Strategic Trade and protectionism Theories and Empirics
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Lecture - 04
Facts on trade Policies and Facilitations

Welcome once again dear friends for the module on Strategic Trade and protectionism Theories and Empirics as a part of NPTEL course. In the 4th lecture now, this is the 4th lecture where we are supposed to understand facts these 2 lectures are actually dedicated for facts figures. So, this particular lecture is targeted for understanding trade policies related facts and facilitations. The previous lecture was purely on directions and sources of trade to understand what kind of dependence on which country we have and how the member countries can able to tap the benefit, specially for India.

Now, we are targeting for policy related segment and how policies are actually oriented towards facilitating trade. In this context, I am Dr. Pratap Shri Mohanty as a faculty member in the Department of Humanities and Social Sciences Humanities Department in IIT Roorkee, you know get the privilege to explain the latest policies on it. And, this is the one I have given the module 2 some of the you know practitioners, specially of you know Indian revenues services servants in Delhi.

So, in this context I am going to talk about trade policies for sure and how why trade policies? Always the question comes to our mind then why trade policies and or why facilitations. This is because of the fact that the present days competitions are different, it is no more perfect no more near perfect, competitions are very cut throat kind. And, the by product of comp competition is resulting different products differentiated product not different product. So, product within products even you know the management guys the faculties used to add you know even extra value additions to the product which we derive.

Now, one of the important contribution of China in this segment is that they attach huge value to the product specially in designing; designing by look by packaging China is the number one in this segment. Then who I mean how to make the buyers inspired to purchase your product what kind of facilitation should be given, what kind of export you know subsidies might be given? So, that buyers will be actually very interested to purchase our product. So, therefore, differentiated product matters, while discussing facilitation.

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Then, second one is market access; market access is actually dependant on the country's policies, country's restrictions. Now, as per the norms of WTO tariffs and non-tariffs, specially tariffs as a concretised you know restriction must have been reduced, in almost all the rounds of WTO, specially after DDA round, Doha development round, there has been major discussion on this aspect to reduce restrictions. So, that market access by the member country should have been much better.

Now, to facilitate trade, while we have you know better market access, protection is also discuss yes we can protect, but in indirect chance. In formal protection or the nominal protection the rate must have been very low as per the norm set by WTO, as per as a member of you know WTO.

So, India has been a member since it is inception of WTO. So, earlier it was named as GATT General Agreement and Tariffs and Trade. Now, you know from 1995 onwards it this name was changed to WTO in that year onwards China became the member. So, now, protection at the effective protection is highly discussed in the present context when China gets the membership and many you know other forms of strategies are developed.

So, therefore, facilitations is important and regionalism and multilateralism is important groupism, defining you know different type of qualities, you know coalition among the countries or cartel cartelization of the countries is making the product different, by look, by price, by competitive advantage in various other senses. Specially, gulf countries form the cartel in the you know mid 70s or I mean the early 70s, you know many countries specially us got the major threat after formation of you know OPEC countries. So, they cartelized their products and they set standard of prices for their product as per the market demand.

So, therefore, mercantilism (Refer Time: 06:00) not mercantilism very very important while we are discussing trade facilitation. So, accordingly policies are framed. Now, as an analytical you know example or experience for your better understanding dear students and participants, it is better to understand the East Asian crisis. There are other very recent phenomenon as well like, you know Bubble crisis in 2078 us bubble crisis and there are many Zimbabwe crisis, for you know hyper inflation some million percentage rise in inflation should also be in we discussed while understanding trade policies.

Now, if I just try to understand you know the context of East Asian crisis to miracle. Now, you would not believe you know specially Asian 5 countries, 5 economies namely Indonesia, Malaysia, Philippines, South Korea and Thailand. These 5 countries actually form part of the biggest giant of East Asian countries.

And, there have been major you know jump of their you know GDP. And, hence you know many trickle down effects of their GDP to other segments or other sectors of the country, you know till the period till the mid 1919 97. Even though growth rates are much higher than that of the Opec countries.

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Now, this is a major blue print for many developing countries as a lesson to learn, the developing countries actually learn try to follow these blue print, but one of the major concern in the IMF discussion is that that had led to the major change in your know the growth rate, has actually led them to a crisis, to a major crisis. So, some form of reform in IMF over the time have you know have been discussed for an effective global financial architecture so, that these type of crisis should not actually occur.

Now, even if the crisis was felt in 19 mid 1997, but these countries again could able to made it off in another 10 years, by 220 you know 25 or 2005, 6 these countries actually made themselves very stable, but in between they were actually major evidences of recession. I am coming to each of the discussion. So, there were not just the crisis, which are felt for their fall in their GDP other in terms of impacts noted for their currency and in terms of economic factors.

So, suddenly they reversed the foreign capital inflows, which actually fluid, with actually fueled their you know growth. So, they experienced nearly 3 you know highest growth rate, major growth rate, nearly 3 decades. So, you know since they are have there was no such you know major check those where actually turned into a crisis experience in 1997. So, from 97 till for another you know couple of years there were experience of recession.

Now, controversies are there are they are whether the Asian economic growth miracle was actually fueled why; fueled why their you know total factor productivity growth or by factor accumulation. So, there are 2 concepts.

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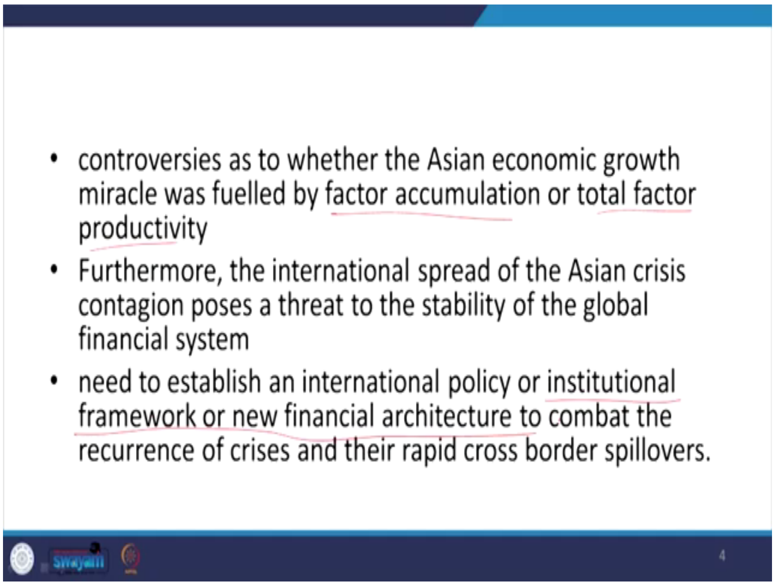

Total factor productivity growth or accumulation whether they have accumulated there you know quality factors, which is actually made them stable or the just the total factor productivity growth, which is contributed. It is an option that TFE actually you know matter a lot for their growth for the accumulation was not so, robust or sustainable.

Now, this crisis actually has had has had you know contagion effect. Contagion effect to other many countries. So, many dependant countries to these Asian countries are also affected. And so, there are therefore, there were cases of global financial you know crisis during the phase.

So, therefore, intervention is required, intervention by the you know global institutions which is specifically meant for controlling these crisis are very very important. So, institutional framework or new financial architecture is always there to you know there, I mean therefore, some institutional mechanism must have been there always to combat these kind of you know possibilities.

And, since you know there have been you know cross checks on the way of any growth a sustainability can be expected. So, spill over of this negative externalities can be reduced. So, therefore, institutional you know mechanism is required or the policies are required. So, I mean East Asian crisis has been considered as one of the best lesson; best lesson for the you know institutional mechanism to develop or to reform the institutional mechanism. So, that you know countries will be growing in a sustainable manner. So, far a international trade is concerned. So, policies must be very sustainable.

What were the possible explanation of these you know miracle or the miracle to the burst, burst which was experienced after some years. It has been observed that you know likewise repair in recent phenomenon over demand of the realty sector in us. So, it is considered the bubble of the real reality realty sector actually turned into burst, because of over finance to that sector. So, which could not able to you know convert to it is potential demand in the market. So, therefore, the you know there were other you know crisis stemmed from the crisis of the bubble.

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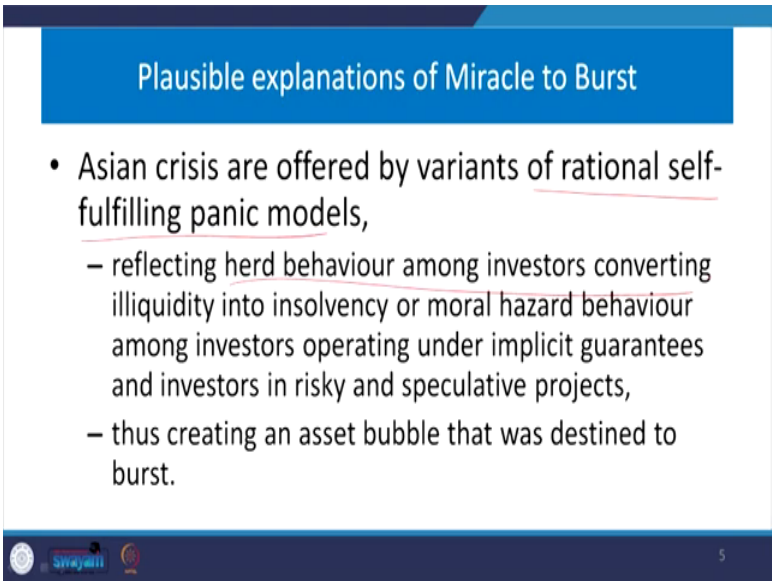

Similarly, in this case where it was experienced, that there were some cases of rational self-fulfilling, panic and accordingly some models and theories were developed. So, which emphasises head behaviour of the investors, they convert into illiquidity and in so, due to insolvency in the system, there are similarly cases of moral hazard observed, moral hazard basically you know your you know the morality of the investors is hazardous, you your pattern of expectation in other forms he actually creating a threat to another one.

So, that continuously creating a threat to other competitors and you know eventually lead to a higher form of crisis so, risk is attached. So, therefore, the bubble which was just created due to some forms of deceleration in the growth pattern, that has led to a burst in the East Asian. So, that was all therefore, called East Asian crisis.

So, some you know in some you know article some experts says that it is not miracle it was just a mirages. Developing economies aiming for a rapid take off like the South Asian countries should actually adopt export oriented policies, which was practised by Asian 5 economies, that is that was in fact one of the best you know approach. But, export oriented policies should not be negated by any form of you know countervailing percentages supported by the countries against the WTO norm.

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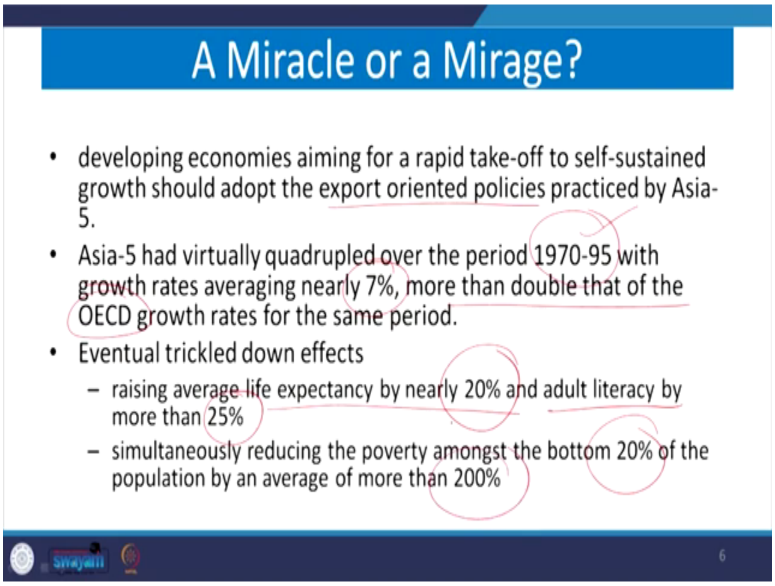

Those Asian 5 countries virtually you know experienced quadrupled result, specially from the year 1970 to 1995.. Though the crisis was observed in the mid-1997, the growth rate which they you know experienced on the average was nearly 7 percent which is much more double than that of OECD countries.

OECD countries stands for the you know developed countries, top most developed countries in the world. Is the group for the topmost develop developed countries in the world as per the world bank definition. Organisation of exp you know economic cooperation and development countries they form the group. And, when they experience this type of 7 percent on the average over such a period you know 70 to 95, which is in fact, rare rarely observed now though India is following this track right now, but our you know we also experienced this rate quite you know you know quite a decade from now, I mean before now.

Now, since you know; obviously, we will expect many trickle down effects as well. Even the present government, if you look at the present Modis Government, where we their preposition largely confined around confined around you know (Refer Time: 16:33) through infrastructure. And, they also emphasize trickledown theory, where this they their in contention is to emphasize the sectors that will grow and it will trickle down to the porous section of the society.

So, trickledown effect matters and it was observed in those years as well. So, the first trickledown was observed in terms of life expectancy increase nearly 20 percent. Adult in literacy you know increased by nearly 25 percent in these duration, which is the best is across the globe.

Now, simultaneously it will it also corroborated to the fact that poverty reduced you know among the bottom 20 percent population, and which was specially the reduction among those was of 200 percent fall in the in the you know poverty during that phase. So, the trickledown effect actually helped the country to grow in a sustainable manner, but since you know they there was no such you know countervailing, policies or checks, by the international buddies could not able to sustain those rates via a via be the strategies obtained by other countries.

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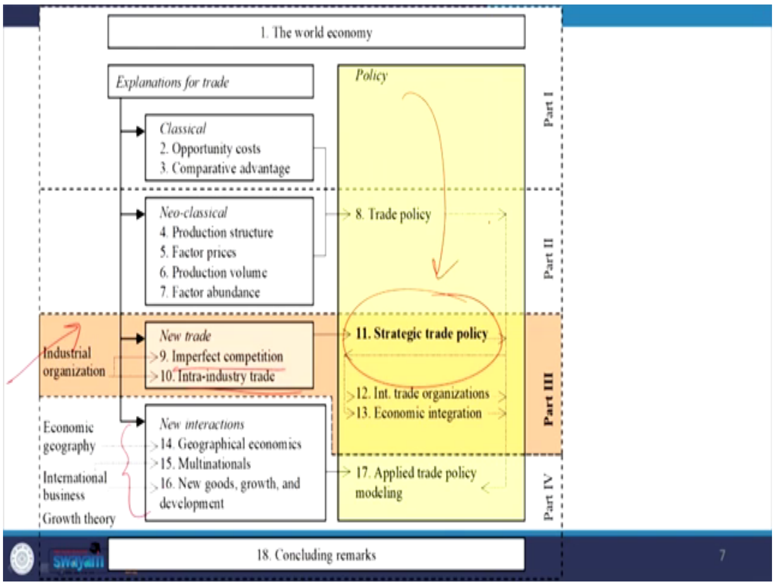

Now, this is what I have said the structure of our you know whole content whole content structure into I have already discussed in the previous to previous lecture, where I say strategic policy, trade policy is very important, which are derived from imperfect competition in the trade and intra industry trade.

So, IO actually industrial organisation is one of the part where the units of production or the farms can able to develop strategies, developed games to obtain highest benefits. They will retaliate and to maximize their best benefit out of it. Similarly, other strategy are through you know multilateralism or regionalism. Now, so, this is what we said so, policies are actually conceptualized accordingly.

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Table 4: Most problematic factors for importing in India

Most problematic factors for importing in India	Score
A. Burdensome import procedures	23.7
B. Tariffs	21.4
C. Corruption at the border	15.5
D. High cost or delay caused by domestic transportation	14.0
E. High cost or delay caused by international transportation	9.3
F. Domestic technical requirements and standards	7.1
G. Crime and theft	6.1
H. Inappropriate telecommunication infrastructure	2.9

Source: Compiled from 'Doing Business 2014' http://www.doingbusiness.org/

Once again, I have to you know explain these things, since I did not emphasise in my first lecture on this. What kind of restrictions are there? So, far as facts and facilitation is concerned for Indian, you know products to be exported, or there should be you know Indian you know business in India Indian soil, government present government have been you know has been repeatedly emphasizing start up India, stand up India, in a many a times, in their many you know policy documents.

So, do you think this has been actually you know contributed hugely, what is your view? I think you know there are mixed views so far, mixed views, you know this is these are very you know various instrument or obtained by government, maybe for a long run going to be contributing much in a much better way than that of what we are experiencing. So, therefore, we should not just negating the steps.

Now, some of the facts we suggest we collected from the doing business website till 2015 latest are actually there, but you know not authenticated correctly. So, therefore, I am emphasizing on 2014. So, so far is burdensome input procedures are concerned, there are various procedures to input product many documentations to be done. I will talk about in my you know succeeding slides, where how many you know documents are required to export as well as import.

So, among the score import you know procedures are very complicated it is very huge actually. And, similarly tariffs are also among very high and corruption at the border, while you know misplacing documents or unnecessarily you know by the you know agents of for trade, they also create some mispractices. Now, similarly high cost and delay caused by domestic transportation, also delayed by international transportation is also a matter of concern domestic technical requirements, and standards are also very very important. Besides, that these are not all I mean besides the crime and theft have not yet been also checked correctly, these are should have been actually you know minimize or neutralise to near about 0 percentage. Could have been much better for countries development, in appropriate telecommunication infrastructure, which connects the parties for trade. And, I also try to check with you know South Asian countries and OECD countries, which were explained.

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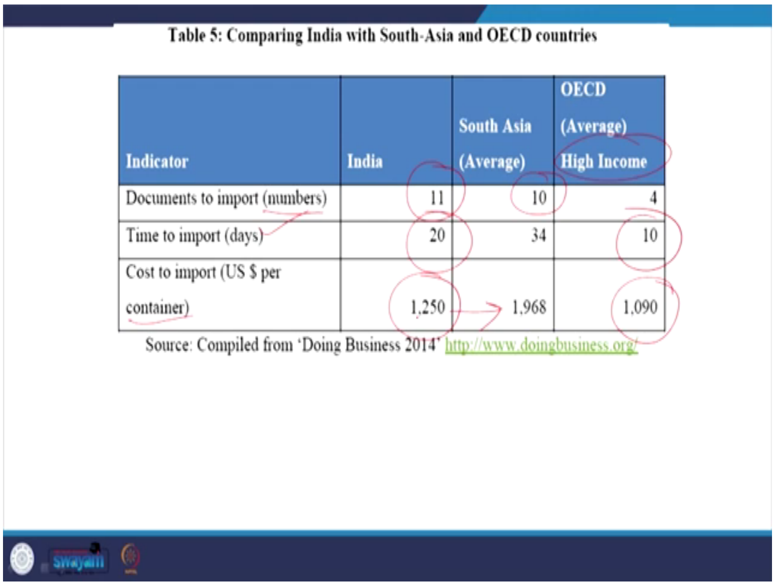

Table 5: Comparing India with South-Asia and OECD countries

Indicator	India	South Asia (Average)	OECD (Average) High Income
Documents to import (numbers)	11	10	4
Time to import (days)	20	34	10
Cost to import (US $ per container)	1,250	1,968	1,090

Source: Compiled from 'Doing Business 2014' http://www.doingbusiness.org/

Once again I am saying documents to import number of documents India require to import is 11 whereas, the South Asian countries required to you know import is as against India it is 10. Now, try to understand, how, what kind of hassles are there, for importing a product which we are actually using for re exporting. If our import itself is problematic, we may not be able to add value on right time.

So, in this context OECD countries locate their I mean try to understand OECD ended their hassles, especially for import documentation it is only 4 documents are required they do not require so, many documents. So, they make their importing very open.

OECD countries I told you that they are the high income groups countries which are having high in income as per the World Bank standards. Similarly, time to import, the days required to import, look at if any consignment is ready 20 days are required for India to be received by another recipient being in India. So, look at the products and which kind of products we are importing and how this should be 20 days.

But, it is in this front you know India is better than that of the South Asian countries on the average; on the average, South Asian countries among all South Asian countries 34 days; that means, and there are some South Asian countries, where the number of days are much more than that of 34 whereas, for OECD countries the requirement is only 10. So, they are much lesser.

To check the cost of import specially transportation is one of the most important cost, for container in US dollar term. Hours is lesser than that of the South Asian countries. Though South Asian countries are developed in many sense, but we have in a have landed in a better path to catch up to those level. Of course, our rate is higher than that of the OECD one, but still we are competitive in this segment.

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So, therefore, we need to understand the facilitation carefully. Now, here I wanted to say that always our you know competition our products, our destinations, are very you know visible in front of us. Some of our not visible, but opportunities are there, I wanted to say opportunities are there, what we do?

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Opportunities are always attached with risk. So, we need to bear the risk, strategically and manage the risk.

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How we can manage it? Because, you know risk are not just one it is not linear there is nonlinearity in the risk attached.

So, since nonlinearity is the pattern of risk, it is very difficult to bear the challenges. So, therefore, there are many risk may be in terms of because of our mechanisation of you know trade. Trade is more or less becoming highly mechanised, if we are emphasizing service trade, but if we labour oriented then so, there will be possibility of absorption of labour.

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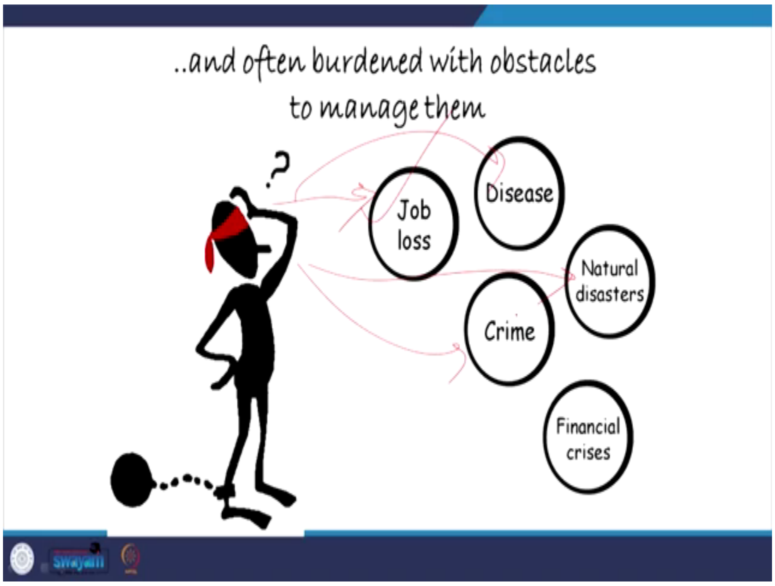

But, if trade is actually contributing or having you know having connected to job loss or you know our import or the export include, those you know units are actually include high end technologies, but India is a labour intensive country.

We have you know labour you know; we have more labour abundance as compared to many countries in the world. So, and that too it is very cheaper as well. So, but if you do not absorb labour it is a bigger concern. Therefore, we need to talk about job loss very seriously this is one of the very important aspects. So, we need to think about.

So, not just importing I mean some of the segment you just import, but that will replace our domestic you know production therefore, it replace our you know employment, which is a major concern.

And, the products if we it is not you know controlling diseases; diseases related issues India you know in this segment health segment also, this attached to many risk. Crime related, similarly natural disasters, in you know many parts of India you know our places are attached to natural risk, many evidences are there. So, such type of trade must have been done for future. So, that you know our trade must be connected in a holistic manner and it controls or contribute to the environment sustainably.

Similarly, financial crisis because many of the bubbles so, far observed is related to financial crisis. So, let us think a while on it, think very carefully how to connect each other, how what type of product must be actually imported, what type of exported, so that our pattern must be all connected to each other.

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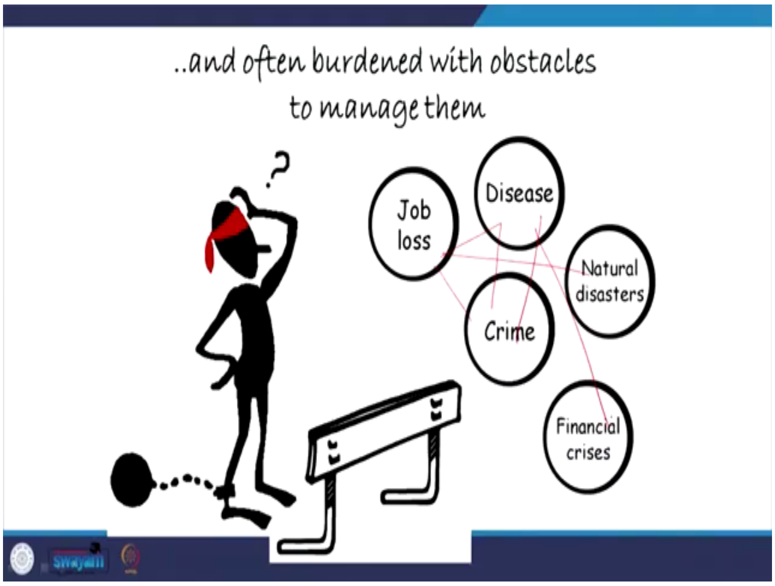

And, to minimize in all the segment all kind of crisis must be minimised.

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So, therefore, what you do? When we have multiplicity of risk attached to our trade. So, domestically as well as when you open our border, it might create you know further risk.

So, therefore, we need to take support, strategize the support, sharing risk may minimise our burdens. So, to whom we should share generally when person is in trouble family, make it a broader family, your family is now domestically defined it is now a global family.

And, community not just a family I mean not just a family surrounded by few people make it a community instead of family. And, you know enrich your enterprises, government, international community, banks or blah organisations as well. So, that the risk can be shared.

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So, therefore, we talk about institutions role of institutions; institutions may be bank, police, you know industries and simultaneous thinking about you know environmental you know sustainability of it.

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So, trade policies actually covering all those aspects. Simultaneously thinking about all directions of you know control. So, that it will not be creating any threat. So, India's trade policy the recent or the latest trade policy is actually 15-20 90 20-15.

And, 20 Foreign Trade Policy documents are coined in every 5 years. So, who is who is actually is related to exports and imports, which are regulated by foreign trade policy, notified by Central Government in exercise of powers, conferred by section 5 of India's Foreign Trade Act 1992. It is yet guided by foreign India's foreign trade act under section 5, which guides export imports and other policy related issues guided by Central Government.

So, presently as I already said it is the latest one is 1520, now the mid midterm review of these policy document has already been published midterm review, recently midterm review of the this 1520 FTP has been published, the document is available freely in the website. And, this policy was effective or has been effective since fist April 2015 ok. So, therefore, as I already told you how to export is very important we require various steps, these are all available in the slide you can follow my slides.

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To understand and all those details will be explained while will landing on you know export procedures. So, we have establishing organisations, Opening Bank Account, we should have permanent Account Number, Pan Number. Similarly, other you know IEC number, membership certificate and broadly sampling, pricing, negotiation, covering risks these are available in India Trade Portal website. There are you know procedures are actually 12 it is clearly written this 12's has to be followed to export.

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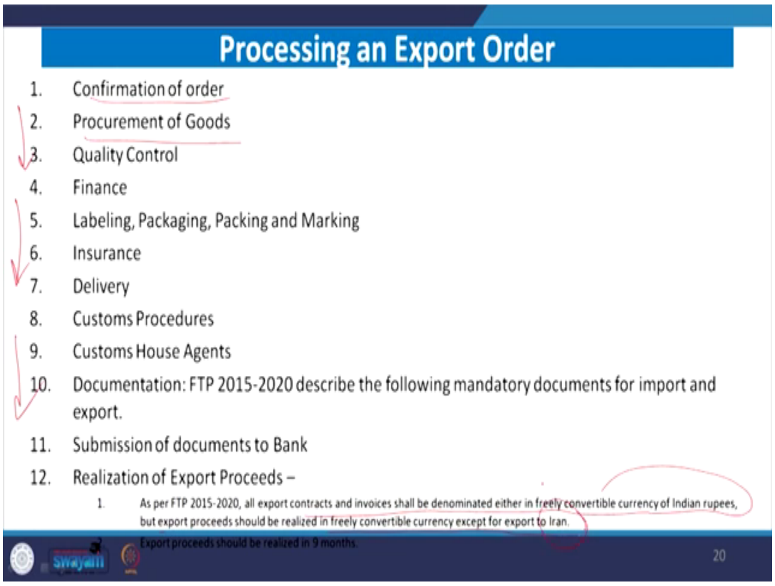

Now, processing and export order, it has to be in this order only. You have to start with to export your product you have to start with confirmation of your order with another party procurement of goods, then you have to follow in these order only. So, as per the FTP 20 15-20 all export contracts inverses will be denominated either in freely convertible currency of Indian rupees. So, far as merchandised trades are concerned or current account you know units are concerned. Export proceeds should be realised in freely convertible currency, except for export to Iran.

While we are exporting Iran, we need not convert it to rupees, in all other we are suppose to convert it to rupees. Export proceed should be realised in 9 months; 9 months it should not be actually exceeding, that is a strict binding regulation.

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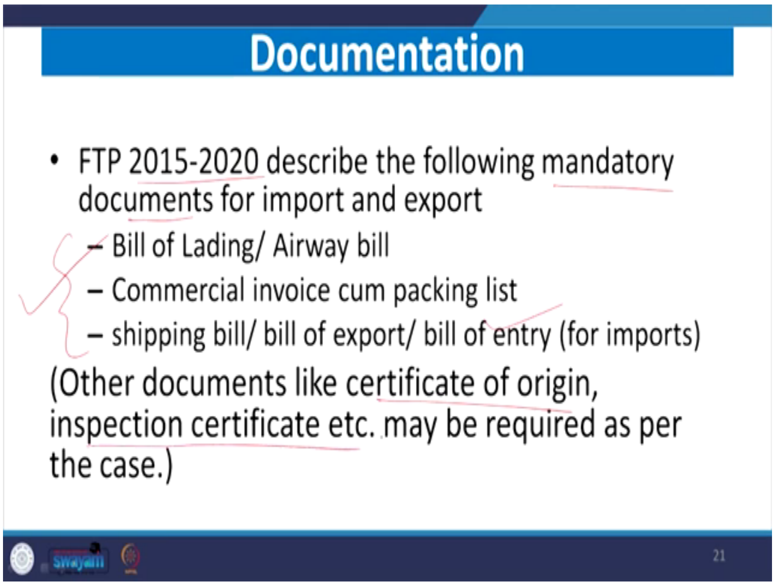

So, documentation 3 broad documentation as per the 2015-20 is concerned bill of landing. Usually those you know export houses they you know are guided by these, commercial invoice cum packaging list, shipping bill or bill of this is also called bill of entry must have been there these 3 are mandatory documents, for import. And, export other documents like certificate of origin inspection of certificate may be required as per the case when essential.

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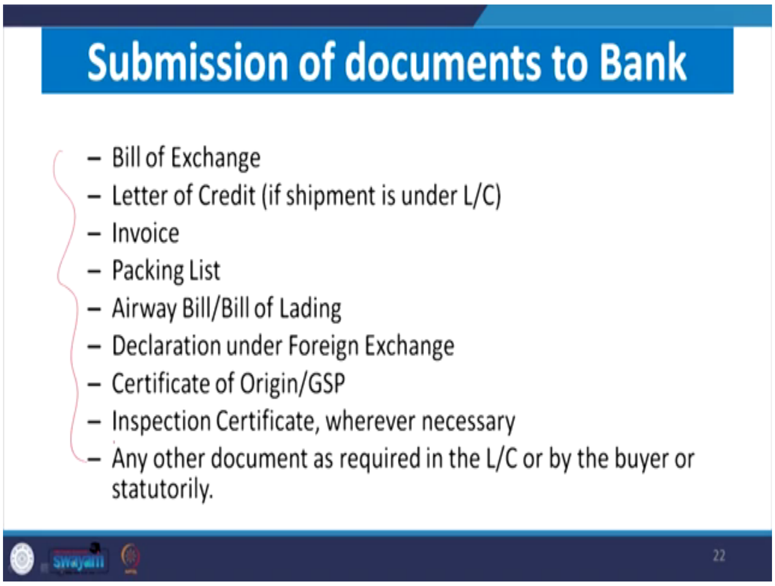

Similarly, submission of documents to banks these are the you know bill of exchange as I told you, bank require these documents for approving you or giving certificate.

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To FTP 2015, we will carry forward this section; specially you know FTP policies when we take off the FTP segment in our later part of our discussion. Where we will talk about some exemptions, you know trade facilitations, ease of doing business for the government of India, documents specially most important part is dealing with the disputes, we will take it forward in detail.

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I have already discussed there are 28 you know agreements ah, but besides that we have the present agreements, which are in presently running after ASEAN, APTA, some you know CECA, CEPA these are actually going to be discussed in detail in the you know trade block chapter, we will discuss in detail.

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I will carry forward all those things in detail, 18 currently running with this I think I have to stop here, we will now continue in our next class, with you know background to classical theory and why theory emerged, which are the contexts by which theories are actually discussed.

Thank you so much.