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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 in the grip of plurilateralism

D. Ravi Kanth, Business Line

December 27, 2019: In a few days, the World Trade Organisation (WTO) will complete 25 years of its existence. It was established on January 1, 1995, after eight years of Uruguay Round of trade negotiations. Surely, it ought to be a moment of celebration, as the organisation for promoting rules-based norms for public good would have taken strong roots.

Sadly, that is not the case. More than a fortnight ago, a vital arm of the WTO for resolving trade disputes has been clipped. The US chose to put the Appellate Body, the highest adjudicating body for resolving global trade disputes, to bed for the time being. Washington repeatedly criticised the functioning of the adjudicating body for allegedly straying away from the dispute settlement understanding. However, the US chose to pocket favourable rulings and forced countries to implement them within the reasonable period of time. From now on, illegal trade measures imposed by the US and other countries will not be resolved independently and impartially. Effectively, the Donald Trump administration has paved the way for 'might' to become 'right'.

More importantly, successive American administrations over the past 20 years have ensured a steady descent into rules that were framed almost 70 years ago as part of the GATT (General Agreement on Tariffs and Trade) 1947. The Final Act that established the WTO in 1995 is being made almost redundant.

Self-interest agreements

The WTO is facing perhaps its biggest challenge on the negotiations front. Increasingly, a group of powerful countries led by the US, China, the European Union, Japan, Canada and Australia are steadily transforming the trade body into a plurilateral trade organisation by launching negotiations in areas of their core interests. For example, the US would like ensure that its GAFA (Google, Amazon, Facebook, and Apple) companies along with Microsoft continue to rule the roost in global electronic commerce through new rules that would ensure countries do not impose duties on electronic transmissions, or stipulate conditions for storing data in domestic servers.

China, along with a group of other countries, wants to create a plurilateral Investment Facilitation agreement despite opposition from many, including the US and India. Australia, the EU, Canada, Japan and others are attempting to create an agreement on domestic regulation for services that undermines the mandated multilateral negotiations being conducted by the Working Party on Domestic Regulation (WPDR).

Another plurilateral agreement for finalising disciplines for micro, small, and medium enterprises (MSMEs) is being negotiated by a different group of countries. Soon, there could even be a plurilateral agreement on the environment. The agreements among two or more countries are invariably dominated by key players, and the majority of participants will have little or no say.

Notwithstanding the surge of plurilateral agreements that are being currently negotiated, the US and its allies also insist on having multilateral agreements that suit their interests. The US wants a strong multilateral agreement to prohibit fisheries subsidies without adequate special and differential treatment for developing countries. Yet, it remains ruthlessly opposed to having a permanent agreement for public stockholding programmes to fight global hunger, as it would upset its fat-cat subsidised farmers.

Hindering process

As part of WTO reforms, the introduction of punitive transparency and notification requirements is being sought. India, South Africa, and China, among others, have fiercely opposed these provisions on grounds that they violate the Marrakesh Agreement that established the global trade body. The US is leading the charge for bringing these corrosive provisions.

More disturbingly, the US, the EU, and Japan and other countries want to do away with core principles such as consensus-based decision-making and special and differential flexibilities for developing countries. Lawlessness, which has all along been present in the global trading system, has now become pervasive. The Doha work programme that promised developmental dividends for developing countries has been killed by the dominant powers, especially the US, with support from the WTO Secretariat. The WTO Director-General, who is also the chair for the trade negotiations committee, rarely acknowledges that he derives his mandate from the Doha work programme.

In short, the WTO is being subjected to a partition of sorts, akin to what Africa witnessed between 1881 and 1914, when major western powers divided and colonised the continent. Effectively, a large majority of countries is being excluded from its decision-making process because of the ongoing plurilateral negotiations. So, as it turns 25, the WTO can be christened as the ‘World Plurilateral Trade Organization’, serving the interests of a small group of developed and developing countries.

Ironing out the wrinkles in trade disputes adjudication

Jay Manoj Sanklecha, The Hindu

December 23, 2019: Mark Twain famously quipped that “the reports of my death are greatly exaggerated”. With the retirement of two of the remaining three members of the World Trade Organization (WTO) Appellate Body on December 10, and a veto by the United States on fresh appointments, the “crown jewel” of the WTO been rendered dysfunctional. Although the demise of the Appellate Body has struck a blow to the rule of law, those drawing up the obituary of the WTO in the aftermath of its demise may have greatly exaggerated its consequences.

The consequences of the Appellate Body’s fall are overstated for a number of reasons. First, because this effectively marks a return to the dispute settlement system under the General Agreement on

Tariffs and Trade (GATT) which, on the whole, proved surprisingly successful in resolving disputes. Second, most of the disputes at the WTO concern rules that are actually “self-enforcing”, with the Appellate Body only policing its enforcement by domestic authorities. Finally, many States have conceived “alternative” strategies to overcome difficulties arising out of the absence of a functioning Appellate Body.

The Appellate Body was set up in 1995 as a “safety valve” against erroneous panel reports in return for the membership agreeing to adopt reports using the “reverse consensus” rule in lieu of the “positive consensus” rule. Under the erstwhile positive consensus rule, reports issued by panels composed to hear disputes under GATT, could be adopted only if each of the contracting states favoured its adoption. This effectively handed a veto to the losing state.

However under the reverse consensus rule, the report would be automatically adopted, unless each member objected to the adoption of a report. To eliminate the likelihood of erroneous panel reports, the membership proposed the establishment of an Appellate Body, and the adoption of the report was postponed till after such appeal was adjudicated by the Appellate Body.

Return to GATT

The fall of the Appellate Body effectively marks a return to the previous system as it hands states an opportunity to appeal an adverse panel ruling and effectively indefinitely delay its adoption. While one would be forgiven to think that states under the GATT regime would almost always veto unfavourable reports, a remarkable 71% of panel reports were adopted using the positive consensus rule. Even where panel reports were not adopted by states they served as a basis for the parties to “bilaterally” resolve their disputes in a mutually satisfactory manner. In a vastly changed global economic landscape, the re-emphasis on diplomatic solutions in lieu of judicialised solutions to resolve inter-state trade disputes may not be an entirely bad outcome.

Trade remedy matters

The majority of the disputes at the WTO concern trade remedy matters. In such matters, if a state violates the rules, for example those concerning dumping of goods or grant of subsidies, affected states can without recourse to the WTO, adopt countermeasures such as imposition of anti-dumping and countervailing duties. The dispute resolution mechanism primarily aims to police the adoption of such countermeasures, namely whether they were warranted and otherwise imposed consistently with the rules. As trade scholar Pauwelyn notes, the mechanism is geared to address “over-enforcement” rather than “under-enforcement” of WTO rules. While the fall of the Appellate Body may see the adoption of more unilateral sanctions by states, possibly leading to increased trade wars, it will not render the WTO rules unenforceable. The threat of reciprocal sanctions may in fact serve to encourage states to remain compliant with the rules even in the absence of a functional Appellate Body at the helm of the dispute mechanism.

Alternative pathways

Finally, although the membership could not prevent the fall of the Appellate Body as we know it; several states have adopted ad hoc solutions. States such as Indonesia and Vietnam have, through a no appeal pact, agreed in advance not to appeal the ruling of the panel in the dispute between them, effectively waiving their right of appeal. The European Union (EU), Norway and Canada have agreed on an interim appeal system for resolving any disputes through arbitration using Article 25 of the dispute settlement understanding in a process mirroring that of the Appellate Body with former Appellate Body members appointed as arbitrators. The EU has even threatened to launch countermeasures under general international law for countries that lose at the panel stage but refuse recourse to the interim appeal system under Article 25 of the dispute settlement understanding and instead appeal the report "in limbo" with a view to avoid the adoption of the report altogether. Although the overall effectiveness of such alternative strategies to overcome the demise of the WTO Appellate Body is uncertain, they do represent good faith efforts by some members at resolving future trade disputes.

In sum although the fall of the WTO Appellate Body represents a turbulent period in the history of trade disputes adjudication, it by no means spells the end of the WTO. On the contrary it presents an opportunity to the members to rethink and "iron out some of the creases" with the present system. The ongoing negotiations between the United States and India in relation to the Panel report in US-Carbon Steel, where the U.S. has appealled an adverse report to a dysfunctional body, may offer an insight into how the dispute settlement system evolves.

WTO Appellate body going into slumber is a serious setback

Prabhash Ranjan, Financial Express

December 24, 2019: On December 11, the World Trade Organisation's Appellate Body (AB)—which is part of the WTO's dispute settlement mechanism—went into hibernation. This mechanism, which was created to settle trade-related legal spats amongst the 164 WTO member countries, is made of two levels. The first level constitutes of WTO panels—these are ad hoc bodies in charge of adjudicating disputes between WTO members in the first instance. The second level constitutes of an appellate mechanism or the AB, which is a permanent body, comprising of seven individuals appointed for four-year terms. The AB hears appeals from reports issued by WTO panels. Three out of seven AB members serve on any one case. AB rulings are binding on the countries that are parties to the dispute. If a country fails to comply with an AB ruling, the winning country can take countermeasures against the disobedient country as per WTO rules. Therefore, the WTO's dispute settlement mechanism brings certainty and predictability to the rules-based multilateral trading order by holding countries accountable for not keeping their end of reciprocal bargains, and by sanctioning and capping countermeasures in case of non-compliance.

US's obduracy

The AB has gone into hibernation because the numbers of AB members kept dwindling, coming down to just one on December 11, due to the US blocking fresh appointments. The US believes that the AB has gone beyond its mandate. Its major complaint with the AB is that the latter, in a series of rulings, has overturned the US practice of 'zeroing'—a controversial methodology for calculating anti-dumping duties on foreign products. The US has also expressed other concerns such as the AB's treatment of Chinese state-owned companies, violations of statutory timelines as the AB often takes more time than stipulated to decide on a case, and AB rulings having precedential value.

In the late 1990s and the early 2000s, the critics of economic globalisation used to single out the US for creating international economic institutions like the WTO, which were, at the time, seen as part of the global imperialist state pushing neoliberal capitalism to the detriment of the Third World. In fact, the WTO's dispute settlement system was specifically criticised for creating coercive enforcement machinery pressurising the Third World countries to liberalise their markets. Interestingly, today, the US has turned out to be the biggest critic of the AB, while the Third World states like India are campaigning for its protection.

The AB has actually become a victim of its own success. In less than 25 years of existence, it has produced close to 156 rulings involving myriad of issues like taxes on alcoholic beverages, subsidies given for civilian aircraft production, importation of solar cells, anti-dumping duties on shrimps, packaging regulations for cigarettes, regulation of gambling services, measures affecting imports of beef, etc. The AB, upholding international rule of law, on several occasions, has passed judgments against powerful developed countries like the US. Both in terms of sheer volume of cases and the wealth of jurisprudence produced, the AB has outperformed most international courts and international tribunals.

Adverse implications

The AB going into slumber is a serious setback for the rules-based multilateral trading order. The most immediate implication would be that if any WTO panel report were appealed, it would go into a 'void', as the AB doesn't have the minimum number of members required to hear the case. This would allow a country to block the adoption of the report if it loses a trade dispute, and thus not comply with the WTO panel decision. India, recently, has appealed against a WTO panel ruling, which pronounced India's certain provisions of the domestic export incentive initiatives as WTO-inconsistent. Therefore, India can continue with these measures despite their inconsistency with WTO rules. Likewise, the US has appealed against a WTO panel ruling in favour of India in the renewable energy sector, thus allowing it to continue with the WTO-inconsistent measures.

The role of the WTO's dispute settlement mechanism including the AB is premised on the assumption that a country unilaterally determining treaty violation by another country may be wrong. Any such unilateral determination may lead to countries overreacting in suspending reciprocal concessions that form part of WTO agreements. This, in turn, will trigger greater retaliation from the other side, leading to trade wars and ushering in instability in the global economy. As the noted international lawyer Joost Pauwelyn believes, given the eventual uselessness of purely unilateral enforcement, hopefully the US will also accept third-party adjudication in some form. However, it is important for WTO member countries to carry out required reforms ensuring that the AB follows the strict timelines given in WTO rules to decide on appeals. Finally, all nations, especially the US, should remember that the liberal rules-based global economic order built so arduously post the Second World War should not be sacrificed at the altar of domestic and competitive populism.

Donald Trump's trade wars expose a bitter truth: Economic Nationalism

Financial Express

December 26, 2019: As the year ends, a partial and brief ceasefire seems imminent in Donald Trump's trade war on the world. The United States and China may sign a deal as early as next month. But make no mistake: The protectionist impulse behind the trade war remains as ineradicable as ever. Nor should it be forgotten that economic nationalism has guided the destiny of all major nations since the 19th century.

According to the ideological prejudices of the present, built up over nearly four decades of globalization, free trade and deregulation represent the natural order of things. History, however, tells us that the United States was a protectionist power for much of its existence, and the tariff was a crucial factor in its dethronement of Britain as global economic leader by the early 20th century.

As William McKinley put it in 1890: "We lead all nations in agriculture; we lead all nations in mining; we lead all nations in manufacturing. These are the trophies which we bring after twenty-nine years of a protective tariff."

The argument for economic nationalism against a manufacturing giant such as Britain was simple. British free-traders claimed that their ideology was best placed to bring prosperity and peace to the world. Their critics in countries less economically advanced than Britain, such as Germany's Friedrich List, the 19th century's most influential economic theorist, argued that free trade could only be a goal rather than the starting point of modern development.

Economic self-strengthening for nations required that they protect their nascent industry until it becomes internationally competitive.

Notwithstanding Britain's rhetoric, which periodicals like the Economist amplified, it had arrived at free trade after a successful policy of tariffs. It also used military power to acquire foreign markets for its surplus goods and capital.

In the late 19th century, one aspiring power after another set out to match the British; the Americans were not alone. Italy, while seeking to modernize its economy, imposed massive tariffs on France. Germany and Japan nurtured domestic manufactures while trying to shield them from foreign competition.

Even Britain, following its settler colonies Australia, Canada and South Africa, came to abandon free trade by 1932. The United States' protectionism peaked with the infamous Smoot-Hawley Tariff Act of 1930.

The U.S. moved swiftly to embrace free trade after the Second World War only because its manufacturing industries, dominant over the world's war-ravaged economies, needed access to international markets.

Even then the Cold War's military and diplomatic urgencies turned the United States into an unlikely protector of Japan's manufacturing industries as they were rebuilt into world-beaters. Trade practices of the kind deemed unfair by Trump today — ranging from loans and subsidies to national conglomerates and restriction of imports — were key to the rise of not only Japan but also such East Asian "tigers" as South Korea and Taiwan.

Trying, albeit much less successfully, to build a manufacturing economy, India imposed some of the world's highest tariffs. After a short-lived experiment with trade liberalization, which resulted in a $53 billion trade deficit with China, India today has retreated into its old protectionist crouch.

It is hard to see what else it can do. The rise of China as a manufacturing powerhouse has made even the United States renounce the posture of international co-operation it assumed after the Second World War.

The multilateral institutions such as the World Trade Organization that the U.S. helped set up no longer seem to serve its purposes. Moreover, the argument, first widely heard in the U.S. during the debate over NAFTA in the 1990s, that free trade enriches the wealthy at the expense of the poor and the middle class, not to mention the environment, has become politically much more potent.

It is clear today that the advocates of free trade ignored for too long the volatile political problems rising from wage stagnation and income inequality. Upholding the economic law of "comparative advantage," they also managed to downplay the higher law that governs international economic relations: might is right.

Following the British "imperialism of free trade," powerful countries have consistently practiced what they denounce in others. For instance, the United States, while insisting that other countries reduce state intervention, has nurtured high-tech industries in ways that violate WTO agreements (and which are shielded from sanction only by the fig leaf of defense requirements).

The bluff of free trade, first called in the 19th century by an industrializing America against Britain, lies exposed yet again as China aspires to be the 21st century's new hegemon. Free trade turns out to be something that helps a rising great power, until it doesn't, and which most countries claim to practice while trying to subvert its principles as much as possible.

Trump's trade wars are, of course, dangerously reckless in a world more interconnected than ever before. But they have served to clarify the challenge ahead: to devise multilateral institutions that acknowledge protectionism rather than free trade as the deeper and more enduring reality of global economic history.

The bluff of free trade: Trump's trade wars expose an abiding truth

Pankaj Mishra, Financial Express

December 27, 2019: As the year ends, a partial and brief ceasefire seems imminent in Donald Trump's trade war on the world. The US and China may sign a deal as early as next month. But make no mistake: The protectionist impulse behind the trade war remains as ineradicable as ever. Nor should it be forgotten that economic nationalism has guided the destiny of all major nations since the 19th century. According to the ideological prejudices of the present, built up over four decades of globalisation, free trade and deregulation represent the natural order of things. History, however, tells us that the US was a protectionist power for much of its existence, and the tariff was a crucial factor in its dethronement of Britain as global economic leader by the early 20th century. As William McKinley put it in 1890: "We lead all nations in agriculture; we lead all nations in mining; we lead all nations in manufacturing. These are the trophies which we bring after 29 years of a protective tariff."

The argument for economic nationalism against a manufacturing giant such as Britain was simple. British free-traders claimed that their ideology was best placed to bring prosperity and peace to the world. Their critics in countries less economically advanced than Britain, such as Germany's Friedrich List, the 19th century's most influential economic theorist, argued that free trade could only be a goal rather than the starting point of modern development. Economic self-strengthening for nations required they protect their nascent industry until it becomes globally competitive.

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In the late 19th century, one aspiring power after another set out to match the British; the Americans were not alone. Italy, while seeking to modernise its economy, imposed massive tariffs on France. Germany and Japan nurtured domestic manufactures while trying to shield them from foreign competition. Even Britain, following its settler colonies Australia, Canada and South Africa, came to abandon free trade by 1932. The US's protectionism peaked with the infamous Smoot-Hawley Tariff Act of 1930. The US moved swiftly to embrace free trade after the Second World War only because its manufacturing industries, dominant over the world's war-ravaged economies, needed access to international markets.

Even then the Cold War's military and diplomatic urgencies turned the US into an unlikely protector of Japan's manufacturing industries as they were rebuilt into world-beaters. Trade practices of the kind deemed unfair by Trump today—from loans and subsidies to national conglomerates and restriction of imports—were key to the rise of not only Japan but also such East Asian "tigers" as South Korea and Taiwan.

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The rise of China as a manufacturing powerhouse has made even the US renounce the posture of international cooperation it assumed after the Second World War. Multilateral institutions such as the WTO that the US helped set up no longer seem to serve its purposes. Moreover, the argument, first widely heard in the US during the debate over NAFTA in the 1990s, that free trade enriches the wealthy at the expense of the poor and the middle class, not to mention the environment, has become politically much more potent.

It is clear the advocates of free trade ignored for too long the volatile political problems rising from wage stagnation and income inequality. Upholding the economic law of "comparative advantage," they also managed to downplay the higher law that governs international economic relations: might is right.

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The bluff of free trade, first called in the 19th century by an industrialising America against Britain, lies exposed yet again as China aspires to be the 21st century's new hegemon. Free trade turns out to be something that helps a rising great power, until it doesn't, and which most countries claim to practice while trying to subvert its principles as much as possible.

Trump's trade wars are, of course, dangerously reckless in a world more interconnected than ever. But they have served to clarify the challenge ahead: to devise multilateral institutions that acknowledge protectionism rather than free trade as the deeper and more enduring reality of global economic history.

The need for a global trade makeover

Dani Rodrik, Live mint

26 December, 2019: US President Donald Trump's on-and-off trade war against China added ominous clouds of uncertainty to the world economy in 2019, raising the prospect of a significant global economic downturn. His erratic and bombastic style made a bad situation worse, but the US-China trade war is a symptom of a problem that runs much deeper than Trump's atavistic trade policies.

Today's impasse between these two economic giants is rooted in the faulty paradigm that I call "hyper-globalism," under which the priorities of the global economy receive precedence over the priorities of the home economy. According to this model for the international system, countries must maximally open their economies to foreign trade and investment, regardless of the consequences for their growth strategies or social models.

This requires that national economic models—the domestic rules governing markets—converge considerably. Without such convergence, national regulations and standards will appear to impede market access. They are treated as “non-tariff trade barriers" in the language of trade economists and lawyers. China’s admission to the World Trade Organization was predicated on the assumption that China would become a market economy similar to Western models.

This has clearly not happened. Meanwhile, in the US and many other advanced economies, hyper-globalism has left behind communities devastated by offshoring and imports—creating fertile ground for nativist political demagogues to thrive. US trade policy has long been shaped by corporate and financial interests, enriching those groups while contributing to the erosion of middle-class earnings. It is now clear that we need a new narrative on trade, one that recognizes globalization is a means to national prosperity, not an end in itself.

Fortunately, Democratic candidates in the US presidential race have begun to produce good ideas on which a new trade edifice can be built. In particular, Senator Elizabeth Warren’s trade plan solidifies her credentials as the Democratic candidate with the best policy ideas. Her plan represents a radical reimagining of trade policy in the interests of society at large.

We live in a world where import tariffs are, for the most part, already quite low. Trade negotiators spend most of their time arguing not about import tariffs and other barriers at the border, but about behind-the-border regulations such as intellectual property rules, health regulations, industrial policies, and the like. Trade agreements that target these areas can foster higher levels of international trade and investment, but they also encroach more on domestic social bargains. They constrain countries’ tax and regulatory policies and their ability to uphold their own social and labour standards. Unsurprisingly, major multinational enterprises such as pharmaceutical companies and financial firms seek access to foreign markets at the expense of the needs of labour or the middle classes.

A key plank of Warren’s plan is to establish prerequisites before the US signs deep-integration agreements. Any country with which the US negotiates a trade agreement must recognize and enforce internationally recognized labour standards and human rights. It must be a signatory to the Paris climate agreement and international conventions against corruption and tax evasion. Of course, on labour and the environment, the US itself falls short of meeting some of these preconditions, and Warren has committed to fixing these “shameful" shortcomings.

This approach is vastly superior to the current practice of assuming trade partners will raise their standards once a trade agreement is signed. In reality, side agreements in labour and environment have proved quite ineffective. The only way to ensure that such issues are treated on par with questions of market access is to restrict trade agreements to countries that are already committed to high standards.

Moreover, some of the most harmful elements in trade agreements should be removed or weakened. Warren rightly proposes eliminating investor-state dispute statement (ISDS)—the controversial practice of allowing foreign corporations to sue governments. She also seeks to limit the scope of monopoly rights in intellectual property, pledging never to push another country to extend exclusivity periods for prescription drugs.

The transparency of trade negotiations needs to be dramatically increased as well. Currently, draft agreements are kept secret until presented for a vote by Congress. Under Warren's proposal, drafts would be open to public scrutiny and comment.

Warren is also ready to impose a "border carbon adjustment," to ensure domestic companies that pay the full social cost of carbon are not disadvantaged by foreign companies that do not. Furthermore, trade agreements would be evaluated not only by their national effects, but also by their regional consequences. Warren would seek congressional approval only after regional, labour, consumer, and rural advisory committees all give their assent.

One criticism of Democrats' tougher line on trade is that it will have adverse effects on poorer countries' growth prospects. But there is no inherent conflict between trade rules that are more sensitive to developed countries' social, environmental, and equity concerns and economic growth in developing countries. Nothing in the historical record suggests that poor countries require very low or zero barriers in advanced economies in order to benefit greatly from globalization.

In fact, the most impressive export-oriented economic take-offs to date—Japan, South Korea, Taiwan, and even China—all occurred when import tariffs in the US and Europe were at moderate levels, and higher than they are today.

But it is not just advanced economies that need more policy space. China and other countries should not be encumbered by global trade rules in deploying their own growth-promoting structural diversification policies. Ultimately, a healthy and sustainable world trade regime would be one of "peaceful economic coexistence," in which different economic systems prosper side by side rather than being pressured to conform to a single mould favoured by international corporations.

US-China trade deal: Deal offers nothing but superficial symbolism

Financial Express

December 24, 2019: Phase 1 of the US-China trade deal marks cessation of retaliatory trade actions that the two countries have been engaging in for nearly two years now. But, it doesn't mean that trade friction between the two countries has come to an end.

The fact that both countries continue to view each other suspiciously is evident from the fact that the tariffs they imposed on each other's products over the last twenty months remain in place. The deal has not, at least till now, ensured that both countries remove the tariffs on a large number of bilaterally traded items that were set in motion after the Section 232 tariff impositions by USA on steel and aluminum imports. While these tariffs affected steel and aluminum exports to the US by various countries, including India, the later tariffs imposed by the US, specifically on Chinese products, were justified under Section 301. Section 232 tariffs are brought in on national security grounds. Section 301 tariffs, on the other hand, are driven by unfair trade practices by US trade partners—in this instance, specifically by China. None of these tariffs, imposed at various points in time by the US, are going to go. The ones imposed by China, in retaliation, are also going to stay.

What does the deal achieve then? Much of the outcome is symbolic. The symbolism is of far greater significance for the US. Unilateral tariff actions were begun by the US. It is far more important for the US, therefore, to demonstrate that it was able to fork out a deal that made the trade war worthwhile. But, does the deal justify the trade war?

The core elements of the deal are intellectual property, technology transfer, agriculture, financial services, currency, foreign exchange, and dispute resolution. It is important to note that the core US angst against China was the ‘unfair’ practices maintained by the latter on various aspects of managing IP, and technology transfer. From the fact sheet released by the USTR on the subject, it is not clear exactly what the specific commitments made by China for safeguarding IP content, primarily by acting on piracy and counterfeiting, are about. On technology transfer, the fact sheet claims that for the first time in any trade agreement, China has agreed not to pressurise ‘…foreign companies to transfer their technology to Chinese companies as a condition for obtaining market access, administrative approvals, or receiving advantages from the government’. What exactly the commitment by China in this regard might be is unclear and won’t be known till the text of the deal sees the light of day. But, if Chinese authorities wish to block market access for foreign companies as a negotiating chip to obtain knowledge of technology, they might well be able to do so through various other means. The mere ‘agreement’ provided in consultations and negotiations is insufficient for what the US was looking to achieve. Perhaps, the US trade negotiators also know this only too well. It remains to be seen how China fares following the deal, in future Section 301 investigations, and the US IP watch. There is not much to suggest that the outcomes of these investigations would change dramatically.

On symbolism, a point the US trade authorities would wish to sell firmly to domestic constituencies is the commitment by China to remove a large number of non-trade barriers on US agricultural exports. Equally high on the symbolism quotient would be the Chinese commitment to buy more of various US goods and services. Both assume importance at a time when the US is heading into its next Presidential elections with the knowledge that trade war and tariff actions have not really delivered American producers the goods they promised to do. Less politically symbolic, but nevertheless strategically important, would be emphasis on commitments by China to refrain from unfair exchange rate practices and currency manipulations.

Principally, the deal, the way it has come out from US official agencies, underpins a situation where a naughty, ill-behaved kid (China) has promised to behave in the future, following stern action (tariffs) by a strict guardian (the US). The US is keen to build the deal as evidence of the success of its efforts to put China ‘in line’. Whether that actually is the case will only be known in future. China’s ability to restrict market access through creative protectionism, notwithstanding official grant of concessions in several respects, is well known, and visible from the trade policy actions following its accession to WTO. Over the years, China has taken to blocking market through a variety of complex, internal 'beyond the border' domestic regulations rather than 'on border' restrictions, like tariffs. It might continue to do so, notwithstanding US pressure.

It would be unrealistic to assume that the Phase 1 deal would bring to an end the US-China trade war. The underlying causes behind the US-China friction are systemic, and linked to their overall efforts to gain a geopolitical edge over each other through technology-driven economic supremacy missions. More is expected to happen in the foreseeable future. The onus of such developments, till now, has been with the US. It remains to be seen whether China begins a new fold of response to the hostilities. Critical issues like data governance, and surveillance concerns arising out of suspicions over Huawei remain untouched in the deal. Symbolic commitments might not be enough to keep both countries away from locking horns on the 'alive' issues soon again.

Wheat could be surprise big winner of the US-China trade deal

Chicago, Business Line

December 27, 2019: In the agriculture world, news of the partial United States (US)-China trade deal has sparked a lot of buzz about soybeans. It turns out, wheat could actually end up being a bigger winner.

Speculations is mounting that China will work to fill its wheat-buying quota as part of the detente, creating new demand since its failed to stick to the pledge in the past. Purchases of soybeans, meanwhile, are likely to be hampered by a deadly pig disease that is reducing demand for the oilseed used to make a key ingredient in hog feed.

Wheat prices are already reacting as traders expect that China will soon release the quota, according to Chicago-based consultants AgResource. While the allotment, which is set by the World Trade Organization, could be filled by supplies from any country, it still means additional global demand at a time when international buyers have turned to American supplies.

If Chinese purchases were to reach the quota mark of 9.6-million tons, it would represent a huge jump in demand. In the six years through 2017, buying has averaged less than 50 per cent of the allotment.

The potential that China could secure an additional 5 to 6 million tons of world wheat annually is underpinning Chicago Board of Trade wheat, Chicago-based consultant AgResource Co said in a report on Thursday.

Wheat futures for March delivery climbed 1.5 per cent on Thursday in Chicago. Soybeans and corn were little changed.

The potential sales to China would be well-timed for US farmers. Relatively tighter corn supplies in South America and wheat in top shipper Russia have made American grain more competitively priced, already prompting non-Chinese buyers to boost purchases. In the week ended December 12, American exporters sold the most wheat in six years, according to USDA figures, excluding skewed data released after the federal government shutdown earlier this year.

Corn could also benefit if China moves to fill grain quotas, but to a smaller degree. At 7.2 million tons, the allotment is not only smaller, but the Asian nation has historically done a better job of filling it, meaning it would not represent a very big increase in demand.

India failed to capitalise on possibilities from US-China tensions

Sunil Jain, Financial Express

December 25, 2019: The Apple, most will recognise, is a fairly hardy fruit, but it does lose its flavour if left in the open for too long. So, it has to be worrying that little has happened even six months after the principal secretary in the PMO asked senior secretaries to make the most of “a golden opportunity (of) … several global companies … in China… seriously considering an alternative location.” In the event, the PMO asked “that an enabling policy framework to seize this opportunity may kindly be designed”.

The PMO had companies like Apple and Samsung in mind—together they account for 60% of the $500 bn global export market for mobile phones—but, six months later, when the US and China have started unwinding their aggressive trade positions, India is no closer to offering them a good reason to relocate a large part of their mobile phone production here. This, sadly, is not the only instance of the government—and not just the Narendra Modi one—failing to capitalise on the moment; that is why, between 1990 and 2018, Vietnam’s exports rose 102 times from $2.4 bn (13% of India’s) to $245.6 bn (75% of India’s) while our exports rose just 18 times, from $18 bn to $325.6 bn.

The reason why the PMO, and others like Niti Aayog, were keen to get an Apple and a Samsung to produce in India is that though India’s production of mobile phones rose dramatically—from 6 crore units in FY15 to 22.5 crore units in FY18—so did imports of components, from $11.2 bn to $21.9 bn. Were an Apple or a Samsung to shift a meaningful part of its production to India—while Apple still primarily produces out of China, Samsung shut its last China factory, which made 63 mn phones, in October—the argument was, they would shift their principal suppliers, and value-addition in India would grow dramatically.

Apple’s exports out of China (iPhones, iPads, iWatches, etc), to put this in perspective, retail at $200 bn and the firm employs (directly and indirectly) 47 lakh people in the country. For its part, when Samsung—it produces around half its mobile phones out of Vietnam—moved out of Huizhou, the

Chinese city turned into a ghost town due to the main factory, and its ancillaries, shutting shop; the services economy, including the rental one, built around Samsung also collapsed. While Samsung has the world's largest mobile phone factory in the world in Noida—this has a capacity of 120 mn phones—it has several more, albeit smaller ones, in Vietnam; with half its 350-400 mn phones made out of Vietnam, not surprisingly, the country's exports are over $52 bn today, or roughly 10% of the global exports market.

If India has to have any chance of meeting its exports target—the 2019 National Policy on Electronics (NPE) has a domestic sales target of 400 mn phones (worth $80 bn) and an export target of 600 mn (worth $110 bn) by 2025—a business-as-usual approach just won't do. Between FY18 and FY19, India's exports grew 125%, but they were still a mere $2.7 bn. NPE, in fact, aimed at zero net imports of electronics (including mobiles) by 2020 while the actual imports were just under $39 bn; the 2025 mobile-export target implies India is looking at a global market share of 19-20%!

It is true that Apple assembles phones in India, but doing this in, say, a Foxconn facility, without its entire ecosystem,isn't quite the same thing as there is little value addition. What makes the inability to get either an Apple or a Samsung to shift any significant part of their production setup in India even more tragic is that, even before the PMO wrote its letter, things looked like they were moving in the right direction.

Till then, while India boasted of having become a big producer of mobile phones, the truth was quite the opposite. While the government spoke of 268 units producing mobile phones/components in 2019—up from 120 in 2017—FE found that half had shut shop as there was little local value addition. Since the additional problem with the policy was that imports were burgeoning, in February 2019, the government came up with NPE 2019 that shifted the focus from domestic manufacture to exports, and from import-tariff protection to incentives for exports. Some months ago, finance minister Nirmala Sitharaman said she was designing policies to woo big manufacturers looking to move out of China; it was in this context that she cut the corporate tax rate from an effective 46% (including dividend distribution tax, DDT) to 15% (without accounting for DDT). The government also announced a `50,000 crore export incentive scheme to replace the existing MEIS and other schemes that were also falling foul of WTO norms.

While the temporary (?) patch-up between the US and China has meant that big producers in China have no immediate pressure to leave the country (with trade sanctions, their China exports would have been hit by import duties in the US); at the same time, the government has not made any concrete offer to the big mobile phone manufacturers either. Indeed, while estimates are manufacturing in India is around 19-23% more expensive than in China, and 10-12% as compared to Vietnam—due to poorer infrastructure here, and lower fiscal incentives—India has lowered the export incentives it gives for mobile phone exports; this was 4% of the value of the phone till January, when it was reduced by half, as a result of which, this year's exports are likely to be lower than last year's.

Postscript: This is, though, not the first time India has failed to seize the initiative. When China vacated the lower-end textiles markets, it was countries like Bangladesh and Vietnam that captured the markets. India's refusal to free up oil and gas markets has ensured investments in the sector remain poor; ditto for the mining sector. In the case of telecom, not scrapping licence fees in 2010—when spectrum was sold at sky-high prices—has resulted in the sector almost dying… The list of lost chances is a long one.

Looking beyond RCEP episode: Why surge in exports should be an outcome of market forces

Abhishek Jha & Seema Bathla, Financial Express

December 27, 2019: India was fiercely negotiating in the Regional Comprehensive Economic Partnership (RCEP) on the issues of its interest, which included trade deficit with China and greater mobility for Indian workers, among others. India has been accused of stalling the deal with last-minute demands, and being overtly protectionist in its stance before opting out of the mega trade deal. There are some facts that cannot be ignored, given the concerns and risks that would be faced by farmers, traders and small business enterprises from the likely reduction in tariffs and import surge.

The question is, whether opting out of the RCEP brings down exports and does it go against the interest of exporters? There is are obvious expectations from policymakers and government bodies that exporters should take exports to the next level by catering to more global markets and diversifying their export basket. A continuous and significant surge in exports makes the economy relatively robust on the global platform in terms of its bargaining and negotiating power. For instance, going by the capability to export, Germany and the US will have more say at any international forum like the WTO compared to Peru, Ghana or Uruguay. Thus, emphasising and strategising on an export-related policy is justifiable.

In the Indian case, policymakers expect exporters to take the leap to transform the export structure, and often extend various incentives such as duty drawback, zero import duty on intermediate goods for exporting finished or through the Merchandise Export from India Scheme. But how far is it pragmatic to expect them to aggressively explore global markets?

With a consumer base of 1.32 billion, constituting almost 17.1% of the world population, India offers huge opportunity to the business community. At the same time, it is ubiquitous that exports have a cost component attached to them, and also exporting is a risky business. Operating in an unfamiliar or less familiar foreign market will always throw up novel challenges that might be tough to navigate, while establishing a business within the domestic market is relatively smooth. Doing business overseas is about having symmetric information about the overseas market and the ability to assess the risk. Identifying such risks ahead of time and putting measures in place to manage these can help minimise their impact on the success of the business overseas.

India has experienced a perpetual improvement in the ease of doing business, owing to an array of reforms implemented by the government in recent years. The overall growth during the last five years has been driven mainly by domestic demand, which resulted in double-digit growth of imports and hardly 5% rate of growth in exports. If this is the case, then it would be unfair to expect exporters to bear risk, cost and uncertainty, and aggressively focus on exporting. For an exporter, the international market is always a better place to explore and expand business. Nevertheless, since exports tend to be slow, the policies are not lucrative or supportive enough, looking at the circumstances for competition that exporters have to deal with the western and European countries.

Going by a high rate of growth of market size of key domestic sectors in India, it will be cogent to see the predilection of exporters to comfortably cater to this, as global imports increased by only 1% per annum in the last seven years. This signals the paucity of opportunity for exporters, maybe due to protectionist policies getting implemented globally. The WTO has already forecast that the world trade in 2020 will grow less than 2% per annum.

Therefore, exporters seem inclined towards domestic markets for realising the promising opportunities, mainly through retail, FMCG and electronics sectors, given the high growth of their respective market size (see graphic). This seems to be purely an outcome of the forces of market mechanism, i.e. the demand and supply factors. A surge in exports has to be an outcome of market forces, and not through an artificial policy.

Since India has opted out of the RCEP, it calls for preparation while negotiating trade deals. Any foreign economy will be delighted to cater to the Indian consumer base, but India’s list of products to offer is more or less static, be it in ASEAN, SAFTA or MERCOSUR. One of the reasons is that exporters never prioritised focusing on global markets, because they too wish to have a promising market for reasonable gains. While exporters may not be dormant in exploring foreign markets, there is definitely a need for a long-term policy where the gap between the opportunity offered by the domestic and foreign markets is abridged.

Here, the focus has to be on quality and competitiveness. If domestic markets also accept quality products that match global standards, an environment of competitiveness will engender. This will make exporters self-reliant and move out of their comfort zone. Undoubtedly, Indian markets will still be lucrative (owing to rising middle class), but the gap will be truncated significantly. Procrastinating with the infant industry argument seems no more a pragmatic defence to continue protectionism. India has not signed a trade agreement with any economy in the last few years.

Our industry, as well as agriculture sectors, have not become mature in facing foreign competition and hence negotiations remain non-lucrative. India’s enervated position will always force her to pull back from agreements unless we work on stringent trade policy measures.

Exports to rebound in 2020 but growth to remain subdued owing to protectionism

Live Mint

New Delhi, 28 December, 2019: The continuous contraction in India's exports is likely to stop next year but the rate of growth will be subdued on account of the uncertain global trade situation due to rising protectionism.

Commerce Secretary Anup Wadhawan said the current slowdown in exports is mainly due to a decline in petroleum products, which constitute 13.42 per cent of overall outward shipments.

This decline, he said, is mainly on account of fall in petroleum prices which has driven the export value downwards.

However, "the positive growth in the exports of non-conventional commodity groups like electronic goods, drugs, and pharmaceuticals, organic and inorganic chemicals, augurs well for future growth," he told PTI.

India's export growth is in the negative zone since August 2019 due to a steep fall in shipments of key sectors like petroleum, engineering and gems and jewellery.

Labour-intensive sectors such as carpets, ready-made garments, handloom and leather too are recording decline in export growth.

As per the World Trade Organization (WTO), global merchandise trade volumes are expected to rise by only 1.2 per cent in 2019, substantially slower than the 2.6 per cent growth forecast in April 2019.

However in 2020, the growth in trade volume is projected to accelerate to 2.7 per cent.

Apex exporters body Federation of Indian Export Organisations (FIEO) said the global situation is becoming extremely challenging as rising protectionism is leading to uncertainty.

FIEO Director General Ajay Sahai said the global situation is likely to improve in the first half of 2020, which would have a positive impact on India's exports.

"If the global situation improves, which is likely in the first half of 2020, we may look for 15 per cent growth in exports in the next financial year (2020-21). Exports will come out of negative zone next year but the rate of growth will not be in double digits," he said.

He added that the order book position of Indian exporters is encouraging and less volatility in the domestic currency has also been a positive factor for traders.

Sahai also said that Indian exports have to be aligned with changing import patterns of the global economy as 50 per cent of the world imports today is accounted by electrical and electronics products, automobiles, machinery, petroleum products and plastic items.

"While employment-intensive sectors should be pushed in exports, the new strategy should focus on technology-driven sectors," he said.

Sharing similar views, Professor Rakesh Mohan Joshi from the Indian Institute of Foreign Trade (IIFT) said the steps taken by the government would help exports record growth in 2020.

"There is a need to take structural reforms to increase the competitiveness of Indian products in the global markets," Joshi said.

The commerce ministry is considering several steps such as the announcement of the new WTO-compliant export incentive scheme and the new foreign trade policy for the next five years in 2020 to push the country's exports.

The ministry has conducted a series of meetings with concerned stakeholders to finalise the foreign trade policy.

On the trade front, India has been negotiating the mega free trade agreement RCEP (Regional Comprehensive Economic Partnership) since 2013. But in November, Prime Minister Narendra Modi said India will not join the RCEP deal as negotiations failed to satisfactorily address New Delhi's "outstanding issues and concerns".

Since January this year, exports have recorded a low rate of growth and slipped into the negative zone in August. During April-November 2019-20, the country's exports contracted by 2 per cent to $212 billion.

Going by the current trend, FIEO has estimated that the exports may stand at $330-340 billion in the current fiscal.

In 2018-19, the exports grew by 9 per cent to $331 billion from $303.5 billion in 2017-18.

Since 2011-12, India's exports have been hovering at around $300 billion.

Govt to defer new exports scheme

Banikinkar Pattanayak, Financial Express

December 24, 2019: The government has decided to defer the introduction of a Rs 50,000-crore exports programme — which was supposed to replace its flagship, but WTO-incompatible, Merchandise Exports From India Scheme (MEIS) — to the next fiscal from the proposed date of January 1, 2020, official and trade sources told FE.

Commerce minister Piyush Goyal is learnt to have acceded to exporters’ request to grant them more time to prepare for a transition from the MEIS to the new scheme called Remission of Duties and Taxes on Export Product (RoDTEP), given the operational challenges. Also, the next foreign trade policy, which will contain broad contours of the RoDTEP, will only be rolled out from April 2020, as the current one is in effect up to March.

The new scheme is supposed to reimburse all taxes and duties paid on inputs consumed in exports in sync with the WTO norms. Since potential revenue forgone in the current MEIS is around Rs 40,000 crore a year, RoDTEP is expected to cost the government an additional Rs 10,000 crore annually.

The decision to defer the RoDTEP roll-out comes at a time when the WTO's appellate body remains paralysed. So India is spared the trouble of having to fast restructure some of its contentious trade schemes, as its November 19 appeal against a ruling of the WTO's Disputes Settlement Body (DSB) in favour of the US against New Delhi's export "subsidies" is still pending. The fate of all such appeals remains uncertain, as the US has refused to relent on its move to block the appointment of appellate members. According to the WTO rules, unless appeals are heard and settled, the findings of the DSB won't be binding on the losing party.

Welcoming the latest plan to defer the roll-out of RoDTEP, Engineering Export Promotion Council vice-chairman Arun Garodia said the MEIS would remain in force till March 31, 2020, due to "operational difficulties being faced by exporters for the switchover".

The roll-out of RoDTEP from January 2020 was one of a raft of measures — including easier priority-sector lending norms for exports, greater insurance cover under ECGC and lower premium for MSMEs to avail of such cover — announced by the government in September to help reverse a slide in exports.

Though the goods and services tax (GST) regime has subsumed a plethora of levies, some still exist (petroleum and electricity are still outside the GST ambit, while other levies like mandi tax, stamp duty, embedded central GST and compensation cess etc remain unrebated).

The MEIS, exporters have persistently complained, doesn't offset all the taxes, so the new scheme will be beneficial to them when it's implemented.

The proposed transition to the new scheme came after the US dragged India to the WTO, claiming that New Delhi had offered illegal export subsidies and "thousands of Indian companies are receiving benefits totalling over $7 billion annually from these programmes".

However, Indian officials have rejected such claims and repeatedly stated that the entire allocation or potential revenue forgone on account of various such schemes (including MEIS) doesn't qualify as export subsidies, as in most cases, they are meant to only soften the blow of imposts that exporters have been forced to bear due to a complicated tax structure. Exports are supposed to be zero-rated, in sync with the best global practices, they have argued.

Govt exploring alternative incentives for SEZs to make them WTO compliant

Amiti Sen, Business Line

December 26, 2019: With the World Trade Organization (WTO) prescribing withdrawal of prohibited subsidies given to the Special Economic Zones (SEZs) by the middle of 2020, the government is trying to fast-track work on reforming provisions for the zones to make them compatible with the multilateral norms.

One the options before the Commerce Ministry, which is exploring several alternative incentives for SEZ units, is the new bonded manufacturing space scheme that the Customs Department implemented earlier this year, an official told BusinessLine .

“Discussions will take place between officials of the Commerce and Finance Ministries to see if some of the provisions of the new bonded manufacturing scheme could be replicated for SEZ units,” the official added.

On October 31, the WTO ruled that many of India’s export subsidies, including the ones given to SEZs, flouted multilateral trade rules as the country’s annual Gross National Income (GNI) had exceeded $1,000 annually for three consecutive years and such countries were not allowed to give export sops. The ruling was based on a complaint filed by the US.

Although India has challenged the panel verdict at the WTO Appellate Body, where work is temporarily suspended, the government wants to get its house in order as soon as possible with members like the US breathing down its neck.

Draw insights

“The Commerce Ministry is trying to draw insights from the revamped scheme for manufacturing in bonded warehouses as it involves exempting manufacturers from paying import duties on inputs and capital goods on items that are exported. As the tax exemptions are on inputs and not income, these are permissible under the WTO rules. For those selling the items in the domestic market, the payment of import duty could be deferred,” the official said. Some experts point out that de-linking the SEZ sops from exports would also make them compliant with the WTO norms.

As per the report of the high-level group on SEZs headed by Bharat Forge chief Baba Kalyani, Dominican Republic is a good example of regulatory reforms aimed at eliminating incentives contingent on export performance for entities in the SEZ. The government delinked the minimum export share requirement for various units operating in SEZs in a phased manner. Some studies done of the Dominican Republic model point out that the attractiveness of its SEZs as a destination to export from did not go down with the change in rules. “One needs to be clear that the WTO ruling prohibiting export subsidies is for the SEZ units and not the developers. Since the WTO prohibits subsidies for exports, if the government revisits the incentives, namely the export-linked tax exemptions, the issue could be addressed. The tax exemption could be linked to investments made rather than export profits," said Hitender Mehta, Managing Partner, Centrum Legal.

No clarity on sunset clause

SEZ investors are in the midst of more uncertainty as there is no clarity yet on whether the government would extend the sunset clause on the income tax exemption under the scheme. According to the sunset clause, the 100 per cent income tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for the first five years, 50 per cent for next five years and 50 per cent of the ploughed back export profit for subsequent five years, will expire on March 31, 2020.

A total of 351 SEZs have been notified so far, of which only 234 SEZs are operational.

A hard Brexit?

Garimella Subramaniam, The Hindu

December 24, 2019: More than 40 months after the June 2016 referendum vote to leave the European Union, Britain will exit the EU on January 31. But nearly a fortnight since Prime Minister Boris Johnson's landslide general election victory, Downing Street has scotched all speculation about a smooth transition out of the bloc a year hence. On Friday, the House of Commons voted 358-234 for the Withdrawal Agreement Bill. The new version of the Bill has several key changes, of which three are particularly significant.

First, a new clause outlaws an extension to the standstill transition period that would expire on December 31, 2020. The contentious step fulfils the Conservative Party's election promise, and precludes the possibility of seeking any further extension beyond December 2020. Following the announcement, the pound slid 1.1% against the dollar relative to the gains after the election results, reviving market anxiety.

The hostile stance on an extension is rooted partly in the Tories' resentment going all the way back to Margaret Thatcher's premiership, against the country's EU membership contributions. Besides the £33 billion settlement contained in the withdrawal deal, any extension after next December would entail additionally about €10 billion a year. The resistance also carries echoes of the Tory Eurosceptic stance in the previous Parliament. Eliminating the threat of leaving without an agreement, the party had argued, would diminish the government's negotiating position vis-à-vis the EU.

Second, the bill dispenses with the need for parliamentary approval, for the government's negotiating mandate as well as the final agreement on the country's future relationship with the bloc. The blueprint is to be ready by the end of February and the defining post-transition agreement by November. The provision risks sidestepping normal democratic channels for industries and trade unions to influence the shape of their future trading relations with the EU, worth an estimated £90 billion.

Third, guarantees on labour rights previously included in the withdrawal bill have been removed. This vindicates sceptics' fears about a drift to a low-tax low-regulation U.K. economy after Brexit. EU leaders have described Mr. Johnson's cramped time-table as highly problematic to finalise a zero-tariffs, zero-quotas free trade agreement. Brussels is wary of granting these concessions to a major economy such as Britain. In exchange for any flexibility, the EU insists on a close regulatory alignment and a level playing field on state subsidies, competition policy, and labour and environmental rights to safeguard its single market. Such demands are at odds with the Eurosceptic vision of Britain wresting control of its laws and borders. In any case, a narrow 'goods only' deal excluding the large services sector from any agreement would deprive Britain of the benefits from its pre-eminence in financial and digital services. If no agreement is within sight by this time next year, a cliff-edge exit on WTO terms is a very real possibility.

Challenges ahead

Under the terms of withdrawal, Northern Ireland will continue to remain within the EU jurisdiction after Brexit. The government will enforce customs checks for goods traded across the Irish Sea to the rest of the U.K., increasing costs for the bulk of small enterprises. The regulatory divergence within U.K. territory is the compromise London has conceded to protect the EU's single market. The arrangement would maintain the existing soft border between Northern Ireland and the Republic of Ireland, which has underpinned the region's tenuous peace since the 1998 Good Friday Agreement. The new scenario could strengthen demands in Belfast for unification with Dublin, potentially imperilling the U.K.'s constitutional integrity. Brexit has strengthened calls for a second referendum on independence by the Scottish National Party, which won a big majority in the UK elections. Mr. Johnson faces challenges on many fronts.

Bulging granaries

Business Line

December 30, 2019: Wheat stocks with the central pool touched a seven-year high of 35 million tonnes as on December 1 (*BusinessLine* , December 18), once again raising questions on how the complex exercise of food procurement, storage and distribution should be conducted. This spurt in stocks is on account of 'open-ended' procurement in recent years, as a result of which the Centre has been procuring a third of the wheat output, against about 25 per cent some years back. With wheat output expected to be above 105 million tonnes in 2019-20, an additional 35 million tonnes could enter the FCI godowns over the next six months. A sizeable stock will need to be evacuated before April. The FCI will need to drop its rates for open market sales, besides pushing more stocks through the National Food Security Act route, under which wheat is sold at Rs. 2 a kg. The loss so incurred should be seen against the savings in storage and reduced crop damage. A shift to maize and pulses should be encouraged through higher MSP, so that micro-nutrient deficiencies are addressed.

Costs apart, there is, surprisingly, no serious constraint of storage capacity, going by the Dalwai panel report on doubling farm incomes, which observes that "storage availability may be higher than assessed and the projected gap in storage may be far less than estimated". It cites studies to say that 196 million tonnes of warehousing is required today, of which a capacity of at least 165 million tonnes is available, including private storages. The problem seems to lie in the distribution of stocks; this is despite the fact that procurement is a more decentralised operation now, with Punjab and Haryana accounting for 60 per cent of the wheat procured, against about 80 per cent a decade or so back.

India's food logistics system has to perform the hard task of reconciling producer and consumer interest, while keeping an eye on the subsidy (about Rs. 1.5 lakh crore). Price support has come under a cloud in the WTO, for being allegedly "price distorting". That said, the Shanta committee report of 2015, which argues for paring the PDS on the assumption that only 6 per cent of the farmers producing wheat and paddy benefit from procurement, is based on an earlier reality, when the procurement system had not expanded. Today, its outreach has helped small farmers in central India. The PDS needs to be supplemented with WTO-friendly options, such as income support schemes for farmers (PM-KISAN and Rythu Bandhu). Markets could spur farmers to produce diversified crops, but that should not undermine farmer or food security. To curb procurement costs, a careful shift to 'food stamps' or its variants can be introduced. To assume that India's food output is 'surplus' is a misnomer. It is a supply and logistics challenge.

Myanmar, a promising investment destination

Business Line

December 26, 2019: Myanmar recently saw the entry of foreign private insurance companies into the country, along with Singapore-based transport services company Grab. India, which has expressed its desire to have greater integration under its new 'Neighbourhood First' policy, should literally have Myanmar as its first port of call. Myanmar today is one of the last frontier markets in Asia.

Though both countries have been in engagement for several years, the results have not been significant in terms of cooperation in trade and investment. Despite having a common border of more than 1,600 km, Myanmar imports a mere 5-6 per cent of its overall import requirements from India, whilst importing more than 30 per cent from China alone. Regarding exports from Myanmar to India, the country can actively explore opportunities under India's DFTP (Duty Free Tariff Preference) scheme.

Given that there is not always strong competition across sectors, local knowledge and market positioning can be gained by early movers and can provide a significant competitive advantage to India.

Socio-economic infrastructure

The headroom for infrastructure growth in Myanmar is very high. However, India's share in the total envisaged investments into Myanmar from 2011 to September 2019 stands abysmally low at 3.7 per cent. India's highest investments have been in Myanmar's coal, oil and gas sector, which again is just 6 per cent of the total envisaged investment.

Given Myanmar's LDC (least developed country) status, it benefits from the WTO's zero tariffs on exports, as well as the EU's 'Everything but Arms' scheme, which grants unilateral duty-free, quota-free access for all exports to the EU. Indian investors can use this — apart from its engagements with ASEAN partners — to set up a base in Myanmar to explore other destinations.

In sectors such as renewable energy, hotels and communication, India has ample scope to contribute but does not find mention in the list of Myanmar's FDI sources. With less than 40 per cent of Myanmar's population having access to electricity, Indian solar manufacturers and power suppliers can explore this market, especially in the off-grid solar arena.

After Myanmar opened its economy, telcos Telenor and Ooredoo from Norway and Qatar, respectively, entered the virgin market — previously monopolised by MPT — and slashed tariffs. As the Indian telecom market gradually saturates, there is scope for participation in Myanmar.

Healthcare and education are two other sectors where India can make long-term contributions, thereby creating goodwill amongst the neighbour. The present dispensation in Myanmar plans to provide universal health coverage by 2030, allocating 5.2 per cent of its total budget to the healthcare sector. Education too has been a focus area, with the government allocating 8.5 per cent of its spending.

Tourism is another area that India can explore, by providing quality yet affordable services utilising the soft skills of the locals.

FMCG opportunity

An estimated 30 million people will be in the middle-class category by 2030. This opens a plethora of opportunities in the consumer goods market. According to Nielson, the value of the retail sector in Myanmar stood at around $10-12 billion in 2018. This has prompted many foreign consumer brands to enter the country.

But unfortunately, the presence of Indian products is dwarfed by those imported from far-off economies. With increasing consumerism, especially in Yangon and Mandalay, the Indian consumer goods industry should increasingly explore this market with affordable products. For example, home-grown MNCs could set up base or supply across the border. Well-recognised brands like Amul and Mother Dairy can easily make inroads into the market for processed milk products, which the people of Myanmar in general are fond of.

Entry in the consumer goods market is a low hanging fruit, but dividends in terms of public perception and good-will is multi-fold

Beyond rhetoric

For long, India and Myanmar have been going overboard over cultural ties. However, such ties need to give fillip to real business as well.

Myanmar is the gateway to the Mekong region and is the only ASEAN nation linked through land and sea to India. It is also amongst the few in the region, like India, which does not support China's Belt and Road Initiative. The governments of both the countries should work towards removing the hurdles so that the synergy drawn could be translated into businesses.

Investors should increasingly look at the benefits of the existing tax incentives/holidays, SEZ facilities, and LDC benefits available in Myanmar.

While India has decided to postpone signing the RCEP and is also looking to renegotiate its FTA with ASEAN, both India and Myanmar must work seriously towards enhancing trade and investment.