United States Reciprocal Trade Act

Why in news?

The United States Reciprocal Trade Act was recently introduced in the U.S. Congress.

What is called as reciprocity in trade negotiations?

- Under reciprocity in trade negotiations, WTO signatories need to offer adequate trade concessions in order to receive similar concessions from their trading partners.
- Eg: Lowering of import duties and other trade barriers in return for similar concessions from another country.
- Reciprocity is a traditional principle of GATT/WTO, but is practicable only between developed nations due to their roughly matching economies.
- For trade between developed and developing nations, the concept of relative reciprocity is applied whereby the developed nations accept less than full reciprocity from their developing trading partners.
- Under this developed contracting parties do not expect reciprocity for commitments to reduce or remove tariffs when they trade with less developed contracting parties.
- However, this revised meaning of reciprocity permitted a differential treatment of developing and least-developed countries at the discretion of the developed world.
- This discretion is revealed in the provisions of the US Reciprocal Trade Act.

What does the bill contain?

- The aim of the legislation is to give "the President the tools necessary to pressure other nations to lower their tariffs and stop taking advantage of America".
- The US President can unilaterally increase the existing US tariffs for those products where the US's trading partners have imposed higher tariffs or higher non-tariff barriers.
- In practical terms, it provides U.S. an opportunity to cherry-pick products of certain trading partners for differential or retaliatory tariff treatment.
- A spreadsheet which is annexed to the Bill shows certain products where the

US has lower tariffs than certain other countries.

- According to the bill, foreign tariffs higher than US tariffs on any of the items in the US tariff schedule amounts to robbery.
- Eg: Three products from India — cut granite, motorcycles and whiskey — have found a place on this spreadsheet.

What are the concerns?

- The Bill reflects the changing attitude or a growing lack of respect amongst legislators and policymakers in key economies towards international trade rules.
- - Reciprocity did not require **Interpreting reciprocity**parity of treatment on a product-to-product basis.
- Generally, if a higher duty is levied on certain goods by a trading partner, it will subsequently be matched by providing trade concessions on other goods/services that they trade.
- But this bill seems to look at only specific items within the tariff schedule, while negating similar concessions offered by its trading partner on other products.
- **Violating MFN principle** - The Bill is an obvious violation of the Most-Favoured-Nation (MFN) concept.
- Under the WTO agreements, countries cannot normally discriminate between their trading partners.
- If they grant someone a special favour (such as a lower customs duty rate for one of their products) they have to do the same for all other WTO members. (MFN principle)
- Thus, if the President raises tariffs on a product of a particular country as is provided in the Bill, the US would be discriminating against that country with respect to others.
- Such a treatment will strike at the roots of the non-discriminatory MFN-based WTO system.
- **Uneven treatment** - The Bill fails to distinguish between WTO consistent and WTO inconsistent non-tariff barriers.
- If enacted, this Bill could even consider WTO consistent non-tariff measures such as anti-dumping by nations as high tariffs and will take it as an input to levy retaliatory tariffs on them.
- Thus, the bill completely undermines the rights granted under the WTO agreement and provides a grossly distorted idea of reciprocity.
- **Breaching commitments** - The US President can breach the sovereign commitments given by the US in bilaterally negotiated trade deals.
- Thus, the overall concern with the Bill is that its intent and object are admittedly a complete disregard of the WTO rulebook.

What might be the consequence?

- The twin goals of expansion of trade and an inclusive international economic order could not have occurred if trade arrangements were only driven by self-interest.
- If passed, it will make other WTO members to adopt similar procedures on retaliation, bringing halt to a rules-based international economic order.

Source: Business Line

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