“Developed” tag for India

Why in News?

The United States of America has removed India from its list of countries that are classified as “developing” economies for trade purposes.

What is the story so far?

- Apart from India, the US has also removed some other countries from the list.
- Now, these countries will be classified as “developed” economies, thus stripping them of various trade benefits.
- This move has led to doubts over the chances of a trade deal being signed between India and the US, during their President’s visit to India in February 2020.

What is the “developing country” status?

- The office of the United States Trade Representative maintains a list of countries that it classifies as developing, developed, and least developed.
- The “developing” countries are allowed to export certain goods to the US without being hit by punitive tariffs that are usually imposed on goods from “developed” countries.
- The “developing country” status owes its origin to the **US Trade Act of 1974**.
- This Act authorized the Generalized System of Preferences (GSP) to help poor countries develop faster.
- These benefits were extended further under the World Trade Organization, wherein rich countries grant trade benefits to countries that classified themselves as poor.
- About two-thirds of countries that are WTO members classify themselves as “developing” countries and avail benefits.

Is such a classification justified?

- Any classification of whether a country is “developing” or not is bound to be

arbitrary.

- Some people see the economic progress that India and China have achieved over the last few decades as reason enough to get rid of their special status.
- Others point to the various development indicators in which India and China still lag behind the rich world.
- Further, the opinion on whether such a classification is required in the first place is divided.

Why is India being stripped of this status?

- The US has repeatedly accused fast-growing countries such as India and China of wrongly claiming trade benefits that are reserved for truly "developing" countries.
- This, it believes, is enough reason to scale back the various trade benefits.
- It has further cited the share of global trade enjoyed by India and China and their membership in the G20 club to argue that they enjoy significant economic power.
- Therefore, it has sought to renegotiate trade deals with countries; essentially trying to make these deals more 'fair' to the US interests.

How will India be impacted by this move?

- India had been one of the largest beneficiaries under the GSP, with over 2,000 goods exempted from import tariffs.
- But, in 2019, the Trump administration stripped off this special benefit.
- With the current change in India's status under the USTR's classification, the task of reclaiming the lost GSP benefits now becomes even harder.

How will the US decision affect global trade?

- Any move to end duty-free access for foreign goods into the US, will increase the overall tax burden on goods crossing international borders.
- This will add further pressure on the global economy, which has already witnessed a slowing of growth this year.
- The countries that are stripped of their "developing" status may retaliate by imposing tariffs on US import.
- If so, it could raise further the growth effects of a tariff war.
- Recently, India offered to scale back tariffs on American dairy and other products that are imported into India.
- This came after the US complained about the restricted access that its companies have to developing countries.
- If such trade tactics manage to bring down trade barriers on both sides, it can benefit the global economy.

- But, the US and its various warring trading partners look to protect their domestic producers rather than consumers.
- So, a general fall in tariffs across the board may seem unlikely.

Source: The Hindu

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