ISAS Brief
No. 642 – 19 March 2019

Why India lost US GSP benefits

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Summary

The US has terminated GSP benefits for India in spite of both countries engaging extensively on trade in recent months. The new US criteria for eligibility would have made India's continuation as a beneficiary highly unlikely. The US' frustration over some of India's restrictive policies, like in e-commerce, also ensured this outcome. A bilateral trade package, while not impossible, will need major concessions by India and is not feasible before elections.

The US is terminating benefits extended to India under the Generalized Systems of Preferences (GSP) programme as announced on 4 March 2019. The GSP allows more than 3,500 exports, from 121 developing countries and territories, duty-free access in the US market.

Indian exports have benefitted the most from the US GSP, among all eligible developing countries. Around US$5.7 billion (S$ 7.7 billion) of exports by India to the US in 2017 were under the GSP, amounting to 13 per cent of total Indian exports to the US. Though the proportion was less than the 21.5 per cent for Turkey – another major beneficiary of US GSP whose preferences were withdrawn along with India's – it was more than the 10.7 per cent for Indonesia, whose GSP eligibility is under review.

Scrapping GSP benefits for India was not entirely unexpected. The US is reviewing several GSP beneficiaries with the initial reviews focusing on Asian countries. India, along with Indonesia and Kazakhstan, were chosen for review in April 2018. Turkey's review commenced in August 2018.

It is interesting to note the reasons for which India and Turkey's GSPs have been terminated. For India, these are "…failure to provide the United States with assurances that it will provide equitable and reasonable access to its markets in numerous sectors." The termination decision notes India's failure to assure notwithstanding "intensive engagement". For Turkey, on the other hand, the explanation is it being "sufficiently economically developed" and therefore outgrowing the need for preferential access through the GSP. Turkey is an example of 'graduating' from preferential treatment, much like Uruguay in the past, as a result of improvement in key economic and social indicators like per capita income and poverty eradication.

From the US perspective, neither India nor Turkey could have continued receiving the GSP. The US has been pushing for limiting preferential access to economies that continue to remain economically backward and significantly under-developed, as opposed to those that have made substantial progress. It has urged the WTO to withdraw special and differential (S&D) treatment for members belonging to G20 or the OECD; as well as those designated 'high income' or having 0.5 per cent or higher shares in world trade. India and Turkey meet more than one of these criteria and it's not surprising that their preferences have been withdrawn. A similar fate probably awaits Indonesia.

While the eligibility conditions of the US would have, as it is, pushed India off the GSP list, there might have been hopes of thwarting the outcome given the strong geostrategic and defence ties India has with the US. From a wider geo-economic perspective, the key role envisaged by the US for India in its vision of the Indo-Pacific region, as reflected in the Asia Reassurance Initiative Act (ARIA) of 2018, would have contributed to such hopes. The latter would have also been strengthened by ongoing bilateral talks for past several months on the possibility of a trade package. These hopes have not materialized.

The proclamation on termination of India's GSP underscores the US' frustration over not getting reciprocal market access in India. Entry barriers to dairy and medical devices markets were the triggers setting off the GSP review. But these were clearly not the only issues. India could have been prepared to grant selective concessions in these sectors, as part of a possible trade package. At best, those could have waited for the conclusion of the general elections in India due in April 2019. But the US attention on access restrictions in the Indian economy seems to have spanned well beyond these couple of sectors. The fact that the termination notice mentions 'numerous' sectors where India has failed to assure the US equitable and reasonable access drives home this point.

It can hardly be overlooked that since the US began India's eligibility review from April 2018, major policy developments have taken place in India. Some of these, such as data localization rules and an e-commerce policy working against long-term commercial interests of foreign online retailers, might have influenced the US decision. India's commitment to these policies, irrespective of whether one disagrees with them or not, appears irreversible.

Of course, even now, the possibility of a bilateral trade deal cannot be ruled out. Indeed, such a deal might mean greater market access for India in more respects than the current GSP. But reaching such a deal would require major concessions from India in areas where it can't be flexible, at least not till the elections are over. And the US is clearly not inclined to make an exception for India on GSP, in spite of strategic warmth and proximity. The moot point remains that on trade, India and the US remain worlds apart.

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