

LIFE WITHOUT GSP

Relevant for: International Relations | Topic: World Trade, WTO and issues involved

The U.S. has ultimately acted on its threat to [withdraw concessions granted to Indian imports](#) under the Generalised System of Preferences. With President Trump indicating as much in a letter to the House of Representatives and Senate, Washington became the first to pull the trigger in a long trade stand-off between the two countries. India-U.S. trade tensions escalated last year when the U.S. took two consecutive decisions to increase import tariffs on steel and aluminium, and place India's eligibility for GSP benefits under review. Shortly after, India said it would impose retaliatory tariffs on imports from the U.S. and even notified the list of items on which these would apply. Meanwhile, the U.S. stood fast on not exempting India from its tariff hikes, with Mr. Trump complaining about India's high import tariffs several times. The GSP review, however, stretched on, with the two countries holding frequent talks to address the concerns. India, for its part, postponed the deadline for the imposition of the retaliatory tariffs six times; the latest deadline is on April 1. Washington's decision to review India's GSP status stemmed from complaints from American medical and dairy industries, both of which said India was not providing "equitable and reasonable access to its market". India has said it had tried hard to cater to most of the U.S. demands and reach an understanding, but key points of difference, especially regarding India's cultural concerns to do with dairy products, could not be accommodated. Given this, and the fact that the U.S. has been expressing discontent over India's policies to do with data localisation and FDI rules in e-commerce, the decision to withdraw the GSP status should not come as a surprise. The question is, how will New Delhi react?

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

Following the U.S. announcement, the Commerce Ministry was quick to downplay the impact, saying the GSP benefits amounted to only \$190 million while India's total exports under GSP to the U.S. stood at \$5.6 billion. Indian officials have stressed that talks on the issue would still continue during the 60-day period after which the GSP decision would come into effect. The other option the government can exercise is to impose retaliatory tariffs on U.S. goods. The government's efforts to downplay the impact of the withdrawal of GSP status and express readiness for more talks, however, suggest it is not keen to take a decisively strong stance. It bears emphasis that while the actual amounts at stake are relatively small, with even India's proposed tariffs on the U.S. amounting to just \$900 million, the impact on small industries in the country could nevertheless be significant. Export bodies have already said that such industries would lose their market share in the U.S. without fiscal support to help them maintain their edge. In its absence, orders meant for India could go to other GSP countries, signs of which are already evident.

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