

## “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**

