

GSP: win-win for Indo-U.S. trade

Trade link:GSP must remain available for Indian exporters keen to address the U.S. markets. Gettyimages/istockAndrewJohnson

The Generalised System of Preferences (GSP) is one of the oldest trade preference programmes in the world, and was designed to provide zero duties or preferential access for developing countries to advanced markets. The U.S. GSP programme was established by the U.S. Trade Act of 1974, and promotes economic development by eliminating duties on thousands of products when imported from one of the 129 designated beneficiary countries and territories.

In April 2018, the Office of the United States Trade Representative (USTR) announced that it would review the GSP eligibility of India, Indonesia, and Kazakhstan. The proposed review for India was initiated in response to market access petitions filed by the U.S. dairy and medical device industries due to recent policy decisions in India, which were perceived as trade barriers.

Big impact

For over 40 years, GSP has fulfilled its purpose of promoting economic growth in a large number of developing countries by allowing increased exports of eligible products. This tremendous benefit to the global economy is a small aspect of the U.S. trade balance; for example, of the total \$2.4 trillion U.S. imports in 2017, only \$21.2 billion arrived via GSP, amounting to less than 1% of total U.S. imports. Despite GSP's low significance in the U.S. trade balance, its benefits ultimately help U.S. consumers and exporters by contributing to lower pricing of final products.

Most of the 3,500 Indian products imported by the U.S. under the GSP are raw materials or important intermediaries of value chains. In many cases, Indian exports are less-expensive, high-quality alternatives that reduce the costs of final products, thereby creating value that is subsequently exported the world over by U.S. companies or directly conveyed to the U.S. consumer. Indeed, this enables the U.S. economy to be more globally competitive.

In 2017, the top 10 GSP products exported by India to the U.S. were motor vehicle parts, ferro alloys, precious metal jewellery, monumental or building stone, rubber tyres, travel goods, certain sweetened or flavored waters, polyacetals/polyethers/polyesters, electric motors and generators, and insulated cables and wires. With the exceptions of precious metal jewelry and sweetened water, all of these products are intermediate goods, many of which are not competitively produced in the U.S. given their lower role in manufacturing value chains. Thus, the benefits accruing to U.S. companies and consumers offset the relatively small concessions of the GSP programme.

GSP should be continued

Despite continued economic growth over the last two decades or so, India is a lower middle-income country. GSP allows Indian exporters a certain competitive edge and furthers the development of the country's export base. It also allows India to integrate with global value chains (GVC) and hence, with global markets. These advantages provide opportunities for small enterprises and help in the overall livelihood creation endeavour in India. Further, it is important to note that Indian exports to the U.S. under the GSP programme are mostly intermediaries, and are not in direct competition with U.S. producers — ultimately, these goods benefit the U.S. economy. India's continued eligibility for GSP makes good economic sense given the low value, high-quality, and nature of its imports.

In addition to the economic perspective, the U.S. should consider continuing India's GSP eligibility

as a gesture of goodwill that reaffirms its commitment to the mutually beneficial relationship between our two countries. The India-U.S. relationship has continued to grow stronger as India liberalises along a positive and steady trajectory.

India has made systematic efforts to reduce trade imbalance with the U.S. and has enhanced purchases of shale gas and civilian aircraft. Adhering to the rules-based international trading system, India is in the process of examining its export subsidies. As per a CII survey, the U.S. remains a favoured destination for Indian companies which have invested \$18 billion in the U.S. and support as many as 1.13 lakh jobs.

Today, our two countries engage in countless areas of mutual cooperation, and a supportive stance in recognition of our greater goals and shared values would promise significant progress in the future. If viewed through a transactional prism, the broader strategic dimensions of the partnership could get blurred.

India and the U.S. will continue to intensify their economic relationship and interdependencies, and it is, therefore, critical to maintain the vision of the potential this partnership offers. The GSP remains a central aspect of the overall trade engagement and must remain available for Indian exporters keen to address the U.S. markets.

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