

Indo – U.S. Trade Relations

February 14, 2019

Manifest Pedagogy

The above topic, GSP has many linkages to it. It is related to :

1. Bilateral relations of India
2. Role of WTO
3. Trade relations and economic impacts

Questions on the same topic can be asked in different sections for which relevance in answers according to the demand of the subject is necessary.

In news

The possibility of withdrawal of Generalized System of Preferences

Placing it in the syllabus

1. Bilateral relations of India
2. International Institutions : WTO and UNCTAD
3. Indian Economy : World Trade (not explicitly mentioned)

Static dimensions

1. Generalised System of Preferences
2. India US Trade Relations
3. Role of WTO in promoting interests of developing countries

Current dimensions

1. Threat of US withdrawal of GSP and possible impact on

India

2. US's "America First" policy and its impact on Multilateralism

Content

Overview of Indo-U.S. Relations

India-U.S. bilateral relations have developed into a "global strategic partnership", based on shared democratic values and increasing convergence of interests on bilateral, regional and global issues.

The emphasis placed by the Government of India on development and good governance has created opportunity to reinvigorate bilateral ties and enhance cooperation under the motto "Chalein Saath Saath: Forward Together We Go", and "Sanjha Prayas, Sab ka Vikas" (Shared Effort, Progress for All) adopted during the first 2 summits of PM Modi and President Obama in September 2014 and January 2015 respectively. The summit level joint statement issued in June 2016 referred the India-U.S. relationship as : "Enduring Global Partners in the 21st Century".

Indo-U. S Trade and Economic Relations

- **India-US bilateral trade in goods and services** increased from \$104 billion in 2014 to \$114 billion in 2016. Two-way merchandise trade stood at \$66.7 billion. Of this, India's exports of goods to the US were valued at \$46 billion and India's imports of goods from US were valued at \$21.7 billion.
- **India-US trade in services** stood at \$47.2 billion. Of this, India's exports of services to the US were valued at greater extent as compared to India's imports of services from US. Both countries have made a **commitment to facilitate actions necessary for increasing the bilateral trade to \$500 billion.**

- **The bilateral merchandise trade is showing an encouraging growth trajectory in 2017.**
- The **trade deficit** in 2017 also **declined** as compared to 2016.
- According to the U.S. Bureau of Economic Analysis, US **direct investments** in India stood at \$ 28.33 billion in 2015. As per Indian official statistics, the cumulative FDI inflows from the US from April 2000 to December 2015 amounted to about \$ 17.94 billion constituting nearly 6% of the total FDI into India, making the **U.S. the 5th largest source of FDI in India.**

In recent years, growing **Indian investments into the US**, has been a novel feature of bilateral ties.

- There are several dialogue mechanisms to strengthen bilateral engagement on economic and trade issues, including a **Ministerial level Economic and Financial Partnership** and a **Ministerial Trade Policy Forum**.
- For greater involvement of **private sector** in discussion on issues involving trade and investment, there is a bilateral India-U.S. CEO's Forum, which held its last meeting in August 2016 in New Delhi coinciding with the Strategic & Commercial Dialogue.
- India and the US have set up a **Bilateral Investment Initiative in 2014**, with a special focus on facilitating FDI, portfolio investment, capital market development and financing of infrastructure.
- **U.S.-India Infrastructure Collaboration Platform** has also been set up to deploy cutting edge U.S technologies to meet India's infrastructure needs. Both these dialogues have held meetings in 2015. U.S. firms will be lead partners in developing **Allahabad, Ajmer and Visakhapatnam as Smart Cities.**
- Aggregate worth of **defence acquisition** from U.S. Defence has crossed over US\$ 13 billion. India and the United States have launched a **Defence Technology and Trade**

Initiative (DTTI) aimed at simplifying technology transfer policies and exploring possibilities of co-development and co-production to invest the defence relationship with strategic value.

What is Generalized System of Preference?

The Generalized System of Preferences, or GSP, is a **preferential tariff system** which provides for a formal system of **exemption from** the more general rules of the World Trade Organization (**WTO**), (formerly, the General Agreement on Tariffs and Trade or GATT).

Specifically, it is a system of exemptions from the **most favored nation principle** (MFN) that obliges WTO member countries to treat the imports of all other WTO member countries no worse than they treat the imports of their “most favored” trading partner. In essence, MFN requires WTO member countries to treat imports coming from all other WTO member countries equally, that is, by imposing equal tariffs on them.

GSP exempts WTO member countries from MFN for the purpose of lowering tariffs for the least developed countries, without lowering tariffs for rich countries.

GSP of USA

The 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 in January 1976, by the Trade Act of 1974.

Impact on India if it is withdrawn

1. The withdrawal of the GSP by the US on imports from developing countries is an important trade development.
2. The advantage of is that it allows a preferential rate of zero/low concessional tariff on imports from

developing countries.

3. Withdrawal of the GSP benefit is expected to adversely affect Indian exports.
4. India exports nearly 50 products of the 94 products on which GSP benefits are stopped. The GSP removal will leave a reasonable impact on India as the country enjoyed preferential tariff on exports worth of nearly \$ 5.6 billion under the GSP route out of the total exports of \$48 bn in 2017-18.
5. Removal of GSP indicate a tough trade position by the US; especially for countries like India who benefited much from the scheme. The US was insisting India to reduce its trade surplus. India is the 11th largest trade surplus country for the US and India enjoyed an annual trade surplus of \$ 21 bn in 2017-18.