Trade Protectionism in India

What is the issue?

The trade protectionism measures in India is at rise and could potentially hamper the international trade limiting the trade gains.

What reflects India's protectionist regime?

- **Tariff measures** - The average of India's tariffs has increased by almost 25 per cent to 11.1 per cent in 2020-21 since the past decade.
- These increases in tariff rates have reversed the political consensus on tariff liberalisation that India followed since 1991.
- **Anti-dumping measures** - According to the WTO, from 2015 to 2019, India initiated 233 anti-dumping investigations.
- The anti-dumping initiations by India from 1995 till 2020 stand at 1,071 which is higher than the initiations by the US,the EU and China.
- **Ban on import or export** - India recently amended Section 11(2)(f) of the Customs Act of 1962, giving the government the power to ban the import or export of any good if it is necessary to prevent injury to the economy.
- This provision was applied earlier only to gold and silver and is consistent with Article XX(c) of the GATT.
- The amendment is non-accordance with the GATT provisions that impose certain conditions for imposing import bans such as
    - If a sudden, significant and sharp increase in imports causes serious injury to the domestic industry
    - On trade on account of balance of payment difficulties
    - For national security purposes
    - Must not be applied in an arbitrary or discriminatory manner
    - Must not restrict the international trade
- Expanding the scope of Article 11(2)(f) to cover any good is inconsistent with India's WTO obligations.
- **FTA restrictions** – Rules of origin determine the national source of a product and helps in deciding whether to apply a preferential tariff rate (if the product originates from India's FTA partner country) or to apply the most favoured nation rate (if the product originates from a non-FTA country).

- India amended the rules of origin requirement under the Customs Act imposing burdens on importers to dissuade them from importing goods from India's FTA partners.
- **Vocal for local** – India's Atmanirbhar bharat (self reliant India) gives preference to domestically made goods creating an ecosystem where imports are undermined, upsetting the trading partners.

What are the implications?

- Protectionist steps are justified on the ground that they would help domestic companies grow into viable competitors.
- But the fact is that protectionism does not benefit the domestic economy.
- It rather encourages inefficiency of domestic manufacturers.
- It is likely to hurt exports, make domestic goods costlier and reduce benefits to consumers from increased competition.
- So in the long term, protectionism is likely to have only a negative effect on industry's ability to compete globally.
- For India to reap the benefits of the summits and partnerships like Quad, there needs to be a fundamental shift in policy.
- Amore pragmatic approach in line with the recent initiatives to reverse the retrospective tax legislation and provide support to the flailing telecom sector must be expanded.

References

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