

INDIA MUST STEP IN TO PREVENT TRADE CONFLICTS

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India and the United States are squaring up for an exchange of blows on trade issues as space for a negotiated agreement is running out. The United States Trade Representative's Office (USTR) has run out of patience over a two-year dispute on medical device price controls, not least because New Delhi suddenly walked away from a negotiated settlement. The USTR now wants zero-tariff privileges for Indian textiles and other imports, under the World Trade Organization's (WTO) generalised system of preferences, be revoked. The most obvious Indian retaliation would be to impose tariffs on US steel and aluminium imports, something it has delayed despite the unilateral imposition of similar tariffs on India.

Neither of these actions will have significant economic impact. The real danger would be for this tit-for-tat to trigger an escalatory series of actions. Of concern would be the formal dispute spreading to incorporate a whole set of new sources of trade friction such as data localisation norms or the rules governing e-commerce investment. Neither side is faultless in the present economic fracas. Much of India's problems arise from arbitrary decisions by domestic regulators who have little understanding of India's multilateral trade obligations, complicated by a political unwillingness to override these decisions no matter how foolish they may be. Washington seems blind to the fact that in the run-up to a tightly contested national elections, New Delhi would find it politically more expedient to exchange blows than come to a settlement that could be criticised by the opposition.

Trade disputes are hardly new in Indo-US relations and are common between any two nations that have a substantial economic relationship. The environment today is different for two reasons. One is that the Trump administration divorces strategic and trade issues. It sees no contradiction in having friendly strategic relations and a confrontational trade policy with the same country. The US is also running two separate trade policies. President Donald Trump's revolves around trade deficits and temporary obsessions like Harley-Davidson motorcycles. The USTR remains concerned about policy shifts that undermine US corporate interests. Two, India is struggling with a whole set of new norms regarding the digital economy, ranging from data privacy to payments structures, that it has yet to settle at home. The Modi government had mooted the idea of putting all these issues into one basket and working on a US-India trade pact. It is perhaps time to dust off this idea and begin a process designed to prevent potential trade conflicts, most of which are easily predictable.

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