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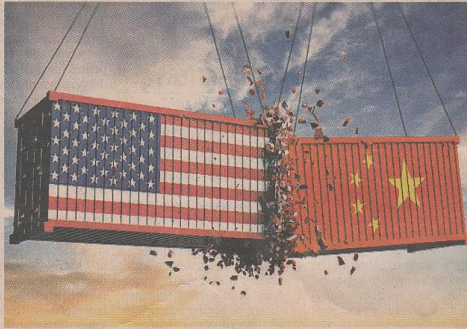
Trump effect: Chinese FDI in US falls by 90%

For years, Chinese investment in US had been accelerating, with money pouring into autos, tech, energy, and agriculture, and fuelling new jobs

ALAN RAPPEPORT
Washington, 21 July

Growing distrust between the United States and China has slowed the once steady flow of Chinese cash into America, with Chinese investment plummeting by nearly 90 per cent since President Trump took office. The falloff, which is being felt across the economy, stems from tougher regulatory scrutiny in the US and a less hospitable climate toward Chinese investment, as well as Beijing's tightened limits on foreign spending. It is affecting a range of industries including Silicon Valley start-ups, the Manhattan real estate market and state governments that spent years wooing Chinese investment, underscoring how the world's two largest economies are beginning to decouple after years of increasing integration.

"The fact that the foreign direct investment has fallen so sharply is symbolic of how badly the economic relationship between the US and China has deteriorated," said Eswar Prasad, former head of the International Monetary Fund's China division. "The US doesn't trust the



Chinese FDI in the US fell to \$5.4 billion in 2018 from a peak of \$46.5 billion in 2016

Chinese, and China doesn't trust the US" For years, Chinese investment into the United States had been accelerating, with money pouring into autos, tech, energy and agriculture and fueling new jobs in

Michigan, South Carolina, Missouri, Texas and other states. As China's economy boomed, state and local governments along with American companies looked to snap up some of those Chinese funds.

China importers seek to lift tariffs on agri goods from US, says state media

Chinese importers are applying to their government to lift tariffs on some US agricultural imports, state media reported on Sunday, three weeks after the two sides reached a truce in their trade war. The unnamed importers were talking to US suppliers about potential pricing and have applied to a Chinese government body with oversight of tariffs to lift the levies, the nearly identical reports in various media outlets said.

The importers were acting "according to the needs of the domestic market," the reports said.

No further details were given, such as which products might be affected.

The move may be a goodwill gesture after the United States earlier this month was reported to have removed 110 Chinese export items from its own tariffs list. The two economic giants have hit each other with punitive tariffs covering more than \$360 billion in two-way trade since US President Donald Trump launched a trade war last year, damaging manufacturers on both sides of the Pacific.

But Trump and Chinese President Xi Jinping agreed to a truce and to revive fractious trade negotiations when they met on the sidelines of the G20 summit in Japan on June 29.

AP/PTI

But Trump's economic Cold War has helped reverse that trend.

Chinese foreign direct investment in the United States fell to \$5.4 billion in 2018 from a peak of \$46.5 billion in 2016,

a drop of 88 per cent, according to data from Rhodium Group, an economic research firm. Preliminary figures through April of this year, which account for investments by mainland Chinese

companies, suggested only a modest uptick from last year, with transactions valued at \$2.8 billion.

"I certainly hear in conversations with investors a lot of concern about whether the US market is still open," said Rod Hunter, a lawyer at Baker McKenzie who specializes in foreign investment reviews. "You have a potentially chilling effect for Chinese investors."

A confluence of forces appear to be at play. A slowing economy and stricter capital controls in China have made it more difficult for Chinese investors to buy American, according to trade and mergers and acquisitions advisers. Trump's penchant for imposing punishing tariffs on Chinese goods and an increasingly powerful regulatory group that is heavily scrutinizing foreign investment, particularly involving Chinese investors, have also spooked businesses in both countries.

China, which has retaliated against US goods with its own tariffs, may also be turning off the investment spigot as punishment for Trump's economic crackdown.

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WTO: Struggling to stay relevant

The Trump administration's undermining of the trade body will have a serious impact on global trade and beyond

PARTHAPRATIM PAL

The World Trade Organization (WTO) is facing an unprecedented existential crisis. The challenges to WTO are coming from various quarters but the biggest threat is from one of its former proponents — the US.

The present US administration has taken a very tough stand on the WTO. The US President thinks that the WTO is the "single worst trade deal ever made". He has often expressed his disdain for WTO in no uncertain terms and has repeatedly threatened to pull out of the organisation.

In the name of promoting nationalistic policies, the Trump administration is repeatedly flouting the WTO rules and unilaterally imposing tariffs on other countries. Actions by the US trade officials are basically pushing the world towards a trade war.

To justify their actions, the US trade officials are using a rather arcane rule of GATT — the Article XXI. This Article says, in part, that GATT/WTO rules cannot prevent a country "from taking any action which it considers necessary for the protection of its essential security interests." The Article XXI was written during the establishment of GATT more than 70 years ago when the world was coming out of a series of major conflicts including the second world war. It was also a period of the 'Cold War'.

May be during that era there was certain usefulness of this Article. But in the present context, there is serious debate about what is meant by "national security" and "necessary" action. For example, the US has used the 'national security' clause to increase tariff rates on imports of steel and aluminum. Not surprisingly, not many coun-

tries have agreed that import of steel and aluminum can threaten national security.

However, a recent WTO ruling has made the matter more complex. In a dispute between Ukraine and Russia, the WTO has ruled that while every member can define its essential security interests, the WTO has the right to review whether a country's claim was made in good faith. This ruling has opened a Pandora's box and can potentially turn the WTO dispute settlement (DS) process into a forum to discuss international political problems. Against the backdrop of a potential trade war, this may lead to more conflict among the WTO member countries and put pressure on the WTO DS system.

Dispute settlement in crisis

The WTO dispute settlement process is anyway going through a crisis. In the recent past, several WTO rulings have gone against the US. These have led the US officials to claim that the US is being victimised and the WTO rules are violating its national sovereignty.

For example, a recent report of the Appellate body (AB) of WTO — dated July 16, 2019 — has ruled that the US broke WTO rules while imposing certain trade barriers against China. If the US does not remove these trade barriers, then China can impose sanctions against US exports.

In WTO, an AB report is final, and binding and it cannot be challenged. Therefore, the US will have to act unless it

wants to give China an option to exercise trade sanctions against the US. No wonder such rulings have not gone down well with the US officials. They have accused the WTO system of encroaching on its national sovereignty. They have also accused the WTO dispute settlement system of judicial "over-



Writing on the wall Thanks to US actions, the rules based global trading system is under threat REUTERS

reach". As a retaliation to its perceived victimisation, the US is blocking appointment of members in the WTO AB since the past few years. This has serious ramifications for the WTO dispute settlement system. In the WTO dispute settlement system, any trade dispute is initially tried to be settled through consultations among the disputing members.

If that does not work, then the case goes to a dispute panel. The decision of the dispute panel is final, but the decision can be appealed to the AB. The AB reviews the decisions of the panel. But once the AB gives a report, it becomes final and binding on the members.

According to the WTO system, the AB should have seven members who are appointed by consensus among WTO members. Any appeal from the WTO dispute panels must be heard by three out of seven members of the AB. These seven members are appointed for a four-year term. Once an AB member finishes his/her term, a new member is

required to be appointed to keep the strength of the AB at seven.

US blocking appointments

However, since 2017, the US has been blocking appointment of new members in the AB. Four members of the AB have completed their terms, and no replacement members could be appointed. Presently there are only three members left in the AB and if no new members are appointed, then by December 2019 there will be only one member left. This will make the AB dysfunctional and will jeopardise the WTO dispute settlement mechanism.

This can have a serious impact on the rule based multilateral trading system. The US administration is regularly threatening countries with imposition of additional tariffs. They have also raised tariff rates on several products. Some countries like India have retaliated and imposed countermeasures against US exports. It almost appears that the US is using a two-pronged strategy to create disruptions in the

global trading system.

It is violating the WTO rules and raising a large number of trade disputes while continuing to block appointment of AB members thereby disrupting the DS system. These trade frictions and uncertainties are hurting global trade quite significantly. WTO data released in April this year show that international merchandise trade growth is slowing down perceptibly.

After a healthy year-on-year growth rate of 4.6 per cent in volume terms recorded in 2017, the growth rate of global merchandise trade has slumped to 3 per cent in 2018 and is further expected to slow down to 2.6 per cent in 2020.

If major trading countries continue to undermine the role of WTO and global trade continues to decline, it may become a serious setback for an organisation which is struggling to remain relevant in a changed global trade scenario.

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AFFECTING SEVERAL INDUSTRIES INCLUDING SILICON VALLEY START-UPS, MANHATTAN REAL ESTATE MARKET

Chinese money in the US dries up as trade war drags on

ALAN RAPPEPORT
WASHINGTON, JULY 21

GROWING DISTRUST between the United States and China has slowed the once steady flow of Chinese cash into America, with Chinese investment plummeting by nearly 90 per cent since President Trump took office.

The falloff, which is being felt broadly across the economy, stems from tougher regulatory scrutiny in the United States and a less hospitable climate toward Chinese investment, as well as Beijing's tightened limits on foreign spending. It is affecting a range of industries including Silicon Valley start-ups, the Manhattan real estate market and state governments that spent years wooing Chinese in-

NEARLY 90% FALL IN CHINESE INVESTMENT

■ Growing distrust between the US and China has slowed the once steady flow of Chinese cash into America, with Chinese investment plummeting by nearly 90 per cent since President Donald Trump took office

■ Other factors, such as a slowing economy and stricter capital controls in China, have made it more difficult for Chinese investors to buy American, according to trade and mergers and acquisitions advisers

vestment, underscoring how the world's two largest economies are beginning to decouple after years of increasing integration.

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spooked businesses in both countries.

China, which has retaliated against American goods with its own tariffs, may also be turning off the investment spigot as punishment for Trump's economic crackdown.

Concerns about America's receptiveness to Chinese investment have been aggravated by a flurry of transactions that collapsed under heavy scrutiny from the Committee on Foreign Investment in the United States.

The group, which is headed by the Treasury Department, gained expanded powers in 2018 that allow it to block a broader array of transactions, including minority stakes and investments in sensitive technologies like telecommunications and computing. **NYT**

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India warns WTO's appeals body may collapse

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India has warned of the impending end of the World Trade Organization's (WTO) Appellate Body, trade envoys said, with the US continuing to block the selection of judges to the global trade disputes court.

"The ongoing impasse in filling vacancies of the Appellate Body remains, with no response from the objecting member (the US), in spite of dozen proposals to address to concerns related to its functioning," India said at an informal trade negotiations committee meeting on Friday.

The US has repeatedly blocked the selection complaining the Appellate Body failed to follow rules in the Dispute Settlement Understanding. Several countries have submitted proposals to improve its functioning, but to no avail. The Appellate Body will be down to a single member from 11 December, when it becomes dysfunctional.



India's trade envoy J.S. Deepak.

PRADEEP GAUR/MINT

"The (WTO) membership needs to act before the Appellate Body moves from the ICU to the mortuary," J.S. Deepak, India's trade envoy warned at the meeting. An end to the Appellate Body frees the most powerful countries from adhering to multilateral trade rules, said a Geneva-based trade law expert, who asked not to be named.

"Without resolution of this

issue, existing rules will become unenforceable and the adoption of new rules becomes futile," cautioned ambassador

The Appellate Body will be down to a single member from 11 December, when it becomes dysfunctional

Xolelwa Mlumbi-Peters of South Africa. China has urged the US to engage in exhausting all possibilities and options so to avoid "the real crisis by the end of this year."

However, at the meetings convened by a facilitator—ambassador David Walker of

New Zealand—the US stayed silent. "The US wants to see the closure of the AB because it had repeatedly ruled against several illegal measures adopted by the US," the expert cited above said.

On 18 July, the facilitator submitted a report suggesting changes to the functioning of the Appellate Body. While the US remained silent, several countries said it was unfair to change its architecture to satisfy the US, a trade envoy said on condition of anonymity.

US trade envoy Dennis Shea blamed big developing countries like India and South Africa for failing to give up their special and differential flexibilities commensurate with their economic growth. "It is difficult to see a way forward in current and future trade negotiations without some significant changes on this important issue (of differentiation/graduation from availing special and differential flexibilities) and we need to see contributions from those who are manifestly able to make them," he emphasized.

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Ask members to amend laws that allow unilateral curbs, WTO told

India seeks amendments in the domestic laws of countries that permit unilateral action on trade matters

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In a veiled attack on the US at a time trade tensions between the two nations are at a peak, India has urged the World Trade Organization (WTO) to ask member countries to amend their domestic laws that permit unilateral action on trade matters.

"Laws and regulations of WTO Members which mandate unilateral action on trade issues that are inconsistent with WTO rules would need to be amended. This will ensure that WTO Members are not perpetually under threat of unilateral action on trade issues by some members," India said in a concept paper presented to the General Council of WTO on 11 July that was supported by members such as South Africa, Zimbabwe, Cuba, Bolivia, Ecuador, Malawi, Tunisia and Uganda.

The US on 8 March 2018 unilaterally hiked aluminium and steel tariffs by 10% and 25%, respectively on many countries including India under the controversial Section 232 of national security provisions of the Trade Expansion Act, 1962 signed by then president John F. Kennedy. The section authorizes the US president to increase tariffs on import of goods from other countries if it deems the quantity or circumstances surrounding those imports to



Prime Minister Narendra Modi and US President Donald Trump had resolved to provide impetus to bilateral trade ties during their meeting on the sidelines of the G20 summit in Japan last month. REUTERS

threaten national security.

China, Russia, the European Union, Norway, Turkey and Switzerland have also dragged the US to WTO

tions. In December, the WTO set up a dispute panel to resolve the matter after the US initially blocked

the United States' actions," India said at that time, emphasizing that "it also reflects trust and confidence in the WTO as forum for resolving international trade disputes." It called for a "single panel" to rule on the US tariffs, as all the complaints are related to the same matter.

While the US has argued that the tariff hikes are under Article XXI of WTO rules which allows "security exceptions" to member countries, aggrieved members have argued that the tar-

iff hikes are safeguard measures meant to protect American steel and aluminium industries and hence violate WTO rules.

India has imposed retaliatory tariffs on 28 products worth \$217 million in June, a year after announcing the measures. Both countries were engaged in negotiations almost for a year to hammer out a trade package which would waive the tariff hikes for India and protect the duty-free market access to Indian exporters to the US under the Generalized System of Preferences (GSP). However, after the talks broke down over disproportionate demands from the US government, the US withdrew GSP benefits to India and India imposed the retaliatory tariffs which it kept suspended hoping for a trade deal.

Both sides revived trade talks at the official level earlier this month though there was no breakthrough. The commerce ministry stated that assistant US trade representative (USTR) Christopher Wilson was on a visit on 11-12 July to "explore potential for enhanced bilateral trade and economic engagement with India under the new government". Prime Minister Modi and President Trump had resolved to provide impetus to bilateral trade ties during their meeting at Osaka, Japan at the sidelines of the G20 summit on 28 June. Trade minister Piyush Goyal is expected to visit US in August to meet his counterpart USTR Robert Lighthizer to narrow down differences between the two sides.

WASHINGTON IN THE LINE OF FIRE

US has unilaterally hiked aluminium and steel tariffs on many countries including India

CHINA, Russia, the EU, Norway, Turkey and Switzerland have also dragged the US to WTO

THEY alleged that the unilateral sanctions imposed by US are inconsistent under its WTO obligations

US says tariff hikes are under Article XXI which allows 'security exceptions' to WTO members

Switzerland have also dragged the US to WTO dispute settlement body, alleging its unilateral sanctions are inconsistent under its WTO obligations

India's first request for such a panel. "This collective resort to dispute settlement reflects the serious concern of the WTO Membership over