Concerns with India's Export Subsidies

What is the issue?

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- The US has recently challenged in the WTO almost all Indian export subsidy programmes. Click here to know more.
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- This calls for India to assess the real effects of export subsidies and consider other effective options for export promotion.
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What is the exception provided for India?

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- India was among the 20 developing countries included in Annex VII of the *Agreement on Subsidies and Countervailing Measures* (SCM Agreement).
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- 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.
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- This was provided to the developing countries for phasing out export subsidies.
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- It is an exception under the “special and differential treatment”.
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- India thus had the flexibility to use export subsidies until 2015.
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What is the contention now?

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

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

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

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

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Quick Facts

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Constant 1990 dollars

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

term, such as 1990 dollars.
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- Constant dollars are used to compare economic activity in different time periods.
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Agreement on Subsidies and Countervailing Measures

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- The SCM Agreement addresses two closely related topics:
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1. multilateral disciplines regulating the provision of subsidies
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2. use of countervailing measures to offset injury caused by subsidized imports
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- It strengthens discipline on trade distorting subsidies given by governments to give their firms an unfair competitive advantage.
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- All countries that become members of the WTO will automatically be subject to the Subsidies Agreement.
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