India and USTR

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Manifest pedagogy: The protectionist argument in trade along with growing pressure for a new trade deal has led to reset of trade patterns in the recent past. America India trade relations are also to be judged in these emerging frameworks of global trade.

In news:

- U.S. has removed more than a dozen countries, including India, from its list of countries that are classified as "developing" for trade purposes.

Placing it in syllabus: India and International institutions

Static dimensions:

- Definition of a developing country
- GSP

Current dimensions:

- Why is developing country status removed?
- USTR currency manipulator criterion

Content:

Definition of a developing country:

According to WTO:

- There are **no WTO definitions of "developed" and "developing" countries.**
- **Members announce for themselves** whether they are "developed" or "developing" countries.
- However, **other members can challenge the decision** of a

member to make use of provisions available to developing countries.
- That a WTO member announces itself as a developing country does not automatically mean that it will benefit from the unilateral preference schemes of some of the developed country members such as the **Generalized System of Preferences (GSP).**
- It is the ***preference giving country which decides the list of developing countries that will benefit from the preferences.***

Advantages of “developing country” status:

- The WTO Agreements contain special provisions referred to as “**Special and Differential Treatment” (S&D) provisions**, which give developing countries special rights.
- These provisions provide developing countries with **longer transition periods** before they are required to fully implement the agreement and developing countries can **receive technical assistance.**
- **General Agreement on Tariffs and Trade (GATT)** gives developing countries the right to restrict imports, if doing so would promote the establishment or maintenance of a particular industry, or assist in cases of balance-of-payments difficulties.
- **Part IV of the GATT** includes provisions on the concept of **non-reciprocal preferential treatment for developing countries,** i.e. when developed countries grant trade concessions to developing countries they should not expect the developing countries to make matching offers in return.

According to World bank:

- For many years, the World Bank has produced and used **income classifications to group countries.**
- The low, lower-middle, upper-middle and high income

groups are each associated with an **annually updated threshold level of Gross National Income (GNI) per-capita.**
- The **low and middle income groups** taken **together are referred** to as the "**developing world.**"

According to IMF;

- The IMF, in the "**World Economic Outlook (WEO)**" currently classifies 37 countries as "Advanced Economies".
- All others are considered "**Emerging Market and Developing Economies".**
- Though this classification is not based on strict criteria, economic or otherwise, it's **done in order to "facilitate analysis by providing a reasonably meaningful method of organizing data."**

According to UN:

- The United Nations has **no formal definition of developing countries,** but uses the term "**Human Development Index (HDI)** for monitoring purposes and classifies the countries.
- Under the UN's current classification, **all of Europe and Northern America along with Japan, Australia and New Zealand are classified as developed** regions, and ***all other regions are developing.***
- It maintains a list of "**Least Developed Countries" (LDC)** which are defined by accounting for GNI per capita as well as measures of human capital and economic vulnerability.

GSP:

- The **Generalized System of Preferences (GSP),** was instituted in 1971 under the **aegis of UNCTAD**.
- It has contributed over the years to create an **enabling trading environment for developing countries.**
- The following **13 countries grant GSP preferences**:

Australia, Belarus, Canada, the European Union, Iceland, Japan, Kazakhstan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the United States of America.

- It is a **preferential tariff system** which involves **reduced/zero tariffs of eligible products exported by beneficiary countries to the markets of GSP providing countries.**
- The US launched it in 1976, by the Trade Act of 1974.
- The **objective of GSP** is to give development support to poor countries by promoting exports from them into the developed countries.
- According to USTR, "GSP provides opportunities for many of the world's poorest countries to use trade to grow their economies and climb out of poverty".

Why is developing country status for India removed?

- To harmonise U.S. law with the WTO **Subsidies and Countervailing Measures (SCM) Agreement,** the USTR had, in **1998**, come up with a list of countries classified as per their level of development.
- These lists were **used to determine whether they were potentially subject to U.S. countervailing duties.**
- The **1998 rule** is now "obsolete" as per the USTR notice.

- **India was, until February 10, 2020 on the developing country list** and therefore eligible for more relaxed standards.
- The **new lists consist of 36 developing countries and 44 least developed countries.**
- **India along with Brazil, Indonesia, Malaysia, Thailand and Vietnam has been taken off** the list since they **each have at least a 0.5% share of the global trade,** despite having less than $12,375 GNI (the World Bank threshold separating high income countries from others).

- India is also a part of the G20 and given the global economic significance of the G20 and the collective economic weight of its membership, **G20 membership indicates that a country is developed.**
- Fast-growing countries like India and China have **witnessed significant growth in the last few decades** and are often accused of wrongly claiming trade benefits that are reserved only for the truly developing countries.

Impact of GSP withdrawal on India:

- India is the 11th largest trade surplus country for the US and **India enjoyed an annual trade surplus of $ 21 bn in 2017-18.**
- India **exports nearly 50 products of the 94 products** on which GSP benefits are stopped.
- India **enjoyed a preferential tariff on exports worth nearly $ 5.6 billion under the GSP** route out of the total exports of $48 bn in 2017-18.

USTR currency manipulator criterion:

- Two US statutes provide the **US Department of the Treasury** with the legal authority **to designate a country as a currency manipulator.**
- These two statutes are ***Section 3004 of the Omnibus Trade and Competitiveness Act of 1988*** *and* ***Section 701 of the 2015 Trade Facilitation and Trade Enforcement Act.***
- The **1988 Act directs Treasury to analyz**e "whether countries manipulate the rate of exchange between their currency and the US dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade."
- The **2015 Act requires Treasury to** "monitor the macroeconomic and currency policies of major trading partners and conduct engagement with those partners if they trigger certain objective criteria which suggest

the possibility of unfair currency practices”.

- **Such practices may be** currency intervention or monetary policy in which a central bank buys or sells foreign currency in exchange for domestic currency.
- A **designated currency manipulator can be excluded from U.S. government procurement contracts.**
- On August 5, 2019, the **US labeled China a “currency manipulator”** after the US-China exchange rate fell below 7 RMB per 1 USD.
- However, the designation **was withdrawn in January 2020** after China agreed to refrain from devaluing its currency to make its own goods cheaper for foreign buyers.
- The two countries are soon to sign a “**Phase 1 U.S.-China trade agreement**” that includes a provision that prevents China from manipulating its currency to gain trade advantages.