

GLOVES OFF ON TRADE: ON INDIA-U.S. TARIFF ROW

Relevant for: International Relations | Topic: India - USA

The government's decision to finally go ahead and impose [retaliatory tariffs on 29 U.S. goods with effect from June 16](#), almost a year after it first announced them, unambiguously signals that on trade India has decided to join issue with President Donald Trump's protectionist administration. Clearly, the trigger for the move was the U.S. withdrawal of duty-free access to Indian exporters under the [Generalised System of Preferences](#) (GSP) from June 5. Mr. Trump chose to go ahead and proclaim on May 31 that he was terminating India's designation as a beneficiary developing country over Delhi's failure to assure the U.S. of "equitable and reasonable access to its markets", notwithstanding the fact that Prime Minister Narendra Modi and his new Council of Ministers had just been sworn in the previous day. This reflects an unwillingness to meet India halfway on trade. Not that there had been no warning lights flashing. On a visit to New Delhi in early May, U.S. Commerce Secretary Wilbur Ross had made no bones about the administration's perception of India being a "tariff king" that adopted "overly restrictive market access barriers". Mr. Ross had also threatened India with "consequences" were it to impose the retaliatory tariffs. Now, the government led by Mr. Modi and his key interlocutors on trade, including the new External Affairs Minister S. Jaishankar and Commerce Minister Piyush Goyal, have sent a strong message that India is not going to be compelled to negotiate under duress.

The change in tack on India's part also indicates that it is done, at least for now, with a more conciliatory stance after it had kept delaying the imposition of retaliatory tariffs over the past 12 months. During that period India had not only to contend with the withdrawal of GSP status but also had to, under a U.S. ultimatum, terminate its imports of vital crude oil from Iran, with which it has had a long-standing and strategic relationship. To be sure, India has much at stake in ensuring that economic ties with its largest trading partner do not end up foundering on the rocky shoals of the current U.S. administration's approach to trade and tariffs, one that China has referred to as "naked economic terrorism". Trade is not, and must not be viewed as, a zero-sum game. To that end, the government ought to review with flexibility some of its decisions such as the data localisation requirements and the new e-commerce regulations that have become a sore point with the U.S. side, including business investors. Indian trade negotiators also need to impress upon their American counterparts the importance of ensuring that market access for Indian services exporters remains free of new, restrictive visa curbs. The counter-tariffs have now lent the Indian side a bargaining chip that the U.S. Secretary of State, Mike Pompeo, will have to grapple with during his visit later this month.

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