



Dump Protectionism

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This article is based on “**International trade is not a zero-sum game**” which was published in The Indian Express on 23/10/2021. It talks about the need for India to promote free trade and shun protectionism in international trade.

U.S. Trade Representative (USTR) in its 2021 report “**National Trade Estimate Report on Foreign Trade Barriers**” has pointed out that India’s average **tariff rate of 17.6%** is the highest of any major world economy.

With the **aim to protect domestic industries** from dumping and other trade distorting practices by China and others, India has increased its tariff rates and stricten its other **non-tariff measures**.

Trade protectionism might have immediate benefits to the economy, however, all economists agree that, **in the long term**, it hurts economic interests of the country.

Tools of Protectionism

India, inter alia, other countries use various tools to protect its economy from unfair trade practices. Some of them being-

- **Tariffs:** A tariff is a **tax** imposed by a government of a country **on imports or exports** of goods. High tariffs will raise the cost for foreign producers to sell their goods in a domestic system, providing strategic advantages for local producers.
India has one of the highest tariff rates in the world.
- **Import Quotas:** This is the act of **limiting the number of a certain good** that can be purchased from a given country, ensuring that domestic producers maintain a portion of the market share.
- **Local Content Requirement:** Instead of placing a quota on the number of goods that can be imported, the government can require that a **certain percentage of a good be made domestically**. **India uses it** for defence contracts and technology sectors issued in India.

- **Sanitary and Phytosanitary (SPS) Measures and Technical Barriers to Trade (TBT) Measures:** These two types of measures are allowed under the WTO to protect health and environment of other countries. They also bind other countries to follow a country's **standard in technical products**.
- **Anti-dumping duty:** Dumping is the process of **selling goods far below market value** to drive out competition. **India is the highest initiator of anti-dumping measures** aimed at shielding domestic industry from import competition.

According to the WTO, from 2015 to 2019, India initiated 233 anti-dumping investigations, which is a sharp increase from 82 initiations between 2011 and 2014.
- **Rules of Origin:** India amended the **Rules of Origin requirement** under the Customs Act. India has **imposed onerous burdens on importers** to ensure compliance with the rules of origin requirement.

The intent appears to be to **dissuade importers from importing goods** from India's **Free Trade Agreement (FTA)** partners.

Arguments for Protectionism

- **National security:** The argument pertains to the risk of dependency upon other nations **for economic sustainability**. It is argued that **in case of war**, economic dependency can restrict one's options. Also, the other country can affect other country's economy in a negative way.
- **Infant industry:** It is argued that protectionist policies are required to **protect industries in their initial stages**. As if the market is kept open, global established companies can capture the market. This **can lead to the end of domestic players** in the new industry.
- **Dumping:** Many countries dump their goods (sell them at lower price than their cost of production or their cost in the local market) in other countries.

The objective of dumping is **to increase market share** in a foreign market by **driving out competition** and thereby **create a monopoly**.
- **Saving jobs:** It is argued that buying more domestically will **drive up national production**, and that this increased production will **in turn** result in a healthier domestic job market.
- **Outsourcing:** it is common practice for companies to identify countries having **cheaper labor and easier systems of governance** and outsource their job work. This leads to loss of jobs in domestic industries.
- **Intellectual Property Protection: Patents**, in a domestic system, protect the innovators. On a global scale, however, it is quite common for developing nations to copy new technologies via **reverse engineering**.

Arguments against Protectionism

- **Trade Agreements:** India has **benefited immensely** from international trade agreements. **As per the Commerce Ministry** data, India has entered into Free Trade Agreements (FTA) with about **54 individual countries**.
They provide tariff concessions thereby giving opportunities for exports of products including those related to **small and medium enterprises (SMEs)**.
- **Against WTO Regulations:** India has been a **member of WTO since its inception**. WTO's regulations **prohibit imposing restrictions on imports** from other countries. They can be imposed **only for certain purposes** like **balance of payment** difficulties, national security etc. Such barriers cannot be imposed to protect domestic industry from healthy competition.
- **Inflationary in Nature:** Protectionist policies by restricting imports, can lead to **rising prices** in the domestic market. Thus, hurting the **interest of the consumers** directly.
- **Uncompetitive Domestic Industries:** By protecting the local industries, they have no **incentive to innovate** or spend resources on **research and development (R&D)** of new products.

Way Forward

- **Improving Ease of Doing Business:** Though progress has been made, **India still lags behind** many larger nations in critical metrics such as **starting a business, enforcing contracts and registering property**.
Improving on these metrics can help Indian firms to compete globally and get a bigger market.
- **Make In India:** The focus should be on encouraging **innovation, research and development and entrepreneurship** in the country. This will prepare Indian companies to compete in the sectors of the future.
Boosting Private investment: It will, in turn, boost up **Growth, Jobs, Exports and Demand**.
- **Predictable and transparent Trade Policy:** It will allow Indian firms to plan their capacity and finances in advance. They will be able to **allocate their resources for expansion and R&D**. This will allow them to be competitive in the international market
- **Free Trade Agreements (FTAs) :** India needs to **effectively utilise FTAs**, especially with East Asian nations (**ASEAN**), Japan, South Korea to its advantage to boost **investments, exports and technology transfers** to and from these nations.
- **Resolving Trade Issues:** Trade issues with **US and other countries** should be resolved at the earliest to eliminate investors' doubts in the Indian trade regime.

Conclusion

What India needs is to **draw a fine balance** between the interests of domestic industry and giving trade concessions to multinationals to **attract foreign investment** in the form of FDI.

The **goal of a \$5 trillion economy by 2025** needs comprehensive, multidimensional and multi-sectoral efforts to achieve it.

Drishhti Mains Question

“Protectionism may be beneficial in the short term, but in the long term, it hurts the economy.” Comment.