Concerns with Protectionism

What is the issue?

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- Countries, including India, are on a mode to resort to protectionist tariff policies.
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- But the larger implications of the trend demand a deeper understanding of the outcomes of such trade relations.
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What was the policy shortfall?

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- An acknowledged policy mistake in the initial decades of independence is protectionism.
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- Protection of domestic industries was aimed to be achieved with high import tariffs.
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- However, it fell short of providing a fillip to either industrial growth or domestic employment or consumption.
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- Also, these policies resulted in India lagging behind its Asian counterparts.
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- For the past three decades, the trade-led growth of China has been noticeable.
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- Failure to adopt such policies partly explains how India missed the growth prospects.
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What is the current scenario?

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- There is a rising tide of protectionism across the world, with possibilities of even a trade war.
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- Protectionism is now getting to be a major threat facing the world, especially for emerging economies.
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- India too had raised import duties on close to 50 items recently.
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- It has also raised import duties on as many as 328 textile products by up to 20%.
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- India had also announced higher safeguard duties on solar cells imported from China and Malaysia.
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- It is considering raising import duties on certain items that are imported from the US, as retaliation.
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- The government is also learned to have set up a panel to examine import duty hikes on consumer goods such as televisions, refrigerators and washing machines.
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What are the implications?

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- The measures are indicative of a slide in the Indian government’s support for globalisation and free trade.
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- Protectionist steps are justified on the ground that they would help domestic companies grow into viable competitors.
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- But the fact is that protectionism does not benefit the domestic economy.
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- It rather encourages inefficiency of domestic manufacturers.
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- It is likely to hurt exports, make domestic goods costlier and reduce benefits to consumers from increased competition.
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- So in the long term, protectionism is likely to have only a negative effect on industry’s ability to compete globally.
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Source: Business Standard

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