

# REASSESS AND RESET

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

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The World Trade Organisation (WTO) has ruled against India in a critical trade dispute, ordering it to stop all export promotion schemes as, under the WTO rules, these are reserved only for the poorest countries — those with a per capita income of less than \$1,000. The ruling covers, among others, the Export Promotion Capital Goods (EPCG) scheme, the Special Economic Zones (SEZ) scheme, as well as the withdrawal of benefits extended under the Merchandise Exports from India Scheme (MEIS).

Anticipating this development, perhaps, the Indian government had earlier announced another scheme, compliant with WTO rules, the Remission of Duties or Taxes on Export Product (RoDTEP) to replace the MEIS. While the MEIS was meant to incentivise merchandise exports by compensating them for various kinds of cost inefficiencies faced by them such as high transportation costs, high electricity rates, delays at customs, the new scheme is based on the notion that whatever taxes are levied on products that are exported or on inputs that go into products that are exported, should not be passed on. Reportedly, the costs of this scheme are similar to those under the MEIS which suggests little impact on exporters, apart from transitional issues. But, there is a reasonable argument to be made that as indirect taxes should not be “exported” in any case, exporters should be separately compensated for the loss of benefits extended under MEIS.

On its part, India could prevent the adoption and implementation of the WTO panel’s decision by going to its appellate body by the end of this month. With two of the current three members of the body retiring by December 11, the body would be rendered dysfunctional as the WTO rules require the presence of at least three members to hear an appeal on a dispute panel’s ruling. This could keep the WTO from enforcing its ruling against India’s export promotion schemes. It is difficult to predict the fallout of this move. Though it would be a tactical decision, aimed at ensuring a short-term reprieve, the situation calls for a comprehensive analysis of India’s export strategy. While schemes for the promotion of exports have been in place for years, India’s export performance has been languishing. In fact, the country’s merchandise exports have barely grown in the past five years. This calls for urgently addressing the underlying issues that afflict the competitiveness of India’s exports, especially when the country is in the final stages of negotiating its entry into the [Regional Comprehensive Economic Partnership \(RCEP\)](#) trade agreement.

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