# Challenges with India’s Trade Policy

## Why in news?

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Several nations have made common cause over Indian export promotion schemes in WTO.

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## What is common cause of various nations on India?

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- Including European ones, Japan, Korea, Egypt and Sri Lanka have made common cause with the United States at the World Trade Organization (WTO) over Indian export promotion schemes.
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- The US argued that India could no longer create targeted tax and subsidy schemes for its exporters as it violated WTO protocols.
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- This is mainly because India has failed to make its argument with any persuasiveness.
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## What are the reasons behind the concerns?

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- Various schemes under WTO rules, reserved for the poorest countries those with a per capita income under $1,000 a year.
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- India, however, crossed that bar way back in the early part of this decade and the figure is almost double that now.
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- Yet the government not only persisted with export promotion schemes but even added to the stable of such programmes in recent years.
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- India has argued that it has eight years to phase out export promotion but that is an unconvincing argument to make since it was originally applicable only at the time the rule was first introduced.
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- It is in any case not relevant for countries that have had a per capita income of $1,000 or higher for three years in a row.
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## What are the challenges before India?

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- In India, duty drawbacks for exporter's amount to export subsidies, and thus the government should have weaned exporters off them long ago.
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- Instead, it has allowed the addiction to such tax breaks to grow.
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- India make the duty drawbacks more general, instead of them being applicable only to exporters for example, to an entire tradable sector.
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- But the cost to the exchequer of such schemes would be problematic at a time when the government is struggling to stay on the path of fiscal consolidation.
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- The other would be to allow exporters to gain competitiveness particularly from addressing high import tariffs.
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- Import tariffs may protect sectors that are competing with those specific imports but function as a tax on those sectors which use such imports.
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- But the government has several times raised tariffs in the past year as part of its turn towards protectionism.
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## What is the way forward?

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- "Special" tax-and-subsidy packages for exporters, combined with protection against imports, is a 1970s-style policy that should never have seen a renaissance in the first place.

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- Instead, the time has come to seriously address India’s inverted duty structure.
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- This will require the political courage to tell sectors such as steel and electronics that they will have to improve competitiveness without the heavy hand of government support.
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- However, together with a weaker rupee and greater emphasis on trade facilitation as well as reduction of red tape, it may turn out to be a blessing in disguise for India’s exports.
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**Source: Business Standard**

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