

## Concerns with India's Export Subsidies

### What is the issue?

\n\n

\n

- The US has recently challenged in the WTO almost all Indian export subsidy programmes. Click [here](#) to know more.

\n

- This calls for India to assess the real effects of export subsidies and consider other effective options for export promotion.

\n

\n\n

### What is the exception provided for India?

\n\n

\n

- India was among the 20 developing countries included in Annex VII of the *Agreement on Subsidies and Countervailing Measures* (SCM Agreement).

\n

- This allowed it to use export subsidies as long as per capita Gross National Product (GNP) had not crossed \$1,000, at *constant 1990 dollars*, for 3 consecutive years.

\n

- This was provided to the developing countries for phasing out export subsidies.

\n

- It is an exception under the “special and differential treatment”.

\n

- India thus had the flexibility to use export subsidies until 2015.

\n

\n\n

### What is the contention now?

\n\n

\n

- India had crossed the \$1,000 GNP per capita threshold in 2015.

- \n
- India must have eliminated export subsidies immediately upon crossing the threshold.
  - \n
  - The complaint now is that India is violating its commitments under the SCM Agreement.
  - \n
  - But in Doha negotiations, India and several other "special provision" countries sought an amendment of the agreement.
  - \n
  - The demand was to enable them to get a transition period.
  - \n

\n\n

### **How have India's export subsidies been?**

\n\n

- \n
- Contrary to the pronouncements made in the Foreign Trade Policy, the government has continued to increase its outlays on export promotion schemes.
  - \n
  - In 2016-17, the total outlay on export promotion schemes was around Rs. 58,000 crore.
  - \n
  - This is an increase of more than 28% in 3 years.
  - \n
  - The Merchandise Exports from India Scheme (MEIS) was introduced to promote exports.
  - \n
  - This was done notably by offsetting the infrastructural inefficiencies faced by exports of specified goods and to provide a level playing field.
  - \n
  - The scheme initially covered 4,914 tariff lines and was subsequently increased to cover 7,914 tariff lines.
  - \n
  - In recent months, there have been expansions of the scheme.
  - \n
  - This has increased the total outlay on the scheme to nearly 60% over the level in 2016-17.
  - \n

\n\n

### **What needs to be done?**

\n\n

\n

- India's export promotion schemes face an uncertain future after the US decision to challenge their legality in the WTO.
- This is not the first time that the U.S. has put India's export promotion schemes under the scanner.
- Moreover, the utility of export subsidies to promote exports has long been questioned.
- The real impact of these subsidies has never been clearly measured.
- But it has been quite evident that they have benefited the rent-seekers.
- There is, therefore, a strong case for the government to invest in trade-related infrastructure and trade facilitation measures.
- Only these can deliver tangible results on the export front.

\n\n

\n\n

**Source: The Hindu**

\n\n

\n\n

## Quick Facts

\n\n

## Constant 1990 dollars

\n\n

\n

- The purchasing power of the dollar changes over time due to inflation.
- Constant dollars are used to adjust for these effects of inflation.
- This is done by converting economic information into a standard era dollar

term, such as 1990 dollars.

\n

- Constant dollars are used to compare economic activity in different time periods.

\n

\n\n

## **Agreement on Subsidies and Countervailing Measures**

\n\n

\n

- The SCM Agreement addresses two closely related topics:

\n

\n\n

\n

1. multilateral disciplines regulating the provision of subsidies
2. use of countervailing measures to offset injury caused by subsidized imports

\n

\n\n

\n

- It strengthens discipline on trade distorting subsidies given by governments to give their firms an unfair competitive advantage.
- All countries that become members of the WTO will automatically be subject to the Subsidies Agreement.

\n

\n