauged by the way the draft policy has made sovereignty over Indian data its central issue. Further, the draft e-commerce policy doesn't disallow large domestic firms from adopting an inventory-based model for e-platforms, which is out of bounds to foreign platforms.

Perhaps India envisions the creation of its own Alibaba through this policy. This will throttle economic democracy, just as we are seeing in the mobile telephony sector. In the ultimate analysis, both the Indian economy and the consumer will suffer.

Thirdly, through e-commerce, China may have seen a silver lining in the much-needed revival of the WTO, considering the US interest in global e-commerce rules. In a role reversal, China and India have been advocating globalism for some time, while the US has adopted a relatively protectionist approach to trade.

Here, it is important to understand that one of the key underlying narratives of having WTO rules on e-commerce is that it would help micro, small and medium enterprises (MSMEs, or small businesses) in enhancing their opportunities to do cross-border trade. In theory, it would be cost-effective for small businesses to use e-platforms and their logistical facilities to sell their products in wider geographical areas. The vision of the draft e-commerce policy of India includes “providing a level-playing field to all stakeholders, including the individual consumers and MSMEs and start-ups".

MSMEs, considered engine for “inclusive" growth, not only provide large employment opportunities, but also make a significant contribution to exports; on a per capita basis, it is more than that of large enterprises.

In countries like India, however, several things would have to be done on many fronts to achieve the vision of enhancing cross-border e-commerce opportunities for small enterprises. Among others, it will depend on favourable rules at the international and national levels, including an appropriate model for e-commerce platforms. It is widely believed that a non-discriminatory market-place model, as against an inventory-model, is more favourable to small businesses—be they vendors or manufacturers. Therefore, the draft policy, by not mandating that domestic firms adhere to a market-place model, could go against the interests of small businesses, and hence, should be amended.

To push the interests of its small businesses at the multilateral level, it will be good for India to join the international negotiations and participate actively. This does not necessarily mean that India should agree to all the terms and conditions proposed.

During the WTO’s Uruguay Round, we did not participate in discussions on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and ended up with an adverse text which we have to live with. At that time, Brazil was our comrade in arms, because China was not a member of the General Agreement on Tariffs and Trade (GATT). Today, China and India agree on several WTO issues and hence should join hands at the negotiating table and may even consider balancing their stand on data for gains on rules that could aid the growth and development of their small businesses.

EU drags India to WTO over import duties on ICT products

Live Mint

New Delhi/Brussels, 2 April, 2019: The European Union (EU) on Tuesday said it has dragged India into WTO's dispute settlement mechanism over imposition of import duties on certain ICT product, including mobile phones, alleging breach of global trade norms.

The EU is challenging the introduction of import duties on a wide range of ICT products, for instance mobile phones and components, base stations, integrated circuits and optical instruments, it said in a statement.

It has requested consultations with the Indian government under WTO rules governing the settlement of disputes with regard to the tariff treatment that the country accords to certain goods in the information and communications technology sector.

"Despite its (India) earlier legally binding commitment in the WTO not to charge any duties on these products, India has been applying duties ranging from 7.5 per cent to 20 per cent. These import duties are therefore in clear breach by India of WTO rules. The levies affect EU exports worth Euro 600 million per year," the EU said.

There is a significant economic interest and important legal principles at stake for the EU, it said.

"Today, the EU has brought two disputes in the World Trade Organisation (WTO) against India and Turkey, respectively targeting unlawful import duties on Information and Communication Technology (ICT) products and unlawful measures on pharmaceuticals," it added.

Commissioner for Trade Cecilia Malmstrom said that India must abide by its own commitment to allow duty free trade in ICT products.

"Technological innovation keeps our companies competitive in the global market and supports hundreds of thousands of high value jobs across Europe," she said.

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.

Seeking consultation is the first step of dispute settlement process as per WTO rules.

If the consultations requested with both India do not result in a satisfactory solution, the EU can request that the WTO set up a panel in the case to rule on the issue raised.

Withdrawal of GSP benefits undermines WTO's objectives

Dhurv Gupta, Live Mint

27 March, 2019: The genie is out of the bottle. After constantly objecting to India's trade restrictions on import of goods, the US has finally responded by announcing the withdrawal of the preferential tariff benefits to India under the Generalized System of Preferences (GSP) programme.

However, given the chequered use of preferential tariffs by the US, the recent measure deserves a closer look.

One of the key principles of WTO (World Trade Organization)law is the provision of non-discrimination between WTO members, i.e., the principle of Most-Favoured Nation (MFN). Applying lower tariffs to imports coming from certain countries would be against the MFN principle. However, the enabling clause permits members to derogate from this MFN principle and provide preferential tariffs to imports from "developing countries".

There is no criteria for qualifying as a developing country in WTO—a member may self-elect itself as a developing country.

An analysis of average MFN tariffs applied by the US (as reported in the WTO tariff analysis online database) is of interest. The average MFN tariff by the US on import of goods is around 3.5%. Thus, for many products of export interest, the MFN tariff, in the absence of GSP benefits, may not be very high and may not have significant impact.

However, it appears that the withdrawal will impact different products of export interest at varying degrees depending upon the applicable MFN tariff.

Irrespective of the eventual trade impact, the US action is at loggerheads with its WTO obligations. Requiring the developing countries to provide “reasonable and equitable market access" is not strictly in compliance with the enabling clause, which expressly requires grant of preferential treatment by developed countries to developing countries to be on a non-reciprocal basis.

Withdrawal of GSP benefits on such pretext also undermines the objective recognized in the preamble to the WTO Agreement that there is a need for “positive efforts" to ensure that developing countries secure a share in their growth in international trade commensurate with the needs of their economic development.

GSP benefit to India is not being withdrawn because it has crossed certain financial, developmental or trade threshold, but because it has not reciprocated with “reasonable and equitable market access". Such criterion for discriminating between developing countries is not consistent with WTO.

There is also an obligation to not discriminate between “similarly situated" developing countries. The WTO Appellate Body, in response to the complaint by India, in the case of European Communities—Conditions for the Granting of Tariff Preferences to Developing Countries (EC-Tariff preferences)—decided that discrimination between similarly situated developing countries is not consistent with the WTO obligations of the member country.

The US action does not even attempt to distinguish or identify developmental, financial or trade needs of India vis-à-vis other developing countries.

India’s response to the US action is yet to be formally announced. The record shows that India has been reluctant to resort to retaliatory tariff but has not been shy of initiating WTO dispute against the US. Another alternative in this case is to bend over backwards and allow what the US considers “reasonable and equitable" market access.

Guatemala drags India to WTO's dispute mechanism over sugar subsidies

Live Mint

New Delhi, 25 March, 2019: After Brazil and Australia, Central American country Guatemala Monday dragged India into the World Trade Organisation's (WTO) dispute settlement mechanism alleging that New Delhi's sugar subsidies to farmers are inconsistent with global trade rules.

Guatemala has sought consultations with India under the rules and procedures governing the settlement of disputes of the Geneva-based 164-member WTO.

They have filed dispute under certain articles of WTO's Agreement on Agriculture, Agreement on Subsidies and Countervailing Measures and the General Agreement on Tariffs and Trade 1994 with respect to "domestic support measures maintained by India in favour of producers of sugarcane and sugar, and export subsidies for sugarcane and sugar," according to a communication by the WTO, which was submitted by Guatemala.

It said that India maintains various domestic support measures in favour of sugarcane and sugar producers, such as a system of administered prices for sugar cane which operates at the federal level through the Fair and Remunerative Price; a minimum selling price for sugar; and additional measures that provide financial assistance to sugarcane producers which include production subsidies to mills to offset sugarcane price arrears, and subsidies to maintain buffer stocks.

In addition to domestic support measures, India provides export subsidies for sugarcane and sugar which take the form of subsidies provided to sugar mills contingent on compliance with minimum indicative export quotas, as well as subsidies to sugar mills for internal transport, freight, handling and other charges to facilitate export freight support for exports, the communication added.

"Guatemala considers that the measures identified...appear to be inconsistent" with certain articles of the "Agreement on Agriculture because they provide product-specific domestic support for sugarcane in excess of the 10% de minimis level.

"Guatemala notes that India did not schedule domestic support reduction commitments" and "India's domestic support measures may not exceed the 10% de minimis level," the communication said.

The Central American country also said that it looks forward to receiving India's reply to the present request to fix a mutually convenient date for consultations with a view towards resolving this dispute.

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

Earlier this month, Brazil joined Australia to lodge a formal complaint against India, the world's second-largest sugar producer, with the WTO alleging that India's continued sugar subsidies to farmers have led to a "glut" and "depressed" global prices.

India's subsidies to farmers very low compared to western countries: Commerce Secretary

Live Mint

New Delhi, 27 March, 2019: Subsidies provided by India to its farmers are quite low as compared to billions of dollars given by western countries, a top government official said Wednesday.

Commerce Secretary Anup Wadhawan said India provides only about $250 per annum per farmer but unfortunatley "our subsidies run into trouble" as they are not structured properly, so there is a need to learn from other countries.

Developed countries, including the European Union (EU) and the US, have alleged in the World Trade Organization (WTO) that India provides huge subsidies to its farmers. India always maintains that its farm subsidies are well below the WTO's cap of 10 per cent.

The US has also dragged India to the WTO's dispute settlement mechanism over export subsidies being provided by New Delhi.

"If you look at the kind of budgetary support which developed countries provide to their economic agents, the numbers are mind boggling," Wadhawan said here at a function.

In the agriculture sector, he said, the EU and the US provides huge subsidies but cleverly put those in boxes which are WTO compatible.

Citing a joke, he said, cows in the EU get so much of subsidy that a cow can be flown around the world in business class twice.

"Our subsidies in agriculture for instance are only about $250 per annum per farmer, compared to billions of dollars which western countries give," he said.

Talking about special economic zones (SEZs), he said there is a need to make these zones as zones of excellence, which should be investor friendly, having state-of-the-art infrastructure.

"We need to transform our SEZs into that model," he said adding that competitive economic zones are not based on fiscal incentives but based on easy regulatory environment and single-window system.

There is also a need to look at Chinese model of these zones which are spread in a much wider space, Wadhawan said adding India's SEZ policy does not get implemented entirely as envisaged.

"India is not as successful story as China and other countries...but India has a relative decent start. The exports (from SEZs) are about ₹6 lakh crore per annum and has created 2 million direct jobs," he added.

Speaking at the function, Niti Aayog Chief Executive Officer Amitabh Kant said increasing exports would help in boosting the country's economic growth.

Rather than SEZs, India needs coastal economic zones, he said adding incentives should be linked to employment creation.

These zones would have a huge positive impact on India's economic growth, he added.

Trade pacts must to achieve farm export target

The Hindu

Bengaluru, Mach 21, 2019: India needs to ensure that the importance of the WTO is not diminished and start re-engaging with regional and global trade blocks to achieve its farm-export target of $100 billion over the next few years, said an expert on Thursday.

“It is in India’s interest to make sure that the WTO becomes the primary institution through which countries negotiate their trade and without that you’ll undoubtedly lose,” said Ian Coxhead, Professor, Agricultural and Applied Economics, University of Wisconsin-Madison, on Thursday.

He was speaking at inaugural of a two-day international conference, Emerging Scenario in Agribusiness, organised by the Indian Institute of Plantation Management, Bengaluru.

India has set a target to double farm exports by 2022 from the current level of $30 billion and subsequently increase exports to $100 billion over the following years.

Terming the export target ‘ambitious’, Coxhead said India needs to make a commitment to re-engage with regional and global trade blocks while addressing distortions in its trade policy and supply chain inefficiencies, mainly the cold chain, to succeed with its farm exports.

More than two-thirds of India’s farm exports are from rice and animal products, while incentives are being handed out to diversify the export basket.

Challenges, opportunities

Coxhead said India’s domestic policy has a strong consumer bias and is anti-trade. Also, the country’s agri-policy’s primary objective is addressing food security. As a result, it has the unfortunate side effect of discouraging production for exports, Coxhead said.

Though India may gain from the deteriorating global trade relations due the on-going trade war between the US and China, and the exit of Britain from Europe, it faces headwinds as it is not a cost-efficient producer, Coxhead observed. Prof Gopal Naik of the Indian Institute of Management, Bengaluru, said the risks faced by farmers are much higher as it is not just about poor prices, but also substandard inputs such as fertilisers and spurious seeds.

The decline in extension services is taking a toll on agriculture, Naik observed, while stressing on the need for public investments. World over, precision agriculture has helped farmers improve productivity, Naik said. India should develop cheaper and affordable precision technology to develop a competitive agribusiness system in the country, he added.

Venkatesan Ashok, India's former consul-general in California, said the Indian farmers should start thinking of himself as an entrepreneur and focus on value addition.

Prof VG Dhanakumar, Director, IIPM, said the two-day seminar aimed at taking stock of the changing global business scenario in agriculture and examine potential developments.

Food for thought for the new govt

Siraj Hussain, Live Mint

March 27, 2019: In 2018-19, wheat procurement at 35.8 million tonnes (mt) was the second highest ever. It is estimated that by the end of kharif marketing season in September, rice procurement may also touch an all-time high of 45 mt. With such high procurement, one of the first difficult challenges the new government will face in May will be to manage the excessive stock of foodgrains (central pool stocks) with the FCI and State government agencies.

On April 1, the central pool is likely to have rice stocks of 28.4 mt and wheat stocks of 17.6 mt. Low temperatures and a rather prolonged winter this year are likely to result in higher productivity and wheat production may reach 102 mt, about 3 mt higher than the government's second advance estimate of 99 mt.

In 2018-19, the open market prices of wheat have risen by about 10 per cent but with an attractive MSP of ₹1,860 per quintal and a bonus of ₹140 per quintal in Madhya Pradesh, we can expect wheat procurement to match last year's level of about 36 mt.

The buffer norm for wheat for July 1 is 27.58 mt against which India is likely to have stock of 47.6 mt. The buffer norm for rice is 13.54 mt but the stock is estimated to touch 29.6 mt. Thus, the country will be saddled with 77.2 mt of wheat and rice stock against the buffer norm of only 41.1 mt.

Fortunately, 15 mt of covered storage capacity has been added since 2010 under Private Entrepreneurs Guarantee Scheme (PEG) of 2008. Without this, there would have been no godown space for rice procurement even in Punjab and Haryana.

On January 1, the FCI and the State sgencies together have 85.2 mt of storage capacity out of which 72.5 mt is covered but 12.7 mt is Covered and Plinth (CAP) storage. Punjab and Haryana alone have about 10 mt of CAP storage capacity. We should expect that this will be fully utilised for wheat storage.

Excess stocks pose a challenge for safe and scientific storage. They also cause enormous financial burden on the Union Budget as the FCI and the State agencies have to pay interest on borrowed capital which will have to be finally paid as food subsidy. The economic cost of excess stock (over the buffer norm) will be ₹1.07 lakh crore. The annual carrying cost of this stock is estimated to be ₹13,710 crore. On previous occasions, the government had used three instruments to reduce the stocks — sale under open market sale scheme for domestic consumption, ad-hoc additional allocation to States and export of wheat.

In 2012-13 and 2013-14, 29.5 lakh tonnes and 26.73 lakh tonnes of wheat was exported respectively from the Central pool stocks. Exports came down to 3.27 lakh tonnes in 2014-15. In the last three years, there was no export from central pool stocks, except 1.1 lakh tonnes of humanitarian aid to Afghanistan.

WTO pressure

The US, Canada, Australia and Japan have raised a number of questions in WTO about the financial incentives provided by the government for wheat exports.

Indian rice is exported from private stocks. In 2018-19 rice exports are likely to be about 12.75 mt. Despite the bulging stock of rice, the government will find it difficult to subsidise export as it will surely invite objection in WTO from other rice exporting countries including Thailand and Pakistan.

The economic cost of wheat in 2019-20 is estimated at ₹2,505.67 per quintal. Even if it is assumed that the transportation charges from storage point to port will be borne by government as subsidy, the FOB value wheat will come to $363.87 per tonne (at 1$=₹68.86).

On March 1, milling grade wheat was quoted at $209 for US soft red winter wheat, $231 for Russian and $221 for Australian wheat. This clearly shows that Indian wheat in the central pool stock cannot be exported without large subsidy by government. In 2012-13, MMTC, PEC and STC were engaged to export wheat and the FCI delivered the required rakes at ports. In this period also, the FOB price received in global tenders was higher than MSP but much lower than economic cost of wheat.

Under clause 9.1 of WTO's Agreement on Agriculture, subsidies for export of agricultural goods can be provided for marketing cost and internal transport. This also includes handling, upgrading and other processing costs and the costs of international transport and freight.

If India decides to use this clause to subsidise wheat export from the central pool stocks, major wheat exporting countries like US and Australia are surely going to raise questions in WTO, especially in the light of the so-called peace clause which allowed India to maintain its procurement operations even if the ceiling of 10 per cent of value of production was breached.

Export of grains from central pool stocks is therefore an unlikely option.

Normal allocation of 5 kg foodgrain per person in PDS meets just about half the monthly requirement of a person.

PDS allocation

In the past, the Centre has made ad-hoc allocations of grains to State governments for distribution under PDS. Since these allocations are temporary, there is little awareness about them among ration card holders and it is feared that that they do not reach real beneficiaries.

Such ad-hoc allocations have not been independently evaluated for their effectiveness in reducing a poor family's expenditure on foodgrains. Also, such ad-hoc allocations at highly subsidised rates of ₹2 for wheat and ₹3 for rice will further inflate food subsidy bill of ₹1,84,000 crore in 2019-20.

If export and additional ad-hoc allocations are not practical options before the government, the only alternative is to reduce excessive procurement of wheat and rice over the next five years.

The new government will do well to remove the dust from Shanta Kumar Committee Report of 2015. In water stressed regions of Punjab and Haryana, less water-guzzling crops like maize, pulses and oilseeds will have to be provided incentives similar to paddy. The Madhya Pradesh government should extend similar bonus to pulses and oilseeds as it does for wheat. Such interventions can gradually result in reducing excessive procurement of rice and wheat.

This will require imagination and boldness which will hopefully not be lacking in the new government.

Farm subsidies: India must keep a vigil

James J Nedumpara, Sparsha Janardhan, Business Line

March 28, 2019: Agriculture is a widely subsidised sector in several countries. Amidst the escalating trade war between the US and China, the WTO gave a notable ruling in February 2019, in a challenge involving certain agricultural policies of China. This ruling is on one of the two disputes filed by the US against China's farm subsidies on grains.

China – Agricultural Producers (DS511) related to China's compliance with its domestic support commitments under the WTO Agreement of Agriculture (AoA). China not being an original WTO member, but a member that acceded much later, received a certain unique treatment. China undertook obligations not to provide domestic support in excess of the *de minimis* level of 8.5 per cent of the total value of agriculture production.

Although China received treatment as a developing country, it did not receive the cushion of 10 per cent *de minimis* limit which other developing countries received. In this dispute, the allegation was that China exceeded the *de minimis* for Indica rice, Japonica rice, wheat and corn for the years 2012 to 2015. The calculation of domestic subsidies in agriculture is particularly complex and is captured in the concept 'aggregate measurement of support' (AMS). Most governments provide agriculture subsidies in the nature of market price support. In China, the Minimum Procurement Price (MPP) programmes for wheat and rice apply in certain provinces such as Hubei, Anhui, and Jiangsu.

Under the programme, government purchases of agricultural products occur only when market prices fall below the established MPP level. Such market price support programmes should be included in the calculation of AMS.

Complex calculations

The AMS is not just the budgetary expenditure of the government to provide subsidies to the agricultural products. It depends on certain external factors as well. The calculation of quantum of market price support is based on the price gap between the 'applied administered price' identified in the domestic support measure and the 'fixed external reference price' multiplied by the quantity of eligible production.

An understanding of these concepts is crucial in evaluating the agriculture policies of other agrarian countries such as India. India too provides certain minimum support price (MSP) for agricultural products, which is akin to the applied administered price.

The determination of AMS significantly depends on the quantity of production eligible to receive the applied administered price. There is lack of clarity in the AoA as to whether "eligible quantity of production" refers to the total production of the concerned product or the amount actually procured by a WTO member.

The China dispute sheds some light on the quantity of eligible production, albeit in a limited sense. Previously, the Appellate Body ruling in *Korea –Beef*(2000) interpreted the eligible quantity of production to mean the amount of commodity produced that is entitled to receive the support, rather than the production actually purchased by the government.

Interestingly, China applied a number of criteria to limit the quantity of eligible production, such as: the geographical scope (MPP programmes limited to certain provinces), temporal scope (time period in which purchases were made), activation and de-activation (procurement only in cases where price drops below certain levels), minimum grain quality requirement, and consumption of grains in small-scale farms.

The WTO panel examined these factors and concluded that the quantity of production eligible to receive the market price support to be the entire volume of production in the relevant specified provinces. China successfully convinced the panel on the geographical scope and the grain quality requirement but failed to do so with the rest of the criteria. Pursuant to AMS calculations, the panel concluded that China had breached its *de minimis* level and acted inconsistently with the AoA.

The decision's import

This decision has significance for a number of developing countries, including India. Most developing countries do not set targets for procurement of foodgrains in their market price support programmes. A possible consequence could be that some of the agriculture support programmes could come under WTO dispute scrutiny.

The Ministerial Decision in Bali on Public Stockholding for Food Security Purposes gives reasonable comfort to developing countries to provide agricultural support for food security purposes. However, countries will have to fulfil certain conditions such as notification and transparency requirements. Developing countries that take recourse to the Bali decision will find some parts of the China farm dispute particularly useful and instructive.

New government to announce proposed industrial policy: Suresh Prabhu

Live Mint

New Delhi, 4 April, 2019: Commerce and Industry Minister Suresh Prabhu Thursday said the proposed new industrial policy has been finalised and the new government would announce that.

"We have finalised the industry policy. I am sure that the new government will announce that soon," Prabhu said here at CII's Annual session 2019.

Though the ministry has sent the final proposal of the policy to the Cabinet, but it was not taken up for consideration.

It aims at promoting emerging sectors and modernising existing industries. It will also look to reduce regulatory hurdles, cut paper work and support emerging and new sectors.

The ministry has planned to set up an elaborate machinery including a steering committee for effective implementation of the policy.

This will be the third industrial policy after the ones released in 1956 and 1991. It will replace the industrial policy of 1991 which was prepared in the backdrop of the balance of payment crisis.

Talking about increasing foreign direct investment (FDI) into India, he emphasised on the need to have a proper strategy to attract overseas inflows in greenfield as well as brownfield projects.

"We are trying to bring in more FDI. FDI will come either in greenfield area or it could be through acquisition. So, we must prepare a strategy on both... We should target those companies that can invest because they have investable surplus and same time, we must have a matching sectoral strategy wherein inbound investments can be absorbed," he said.

FDI in India during April-December 2018 declined by 7 per cent to USD 33.5 billion.

Talking about trade with China, the minister said that for the first time, trade deficit with China has declined by about USD 10 billion and India is working with them to further bridge this gap, which stood at USD 63.12 billion in 2017-18.

"Chinese companies are now moving out of mainland and some may come to India. So, we are working with China," he said.

He added that this is one of the most challenging times that the global trade is facing in the last several decades and India should be conscious of that.

Prabhu said people are questioning about the existence of the World Trade Organization (WTO) and "a loss of WTO would be a loss to entire world".

He also listed out steps which the ministry has taken to boost exports and further improve ease of doing business particularly as the district level.

He said that in 2018-19, India's exports of goods and services would touch about USD 540 billion.

The country's exports grew 8.85 per cent to USD 298.47 billion during the April-February period of 2018-19.

Further, he added that thousands of start-ups have been recognised by the ministry and it is also working on removing hurdles in their path to promote budding entrepreneurs.

Talking about free trade agreements (FTAs), Prabhu said the ministry is in the process of preparing a template to negotiate future agreements by involving all concerned stakeholders.

Industry has raised concern that FTAs which was signed by India is not benefitting domestic players.

On a question that ease of doing business is not visible on the ground, the minister said they are working at district levels to improve business environment.

Global trade may face slowdown in 2019; WTO lists two key reasons

Financial Express

April 2, 2019: Global trade growth is expected to be lower in 2019 than it was last year, the World Trade Organisation forecast on Tuesday, citing widespread “tensions” and economic uncertainty. The WTO had in its preliminary estimates predicted a 3.7 per cent expansion of trade for this year, but has revised that down to 2.6 per cent, marking a decline on the three-percent growth recorded in 2018.

“The fact that we don’t have great news today should surprise no one who has been reading the papers over the last 12 months,” WTO director-general Roberto Azevedo told reporters in Geneva. In its main annual forecast, the 164-member WTO renewed its concerns about systemic threats that could continue to disrupt the world’s economy, notably retaliatory tariffs between China and the United States. There are indications that ongoing talks between Washington and Beijing could resolve the bruising tariff battle, but timelines for a possible deal are not clear.

Asked if he saw either side emerging victorious in the trade spat between the world’s two largest economies, Azevedo said “there will be many losers.” It was therefore becoming “increasingly urgent” that tensions are resolved, he added in a statement.

The projections released Tuesday are based on a “relatively smooth” Brexit playing out over the next two years, WTO economist Coleman Nee told reporters. Britain leaving the European Union without a withdrawal agreement, or the various other possible Brexit scenarios that remain in play, will impact global trade, Nee added. “The situation is so fluid. We will have to wait and see what the final outcome is,” before fully understanding Brexit’s influence on world trade, Nee further said.