



Among members

Glaring bilateral and global issues were highlighted at the G-20 summit

As a forum, the G-20 is often watched more closely for the meetings the event affords on its side-lines, than for substantive outcomes. The countries that make up the G-20 (19 nations and the European Union) account for 85% of the world’s nominal GDP, and each has pressing issues it wishes to discuss with other members on bilateral, plurilateral and multi-lateral levels. Prime Minister Narendra Modi used the occasion of the G-20 summit at Osaka for as many as 20 such meetings, including nine bilaterals, eight pull-aside engagements, and of the Russia-India-China, Japan-U.S.-India and Brazil-Russia-India-China-South Africa groupings. The most anticipated were President Donald Trump’s meetings with his Chinese counterpart Xi Jinping and Mr. Modi, given the escalation in trade tensions. Both ended on a cordial note, but with no breakthrough or “big deals”. The Indian and U.S. Commerce Ministers will sit down again, as they have on at least three occasions in the past year, to try to resolve the impasse over trade issues, and the U.S. and China have called a halt to raising tariffs until they resolve issues. Both come as a relief to India, given the impact of those tensions on the national and global economies. Mr. Modi raised several Indian concerns at the G-20 deliberations, including the need for cooperation on dealing with serious economic offenders and fugitives, as well as climate change funding. This found its way into the final declaration. India sent a tough message by refusing to attend the digital economy summit pushed by Japanese Prime Minister Shinzo Abe, as his plan for “data free flow with trust”, included in the G-20 declaration, runs counter to the Reserve Bank of India’s proposed data localisation guidelines. The U.S. wrote in a counter to the paragraph praising the Paris accord, while trade protectionism was not mentioned in the document. On issues such as ocean pollution management, gender equality and concerted efforts to fight corruption, the G-20 found consensus more easily.

With Saudi Arabia hosting the next G-20 in 2020, followed by Italy in 2021, all eyes will soon turn to the agenda India plans to highlight when it holds the G-20 summit in 2022. Many global challenges, such as climate change and its impact, the balance between the needs for speed and national security with 5G networks being introduced, as well as technology-driven terrorism, will become even more critical for the grouping, and the government must articulate its line. India should lead the exercise in making the G-20 more effective in dealing with some of the inequities in its system. The G-20 is an important platform to discuss pressing issues, and it must not be detracted from its original purpose of promoting sustainable growth and financial stability by grandstanding by one or two members.

New framework

The SEBI regulations for mutual funds will help restore investor confidence

After introducing a new standard framework for credit rating agencies last month, the Securities and Exchange Board of India came up with more stringent regulations to govern the management of mutual funds. The mutual fund industry came under its scrutiny after some mutual funds in the last few months had to postpone redemption of their fixed maturity plans (FMPs). HDFC Mutual Fund and Kotak Mutual Fund came to grief and had to roll over or proportionately reduce redemption of their FMPs in April after some Essel group companies failed to redeem their non-convertible debentures where the funds had invested. According to the new SEBI regulations, liquid mutual fund schemes will have to invest at least 20% of their funds in liquid assets like government securities. They will be barred from investing more than 20% of their total assets in any one sector; the current cap is 25%. When it comes to sectors like housing finance, the limit is down to 10%. These measures are aimed to prevent situations such as the one being witnessed now. While the mandated investment in government securities will ensure a modicum of liquidity, the reduction in sectoral concentration will discipline funds and force them to diversify their risks. Some mutual funds entered into standstill agreements with companies in whose debt instruments the funds had invested. This is not a welcome practice and goes against the interests of investors in the mutual fund. SEBI has done the right thing by banning funds from entering into such standstill agreements. Further, SEBI has required that assets of mutual funds be valued on a mark-to-market basis in order to better reflect the value of their investments.

While SEBI’s intent to deal with the risks within the financial system is commendable, there could be unintended consequences to the regulator’s actions – which need watching. One of the new regulations introduced by SEBI is to increase the exit load on short-term investments in liquid mutual funds to discourage sudden demands for redemption. This could possibly hinder fund flow into the bond market, which in India is already quite undeveloped when compared to the rest of the world. While SEBI is doing a commendable job in disciplining the markets and intermediaries, the larger question is whether the regulator can really protect investors beyond a certain point. Market investments involve risk, and investors seeking high returns may in fact be willing to assume the increased risk that comes with such investment. That said, what the regulator is probably more concerned about is the ripple effect of defaults and roll-overs on the system. Investor confidence can be shaken by defaults and that will have consequences for the economy. Viewed from this perspective, the regulator’s latest rules should be welcomed.

A thumbs down to unilateralism

The U.S. is acting in defiance of agreed rules to target India’s WTO-consistent policies



BISWAJIT DHAR

Economic relations between India and the United States are on a knife-edge after the U.S. took a series of unilateral actions against India’s exports, that began in 2018, followed by India’s recently announced retaliatory move of increasing tariffs on 28 products imported from its largest trade partner. As a result of these developments, India has become the Trump administration’s most significant target after China.

No one could have summed up the essence of the U.S.’s unhappiness over India’s policies as well as U.S. Secretary of State Mike Pompeo in his recent statement in New Delhi. He said, “The United States has been clear we seek greater market access and the removal of trade barriers in our economic relationship.” Soon after, U.S. President Donald Trump sought withdrawal of tariff increases effected recently by India, saying that for years, India has “put very high tariffs against the United States”. What needs to be noted is while similar complaints have been made by successive U.S. administrations over the past few decades, the tone and tenor of the Trump administration has distinctly upped the ante.

Some background

Let us recall some of the major instances where the U.S. has questioned India’s trade and other related economic policies. In the past, U.S. agencies – in particular, the Office of the United States Trade Representative (USTR) and the United States International Trade Commission (USITC) – have

“investigated” India’s trade policies, the conclusions of which have been used by the administration to demand changes in policies that would benefit American businesses. The latest demands stem from two extensive USITC investigations which were conducted between 2013 and 2015 on India’s trade, investment, and industrial policies.

These investigations were carried out at the request of the U.S. House Committee on Ways and Means and the U.S. Senate Committee on Finance “under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) regarding Indian industrial policies that discriminate against U.S. imports and investment for the sake of supporting Indian domestic industries, and the effect that those barriers have on the U.S. economy and U.S. jobs”. The first of these investigations, the report of which was submitted towards the end of 2014, covered only the opening months of the first Narendra Modi government, following which a second request was made by the two Congressional Committees to investigate the performance of the government in its first year in office. This report was submitted in September 2015.

Propriety and procedures

The main message that was conveyed by these investigations was that American businesses strong disapproved several of India’s key policies on trade and investment and that these policies had to be amended. Although in 2014, the USITC seemed to support the direction of the Modi government’s economic policies in its first few months, in the second report, which covered the government’s first year in office, the familiar tone of disagreement over India’s trade and investment policies appeared once again. The investigations conducted by the U.S. agencies raise several issues of



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propriety, procedures and substance. These three dimensions need to be understood well for this is the only way in which the Government of India can prepare appropriate responses to the persistent questioning by the U.S. administration of its trade and investment policies.

The first is the issue of propriety. It is important to mention here that all of India’s trade-related policies (which include intellectual property rights that were investigated and questioned in the two USITC reports were done under the cover of the U.S.’s domestic laws. This is tantamount to unilateralism, the response to which should be an unequivocal “no” in this age of multilateralism, where differences on policy issues between sovereign countries must be resolved in the appropriate multilateral forums. The possibilities of a stronger power using unilateral means should be eliminated. It is in this spirit that the General Agreement on Tariffs and Trade (GATT) was established as an integral part of the post-war global economic governance. GATT was replaced by the World Trade Organization (WTO) in 1995.

The areas that were investigated by the USITC during the two investigations were also those that are covered by the WTO. Therefore, propriety and global trade rules demanded that the concerns of

American businesses about India’s policies had to be addressed within the WTO through consultations among the members. The main purpose of the GATT/WTO is to provide a forum for the resolution of disputes by following multilaterally agreed rules. The global community agrees that this would be the best way of preventing countries from getting into trade wars, which had pushed the global economy into the depression of the 1930s. The only country disagreeing with this position is the U.S.; it seems intent on pushing its trade partners into trade wars.

Flawed step

Now to the procedure of conducting the investigations. This was deeply flawed for it provided a platform for vested interests in the U.S. to make common cause against India’s policies. What is more, in these investigations, U.S. government agencies have been not only acting as the judge and the jury but also actively engaged in getting the findings of the investigations implemented.

As mentioned earlier, the substance of the investigations touched trade-related issues that are covered by the WTO agreements. Since the establishment of the WTO, India’s policies have mostly been consistent with its commitments; where they have not been, other WTO members, including the U.S., have approached the dispute settlement body of the organisation to make India fall in line.

The fact that the U.S. is not approaching the WTO to challenge India’s trade and investment policies that American businesses find detrimental to their interests implies the following: India’s largest trade partner is acting in defiance of agreed rules to target India’s WTO-consistent policies. Take, for instance, India’s high tariffs which have left Mr. Trump greatly per-

turbed. These tariffs were agreed to in the Uruguay Round negotiations in consultation with all members of the organisation. Moreover, in the period since, India has lowered tariffs on many agricultural and industrial products. Contrast this with the U.S.’s position wherein it continues to defend its high levels of agricultural subsidies which are used for lowering commodity prices to levels at which no other country can have access to its domestic market. Thus, the U.S. does not need tariffs to protect its agriculture; it uses subsidies, instead. The WTO also informs us that the U.S. also uses very high tariffs on tobacco (350%), peanut (164%) and some dairy products (118%).

What is at the core

The India-U.S. discord over trade stems from a deep-seated desire of U.S. businesses to have a bigger footprint in the Indian economy, and to achieve this goal, the administration is stepping beyond legitimate means. This discord defies Mr. Pompeo’s simplistic formulation that “great friends are bound to have disagreements”. In fact, the basis of the discord lies in the way the U.S. has been targeting India’s policies, disregarding the rule of law. Early resolution of this discord seems difficult as the U.S. has decided to undermine the WTO’s dispute settlement mechanism and walk down the path of unilateralism instead. Under these circumstances, the Government of India would have focus on two fronts: to remain engaged with its largest trade partner and to also engage actively with the global community to make the U.S. understand the imperatives of a rules-based trading system.

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Adding value to a third innings

Finland wants to strengthen the European Union’s global leadership in climate action



ERIK AF HÄLLSTRÖM

Good governance, clean nature, a silent people, midnight sun, frosty winters, heavy metal and saunas are some of the features commonly associated with Finland and Finns. As Finland’s Presidency of the Council of the European Union (EU) begins from July 1, the country has an opportunity to bring forth and present the values it believes in. Openness, transparency and equality are not just words for Finns; they are in Finland’s DNA.

Seeing these values increasingly emerge in cooperation between India and the European Union is great news. Finland wants to strengthen the EU as a global actor and sees India as a key partner in tackling global challenges. India

and the EU share the same values of democracy, tolerance and a strong rules-based international order.

The union was formed to ensure peace and prosperity in Europe after the Second World War. It began as purely economic cooperation between the six founding member states. Today the EU is an organisation with common laws and regulations which span policy areas from climate, environment and health issues to external relations, justice and migration.

This is Finland’s third engagement with the EU Council Presidency. In 1999, its slogan was ‘Europe into the new Millennium’. In 2006 the integration of 10 new EU member states was a cross-cutting theme. The Presidency rotates between the member states, and the Finnish Presidency is preceded by the Romanian Presidency and succeeded by the Croatian Presidency. The three countries form a troika, agreeing on certain principles together. While the Lisbon Treaty (2009) reduced the



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role of the Presidency, it is still important in trade, development cooperation, enlargement, legal and consular affairs. The task of the Presidency is to bring forward the EU agenda.

The buzzword

Sustainability runs through the identity of Finland’s Presidency. Delegates attending meetings in Helsinki will be served organic, and locally produced Finnish food; the emphasis will be on vegetarian fare, with the use of plastic reduced. Finland wants to lay stress on the importance of a circular economy by replacing the use of paper and plastic material with digital applications and Fin-

nish innovations. During Finland’s six-month tenure, there will be six informal ministerial meetings in the country.

The implementation of the EU-India Strategy is close to Finland’s heart. The EU Council adopted the strategy in November 2018. As an ambitious document, it spells out clear priorities to develop further already excellent EU-India relations in sectors such as trade, terrorism, defence, science and global affairs. In New Delhi, the EU delegation and member states will implement the strategy together. It goes without saying that Finland hopes for a breakthrough in free trade negotiations and a resumption of the dialogue on human rights.

The EU is complex by nature. The responsibilities of the EU institutions and the member states need to be explained repeatedly and this applies to Finland and India. However, for Finns it is easy to speak about the EU in positive terms. Finland’s membership is a value-based choice because it has

anchored the country permanently to the West. The support for the EU is at a record high in Finland. Its currency is the Euro. Further, most Finns consider themselves both Finnish and European. The EU is a unique economic and political union that binds 28 countries together.

After the European parliamentary elections that were held in May 2019 in all 28 countries, a new leadership and a new Commission will be appointed. In addition, there will be challenging issues brought to the table during the six months Finland holds the Council Presidency. These include the multi-annual budget, migration and Brexit, the process of the United Kingdom’s departure from the EU. Finland wants to deepen security cooperation in the EU. If at the end of December, Finland has contributed to this agenda having been brought forward, then there will be reason to be content.

Erik af Hällström is Deputy Head of Mission, Embassy of Finland, New Delhi

LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

A truce

The truce in the trade war between the U.S. and China which was arrived at on the sidelines of the G20 summit in Japan is a significant development that the world has been anxiously waiting for (Page 1, “Trump, Xi seal trade war truce”, June 30). The Trump administration’s aggressive trade policies have the potential to result in unwarranted economic consequences at a time when the world economy is already sluggish. Short-sighted moves to protect existing jobs may result in a failure to create new jobs.

N. SADHASIVA REDDY,
Bengaluru

On the RBI

That the Reserve Bank of India is under compulsions, in terms of directives issued by the government under provisions of the RBI Act, to maintain inflation at 4% (-/2) for a five-year period (2016-2021) and is accountable for any breach on this count needs to be appreciated before putting it in the dock for its obsession with inflation targeting (Editorial page,

“Even central banks need ‘capital’ infusion, June 29). The ball is in the government’s court. A similar obligation is cast by the FRBM Act on the government to have the fiscal deficit in check. Both prescriptions are essentially political with ideological underpinnings. At the present juncture, when there is a need to accelerate growth and employment, a strong case exists to recast the straightjacket approach. However, it would be unrealistic to expect such a move from a dispensation which is preoccupied with GDP growth, ease of doing business and looking to the West for policy prescriptions.

MANOHAR ALEMBATH,
Kannur, Kerala

Negligence

It is unacceptable that a fundamental procedure of infusing the same type of blood, for which the patient was tested, was grossly overlooked at the Anantapur Government General Hospital in Andhra Pradesh (“Transfusion of wrong blood type kills woman”, June 30). How do

patients repose their confidence in our medical services? Many readers will not forget the incident where a woman was administered HIV-infected blood, again due to sheer medical negligence.

D. SETHURAMAN,
Chennai

Demolition drive

The move by the Andhra Pradesh government to bring down a structure, Praja Vedika, built by TDP leader N. Chandrababu Naidu, seems to be one taken in haste (“Hall built by Naidu demolished”, June 27). Chief Minister Y.S. Jagan Mohan Reddy could have used the facility for an indoor sports centre, a library or leased it to a private party. It is all about the wastage of public money. Mr. Jagan Reddy’s party has been given a massive mandate but along with this should be a demonstration of good sense.

G. VENKATAKUPPUSWAMY,
Bengaluru

■ It may be true that the structure built under the Naidu regime flouted norms.

But what is important too is who will reimburse the taxpayer’s money and who decides that demolition is the only way out. The structure could have been used in a better way – a home for destitutes or the disabled, as an orphanage, as an old age home or even as a rehabilitation centre. The haste with which the decision was made raises questions.

SHRIKANTH KOLATHAYA,
Puttur, Karnataka

■ Perhaps rules do not insist on fixing accountability and punishing the culprits for causing a loss to the exchequer. If, according to the explanation now, the sprawling hall is one among various structures that violated the River Conservancy Act and orders from the National Green Tribunal, the wrong-doings by the previous government should be subject to legal scrutiny. People have a right to know who authorised the constructions and under what circumstances. There are hundreds of unauthorised structures across India that are examples of the flouting of

various rules. If one or more structures can be saved without a major setback to the ecology, a substantial loss can be eliminated. Prima facie the demolitions seem more political than ecological.

P.R.V. RAJA,
Pandalam, Kerala

Retired life

Retirement should at best be a comma and never a full stop (Open Page, “Post-retirement blues, paths”, June 30). While ageing is a continuous process, it is the state of the mind that really matters; one should be able to relish one’s retirement years with as much joy as one did the first flush of youth and middle age. The secret of true bliss post-retirement is to avoid an idle mind. There are several avenues in today’s world for those who have retired. In

CORRECTIONS & CLARIFICATIONS:

In the report, “Afraid of BJP’s ‘New India’: Ghulam Nabi Azad” (June 25, 2019), *Ranjan Daimary* was referred to as a Rajya Sabha MP from Bodoland People Front. It is *Biswajit Daimary*.

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