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Protectionism in India and Its Effects

Prajwal Pitlehra
Pune Institute of Computer Technology

Abstract
Given the requirement of free trade in the global economy, the practical picture shows otherwise. Trade barriers have prevailed despite prices being reduced as a result of international agreements. There has been a rise in the protectionist policy trend in the Indian economy. As long as the policies have been implemented, the neoliberal paradigm has changed for a while. The impacts of rising protectionist policies are, thus, discussed in the Indian context in this paper.
Keywords: International Trade, Liberal policies, Protectionism.

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I. Introduction

Post World War II, General agreement on trade and tariffs(GATT) was incorporated, which aimed to[a]:
1. Regulate international trade relations.
2. Curtail tax and non-tariff.

WTO was formed in 1995 and effectively aims to achieve the same goals as that of GATT(advocate and promote smooth flow of international trade). Despite the existence of regulatory institutes, some countries tend to differ by implementing protectionist policies. A rise and gain in adoption of invisible trade barriers is being seen in many countries. In this paper, we limit our qualitative study of protectionist policies in India. We start by discussing the economic background of India since independence. We then move our discussion to the current policies and the effects they have on the Indian economic picture. We then look at a few pieces of evidence that point to the advocacy of protectionism, after which we conclude our discussion.

Indian Economic policies related to protectionism in the past

Post independence, the Congress, continued to thrive and campaigned for self sufficiency over globalisation. Inspired by the then Soviet union economic model, the ruling party introduced a Five-year plan which motivated its citizens to buy domestic products. This approach was backed by the infant industry protection theory and, thus, failed to create global competitors. This hit industries and investors alike. Licenses were introduced to regulate production. Specific imports were banned and some faced heavy duties. This resulted in an inevitable decrease in India's share in the global trade pie from 2.2 % in 1950 to 0.45 in 1985. The GDP growth rate achieved by India was close to half of that achieved by the neighbouring countries in this period. Little GDP growth was seen in the 1980s because of marginal liberalisation, which met a sorry end in 1990 when the foreign exchange reserves dried[b]. This gave India a reason for long pending economic reforms and lessons. India has seen a GDP growth of 8 percent, saw a deep after the great recession and continues to grow at 7 percent. Thanks to trade liberalization policies that helped curtail age old protectionist norms.

Many coalitions ruled the country but liberalization was always in trend. Despite this, some protectionist policies still persist and are now gaining momentum.

Current policies

The indian finance ministry increased the import rates on many products in the 2021-22 budget. PCB assembly and camera peripherals are now in the 2.5% rate slab[c]. Custom duty rates of automobile parts were raised by 5%. The agricultural sector was also subjected to increased duty rates.

In the 2014 elections, the policies of the winning party (BJP) looked liberalizing . The ruling party worked on welfare with one hand and liberalized the economy marginally with the other. The external pressures of China, unemployment and automation are causing India to adopt protectionist policies. Optimists believe the new protectionist policies are transient.

According to the Organization for Economic Cooperation and Development's (OECD) Global Value Chains (GVC) indicators, in 2015 India's total GVC participation was 34 percent. While Singapore shared 62% percent of the pie. While India lags behind its continental neighbours, its participation is nearly the same as China's, which is about 35 percent.China is considered at the centre of GVCs thanks to the large value of its exports despite this low percentage. In 2018, China's exports were 7.6 times that of India. Thus, even with a nearly same GVC rate, China's absolute level of GVC participation is several times greater than that of India.

A reliable source of measuring protectionist policies can be found in the Global Trade Alerts (GTA) database. The primary purpose of the GTA database is to capture all trade affecting actions by the governments.

Table X.1Trade interventions implemented during 2016-2018 (G20 countries only)

Country (G20)	Number of restrictive interventions	Liberalising Interventions	Net Balance (restrictive less liberalising)
Argentina	94	49	45
Australia	89	9	80
Brazil	79	115	-36
Canada	74	13	61
China	109	59	50
France	100	14	86
Germany	177	14	163
India	240	69	171
Indonesia	71	75	-4
Italy	115	15	100
Japan	70	3	67
Republic of Korea	25	2	23
Mexico	25	9	16
Russia	94	51	43
Saudi Arabia	24	7	17
South Africa	42	38	4
Turkey	46	8	38
United States of America	401	110	291
United Kingdom	134	14	120

Source: Global Trade Alerts (GTA) Database

These unilateral decisions harm the Indian economy in the following ways:
1. Tariff increase in one industry may have a negative impact on the other dependent industry.
2. Tariffs erode the competitiveness of the domestic firms in the long run and thus makes it harder for economies to join a trade pact as the rates lie wide apart.
3. Tariffs may also invite retributions from the trading partners.

The effect of protectionist measures is clearly depicted by the GTA database that records the impact of trade decisions. It represents the countries affected by protectionist measures in terms of number of interventions.

Table X.2 Percentage of all protectionist interventions employed in 2016-18 by Advanced G20 Economies.

Countries	Advanced G-20 economies
Saudi Arabia	2.173913043
Argentina	2.989130435
South Africa	3.668478261

Australia	3.687888199
Russia	3.881987578
United States of America	4.173136646
Indonesia	4.386645963
Turkey	4.77484472
Brazil	5.027173913
Mexico	5.628881988
France	5.706521739
Germany	6.017080745
United Kingdom	6.017080745
Canada	6.055900621
Republic of Korea	6.075310559
Italy	6.560559006
Japan	6.560559006
India	6.754658385
China	9.860248447

Source: Global Trade Alerts (GTA) Database

Instances of protectionism in India

Projections of Indian economic recovery by Morgan Stanley and Goldman Sachs in 2021 post the covid crisis and a growth og 5% in 2022 are made on a key assumption- level playing field for foreign investors. These actions don't present India as liberal as we expected.

Following are some of the instances from the past that point to a trend in the Indian protectionist policies.

Foreign e-commerce entities face difficulties in doing business in India due to the following facts:
1. The companies can not own inventory.
2. In December 2018, Personal Data Protection guidelines were introduced according to which foreign companies are required to conform to India-specific rules in terms of data security and privacy.

These restrictions harm foreign investment sentiments and thus growth of a nation.

Lack of level playing field is also a major contributor to investor unrest and protectionism. Here, we consider the case of Amazon-Future Retail- Reliance triangle. In August 2020, Future group signed an agreement to sell its retail, logistics and warehousing business to Reliance Retail. Back in August 2019, Future retail had signed another deal with Amazon. Amazon had a 49% stake in future coupons and a call option. While making the deal, Amazon had mentioned not to sell its assets to a list of specific companies with Reliance industries in it as well. It is a violation of the agreement and hence the deal ought to be invalid. Amazon went on to file a lawsuit but met a sorry end when the Competition Commision of India (CCI) gave a nod to the Future Retail-Reliance agreement.

Effects of protectionism

One key point to understand here is that every nation plays its role in economic welfare. If a nation chooses to implement protectionist policies, the others might have to do the same as well. It also depends on whether the country is developed or developing[d]. Adoption of protectionist policies by one developed nation will increase global demand and thus prices. This will be harmful for the export sector of the domestic country as well.

Some of the effects of protectionism include:

Consumers' limited choice

The upfront effect is the lack of a wide array of products and services available to the domestic country. This will make the country uncompetitive with the rest of the world. Another problem consumers face is the high prices they'll have to pay for the limited supply because of the high import rates imposed on them. The domestic firms pass on the high cost of intermediate products to the consumers.

Uncompetitive infant industries

This was the case with the newly independent India. Protectionist policies gave rise to uncompetitive industries. Such protection robs the industries from the incentives to make high quality products and services. This also gives rise to significant costs to the government in terms of money and financial resources in order to protect the infant industries.

Exchange rate controls

Even though the intention is to help domestic industries become competitive globally, citizens end up paying higher prices in their country. Some nations keep their currency values low so that its industries can sell at cheaper prices in the international markets. Prices of these products then increase and consumers are forced to pay higher prices. This leads to long term inflation.

Trade war

Protectionism adopted by one nation might induce the same effect in its trading partner country. Countries retaliate with higher tariffs and duties. This happened in the case of the United States and Japan. They've been allies, both militarily and politically, since 1945. Both the countries have adopted policies against each other. This cost consumers in terms of high costs and a lack of product variety. It cost billions of dollars to both countries[e]. Trade war eventually leads to deteriorating real GDP growth and increased costs to consumers and governments.

OECD evaluated the effects of protectionist policies in manufacturing industries had the following key findings[f]:

1. An increment in domestic prices hampered GDP growth.
2. Discouraged both domestic and overseas investments.
3. A drop in imports implied a drop in exports as well.
4. Jobs saved are equal to the jobs lost in export-oriented industries.
5. Effective employment rate does not increase.

II. Conclusion

Global crises of the past have caused India (and other liberal countries) to impose protectionist policies. From our discussion revolving around the general effects of protectionism and then narrowing it down to the Indian context, it will not be wrong to conclude the negative effects the policies may have in the long run.

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