Exporter Woes

November 16, 2018

Manifest pedagogy

Practical linkages with theory

In the above issue concepts like depreciation, protectionism etc. need to be clear before applying it to Indian scenario. The right ways of studying the discipline would be basic theoretic concepts first and then applying it to India. In this way even if the aspirant doesn't know the current news, concepts could be used to frame a general answer.

In news:

A combination of higher input costs, tariff uncertainty, IGST refund woes leads to export contraction in September, the first time in six months.

Placing in Syllabus

Paper 3: Government Budgeting & Export Import Policy under Liberalisation

Static Dimensions

1. Generalised system of Preferences
2. Relation between depreciation and exports
3. Effect of capital goods on exports
4. GST

Current Dimensions

1. Exporters' speculation on GSP
2. Deprecating rupee
3. Lack of government support
4. New protectionism

Content

What is Generalized System of Preferences (GSP)?

The Generalized System of Preferences (GSP) is a U.S. trade program designed to promote economic growth in the developing world by providing preferential duty-free entry for up to 4,800 products from 129 designated beneficiary countries and territories. GSP was instituted on January 1, 1976, by the Trade Act of 1974.

US withdraws GSP benefits:

1. Withdrawal of benefits is part of the 94 products on which the US has revoked GSP benefits for all countries and is not a major portion of India’s $5.6 billion exports through duty-free entry of 1,937 products to the US under GSP.
2. Indian government further deferred by 45 days tit-for-tat retaliatory tariffs against 29 American products to counter the US move to unilaterally raise import duties on Indian steel and aluminium products
3. US President Donald Trump issued a presidential proclamation on Tuesday, leading to the removal of these products from the privilege beginning 1 November. These are products that have gained competitiveness as their imports under GSP are more than 50% of the total import of the product by the US.
4. Trade relationships between India and the US have soured under the current US administration, with Trump unilaterally raising tariffs on steel and aluminium imports from India and challenging its export subsidy regime at the World Trade Organization (WTO). India has also dragged the US to the WTO on higher steel and aluminium tariffs and has threatened to impose retaliatory tariffs worth $240 million on US imports.

Impact

The growing protectionist policies have led to deeper cooperation between India and China. The products covered aren't cover agricultural goods and dairy. The Chinese also hit out with punitive tariffs on soya meal imports from US. This has given opportunity for China and India to come closer and open up their respective markets.

India has also after a gap of 7 years gained access to China's rice, rapeseed oil and soya bean markets.

Although, the latest negotiations with the USTR (Trade Representative) has suggested that India could be successful to get a waiver for continuing Oil imports from Iran as a result of its significant progress made to curb imports thus far.

Lack of Government Support

1. Lack of coordination between Ministry of Commerce and exporters, where the ministry insists that India is still eligible for GSP benefits but exporters claim that these have not been received since December 2017.
2. Lost Orders- as uncertainties over tariffs and India's continuing status under special treatment GSP of USA have resulted in shifting of orders to Sri Lanka and other south East Asian nations.

IGST Refunds

Under GST, IGST is a tax levied on all Inter-State supplies of goods and/or services and will be governed by the IGST Act. IGST will be applicable on any supply of goods and/or services in both cases of import into India and export from India.

Note: Under IGST,

- Exports would be zero-rated.
- Tax will be shared between the Central and State Government.

Here **zero rated** is denoting goods or services that are taxable for VAT, but with a tax rate of zero.

Hence, exporters would be eligible for full refund of IGST for the value of exports.

IGST refunds have not been taken into consideration for exporters having verticals across different states. The center is of the view that such entities are receiving input tax credit whereas exporters are feeling let down by comparison to those companies which are located in the same states.

Rupee Depreciation

Traditionally, exports should increase with depreciation of the Rupee as exports would be incentivized. However, there are various issues with respect to deemed net benefits for exporters:

1. Increase In Input Costs
2. Higher costs of capital goods i.e. Machinery and Oil which negates the gains from depreciating rupee
3. Higher cost of inputs as most goods are processed using global supply chains.

For Ex: Mobile exports from India would need capital inputs as well as modular parts such as silicon mother boards which are often imported.

Exporters are also facing pressure from clients demanding discounts because of the fall in value of currencies in Africa and Asia vis-a-vis to US dollar.

Test yourself: Mould your Thoughts

What has been India’s approach to encourage exports in era of protectionist policies in USA? Do you think the current delay in Exporter Refunds is hampering these initiatives?