

India slaps Retaliatory Tariffs on United States Imports: Can we close the Pandora Box?

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This week stands witness to another attack on trade liberalization as India has slapped retaliatory tariffs against 28 goods imported from the United States of America. This move comes right after the US has withdrawn the benefits India was gaining under the Generalized System of Preferences (GSP). GSP has its legal roots in the World Trade Organization (WTO) laws. It allows developed countries to offer favourable and differential treatment (such as zero or low duties on imports) to the products originating in developing countries, even though it goes against the WTO's fundamentals on non-discrimination. India was one of the biggest beneficiaries under this Scheme as it was able to export almost USD 5.6 Billion worth of products to the US without having to pay any custom duty. This benefit is now gone.

In its official notification, the Indian Government states that the move amounts to "...the imposition of retaliatory duties on 28 specified goods originating in or exported from USA and preserving the existing most favoured nation (MFN) rate for all these goods for all countries other than USA". These products include walnuts, apples, lentils, chickpeas and almonds – which India exports heavily from the US. As the 13th largest consumer of US products, India imports almost USD 1.5 billion worth of agricultural products from the US. These tariffs are going to escalate the cost of the US products in Indian market. This price increase will decline the consumer-attractiveness and demand for the affected US products in a country with more than a billion potential consumers. So, whose victory is it?

No one is the winner in this game of tariffs. The consumers, the farmers, the producers, the manufacturers, the exporters, and the countries – they all stand to lose in their own way and to their own extent in this tariff war. Moreover, this comes at a time when foreign trade and liberalization are already facing a huge attack. Many other countries including Mexico has imposed retaliatory tariffs on the US imports as a reaction to the steel and aluminum tariffs imposed by the US under the guise of national security concerns. Moreover, the US and China – once the closest and largest trade partners – are turning out to be trade foes with high tariffs they have slapped on each other's products. The Pandora box is now open, and it will be difficult to close it.

To make matters worse, the US is demolishing the WTO's dispute settlement forum by blocking the appointment of judges at its Appellate Body. This dispute settlement forum – the most active and successful multilateral dispute resolution forum in the world – is more needed now than ever before. It needs to survive to settle the ongoing and emerging disputes. It needs to survive to rescue the multilateral trading system which is standing at the brink of destruction today. Without a functioning judicial wing, the institution of WTO will lose its appeal. The establishment of WTO was a point of negotiating equilibrium that was very hard to be struck. It

would not be possible to strike this balance today, and hence the multilateral trading system needs to be saved before it is destroyed for good.