

US-India Preferential Trade: RSTV – The Big Picture

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Why in the news?

- The US plans to end preferential trade status for India, under a scheme which allows certain products to enter the US duty-free.
- President Donald Trump said India had failed to assure the US it would provide reasonable access to its markets. India said the US move would have a “minimal economic impact”.
- It is the latest US attempt to counter what it sees as unfair trade practices. President Trump has pledged to reduce US trade deficits, and has repeatedly criticised India for high tariffs.
- As a result, he directed the US Trade Representative’s (USTR) office to remove India from a programme that grants it preferential trade treatment.
- Preferential trade treatment for India currently allows \$5.6bn worth of exports to enter the United States duty-free.
- In a letter to Congress, the US president said India had “not assured the United States that it will provide equitable and reasonable access to the markets of India”.
- Under the Generalised System of Preferences (GSP) programme, “certain products can enter the US duty-free if the beneficiary developing country meets a set of criteria established by Congress”.

Larger Background:

What is the programme?

- The Generalized System of Preferences is the largest and oldest United States trade preference programme.
- The U.S. intended it to promote economic development by eliminating duties on some products it imports from the 120 countries designated as beneficiaries.

When was it introduced?

- It was established by the Trade Act of 1974. According to the website of the U.S. Trade Representative, the GSP helps spur sustainable development in beneficiary countries by helping them increase and diversify their trade with the U.S.
- The U.S. also believes that moving GSP imports from the docks to U.S. consumers, farmers, and manufacturers supports tens of thousands of jobs in the U.S.
- The other benefit is that “GSP boosts American competitiveness by reducing the costs of imported inputs used by U.S. companies to manufacture goods in the United States.”
- The Trade Representative says the GSP is important to U.S. small businesses, many of which rely on the programmes’ duty savings to stay competitive.

Why is it important for India?

- The Indian export industry may not feel the pinch of the GSP removal for India by the U.S.
- The loss for the industry amounts to about \$190 million on exports of \$5.6 billion falling under the GSP category.
- But specific sectors, such as gem and jewellery, leather and processed foods will lose the benefits of the programme.
- A producer may be able to bear 2-3% of the loss from the change, but not more.
- The loss, in terms of export, of some kinds of rice for example, may even exceed 10%.
- The landed price of goods from India has to be the same as it was before the GSP was removed.
- If not, consumers of those products in the U.S. would gravitate to producers that enjoy the GSP benefits and hence are able to offer lower prices.

- Obviously, it is difficult to get back a customer that a competitor takes away.

Why is India in the cross-hairs?

- The U.S. conducts periodic reviews of the programme.
- The review for India, taken up in the year 2018, focussed on 'whether it is meeting the eligibility criteria that requires a GSP beneficiary country to assure the U.S. that it will provide equitable and reasonable access to its market.'
- The Trade Representative accepted two petitions asserting that India did not meet the criterion: one from the National Milk Producers Federation and the U.S. Dairy Export Council, and the other from the Advanced Medical Technology Association.

What can the Indian government do?

- Experts have opined that the government of India must offer fiscal help to the affected sectors.
- However, the obvious question is: what can India do if it has to be compliant with World Trade Organisation rules that protect all its members equally from undue sops given to exporters? A wry answer is that if the U.S. is not playing by WTO rules, other countries too need to be able to protect their industries.
- But it is possible to offer some breather to producers suffering losses from the GSP removal, even while being WTO-compliant.
- The Centre could consider refund of taxes for goods not under GST.
- Use of electricity or petrol in the manufacture of such goods but for which an input credit is not available could qualify here.
- Helping such sectors would also protect jobs; especially when job creation is at a low.

Analysis by the Experts:

Let's try and put into perspective and try and understand what does "ending preferential trade status for India" mean?

Jayant Dasgupta, Former Ambassador of India to WTO, weighed in with his arguments here.

- The Generalized System of Preferences (GSP) was a result of the 1974 Trade Act of the U.S. and subsequently, there was a decision in the WTO of the enabling clause in 1979, which allows developed countries to provide trade preferences at zero duty or lower duty than the MFN tariff to the developing countries and LDC's. Thus, it is basically meant as a measure to provide preferential access so that they can lift people out of poverty. Also, one of the things that the U.S. policy mentions specifically is that when goods start flowing from developing countries, they will also provide jobs in the U.S.
- The question of the U.S. exporting to developing countries on a reciprocal basis is not part of the policy of the Generalized System of Preferences (GSP).

Why does Trump want to do this? Is this being done so that he can cater to his audiences back home? Is it rhetoric?

Niraj Srivastava, Former Ambassador, weighed in with his arguments here.

- I believe that it is a mixture of all three. We know what Mr. Trump has done with China- however, the gap involved with China was much bigger. But, I think that India is still a developing country and that some preferential trade access is still desirable. However, it is not as though withdrawing this facility will cripple our exports to the U.S.
- Also, I believe that Mr. Trump has a very simplistic view of international trade. You cannot argue that in every case, your exports should equal your imports. Otherwise, the entire theory of 'comparative advantage' given by Adam Smith, will have to be turned on its head. There will be certain imbalances in the real world. Also, Mr. Trump is obsessed with certain items, for example, Motorcycles, i.e. the Harley Davidson being imported into India at very high rates. Thus, I hope that his trade experts and advisors, advise him correctly. Ultimately, imports and exports can't be equated to each other in every case.

This move is believed to be having minimal impact as far as India is concerned. With that having been said, how is it going to benefit the Trump administration in any way- or is it even going to be counterproductive in any way?

Jayant Dasgupta, Former Ambassador of India to WTO, weighed in with his arguments here.

- I believe that there are a few aspects which we need to look at. Firstly, this is not the first time that the U.S. has talked about 'graduating' India. Brazil and a few other emerging economies have been picked up by the U.S. for 'graduation'. This is because they are no longer very poor (as termed by the U.S.)
- Next, out of 48 Billion dollars of exports to the U.S., only 5.6 Billion dollars qualifies for GSP benefits. Thus, this is a very small part of our goods being exported to the U.S.
- The third point is that textiles, ceramics, glass, iron and steel products are excluded from the GSP because these are products that the U.S. would like its domestic industry to be protected against. Engineering goods is another class of products which benefits from the GSP. However, if the U.S. were to withdraw the GSP which seems likely in May 2019, it is not going to affect our exports too much or very adversely. This has to be viewed in the perspective that this is something which the U.S. could have continued with, but it is choosing to send a signal to India that it wants reciprocal market access in a few areas. In the area of Motorcycles, the Harley Davidson brand of motorcycles could be one of them. However, there are a host of other items as well which the U.S. could be wanting very low duties. The industry associations in the U.S. that handle dairy products and medical devices, had asked the U.S. administration to ask for tariff concessions from India. We have been talking to the U.S., however, the U.S found India's offer to be unacceptable or far below what they were expecting.
- Thus, experts have opined that India has to keep trying. However, it is important to note that this preferential access that is given to countries is subject to a lot of discretion.
- There was an important case in the WTO in 2002, which India filed against the European Union. The European Union was giving certain benefits such as tariff benefits to Pakistan.
- This was because Pakistan was helping in preventing drug trafficking, narcotics trade etc. India took the EU to the dispute settlement body of the WTO, and the verdict was in India's favour. The WTO ruled that whatever action is taken, has to be non-discriminatory in nature, i.e. countries which are similarly placed should get the benefits.
- Thus, in this case, if the U.S. is adopting certain criteria to phase out or 'graduate' India, then it has to be done across the board to other countries as well. Further, there are two qualifications. One of them is that if a product from a country exceeds 180 million dollars worth of imports into the U.S., then it can be graduated. The second is that if a product is imported from a single country exceed 50% of the total imports of the U.S. then that also can be graduated, i.e. the product can be graduated. However, if the U.S. goes ahead with it, then what does India do? Well, India could of course claim discrimination and take the matter up in the WTO. However, we all know that the appellate body has not been functioning because of the U.S. attitude and its stance in not letting nominations, or fresh members to the appellate body. So, it is functioning in a very slow manner. But, it will stop functioning from December of 2019, if the U.S. continues in its present stance.
- That having been said, the recourse offered by the WTO dispute settlement body does not offer much succour or relief to India. Further, at the end of it all, this is something which developed countries give by way of preference to the developing countries, without expecting anything in return.

This seems to be a signal from the United States so that India can offer better access to its markets for the United States. What is it that the Trump administration really wants India to do and expects out of India? This is because we seem to be cooperating on many other fronts but when it comes to trade, there seems to be some kind of a problem.

Niraj Srivastava, Former Ambassador, weighed in with his arguments here.

In the U.S., trade lobbies function in a very aggressive way. The U.S. is a country of lobbyists and every industry has its lobby. It is largely for this reason that the U.S.'s demands at times appear to be unreasonable. This is because they miss the bigger picture. It is the duty of the U.S. government to look at the bigger picture. Unfortunately, it seems to me that this is not happening in the current U.S. administration. The current administration appears to be giving into the demands of particular lobbies. Also, Trump's base comes from the industrialised parts of the United States. The GSP also has to be seen in a broader political context; the GSP has also been given for political reasons.

What are the sectors that are likely to be impacted if the preferential trade status for India is revoked?

1. A. Badarinath, Editor in Chief, Financial Chronicle, weighed in with his arguments.

The larger question would be why is it that the U.S. is going ahead with such an ultra-protectionist act. We are currently the fourth country where such measures are being taken. The first being the Philippines, then South Korea, and thirdly, Japan.

Another important issue to consider is that this development can impact the investments on both sides. It is not only true that the U.S. companies are investing in India, but Indian companies are also going abroad, both in Europe and the U.S. to invest. Thus, we should look at the larger picture of the economic relations, i.e. the trade relations, as well as bilateral investment relations which are going to see a hit, if these trends and policies of the Trump administration continue.

Do you believe that trade is going to come in the way of the bilateral relationship between India and the United States?

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- We have to look at the way the U.S. has dealt with its trade issues.
- The U.S. deals with its strategic relationships, military relationships, political, economic relationships, on a slightly different footing than trade. Trade is something that is done strictly on a local basis in most cases; GSP was one of the exceptions. Thus, I don't believe that this would come in the way, however, it will be an irritant. This is because if we have been receiving preferential treatment and we are now getting graduated treatment based on extraneous considerations, and on the expectations that India would lower its tariffs only for the U.S., that is something that we cannot accept. This is also unacceptable in terms of the WTO agreement that we have all signed, which the U.S. at the moment appears to be working against.
- Thus, the revoking of the preferential treatment is a big blow in terms of the message being conveyed; and not in terms of trade which would be affected. The Commerce Secretary of the Government of India has also been quoted that only 190 million dollars worth of tariff were getting exempted on account of the 5.6 Billion dollars worth of exports to the U.S.
- Further, GSP benefits as far as India is concerned would account for more than 25% of the total GSP benefits that the U.S. extends to beneficiary countries.

The Way Forward:

- I believe that the best way forward is to have a broad based dialogue. The other initiative should be to involve other players in the U.S. decision making system.
- It is important to convey that there are other important elements as well in the India- U.S. bilateral relationship other than just trade.
- If the U.S. is calling India an ally, then that should also influence areas such as trade policy as well.

