International Business
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Lecture – 15
Non-Tariff Barriers, India's Foreign Trade Policy, Make in India Campaign, Trade Protectionism

Welcome everyone to a course of International Business. So, in the last lecture we had started with the new unit called commercial policy or trade policy right and we slight we understood that what is basically trade policy or commercial policy and why is it so important.

The basic reason for commercial policy is that to be important is that the government has to strengthen its trade and increase its trade relationship with the other countries and during any policy related to the trade it has to be very careful that sometimes it does not get you know involved in practices which might be criticized by the other countries and it should also not affect our domestic players badly.

So, the government has to be on a balance right. So, in the last class we were discussed started discussing about tariff and non-tariff barriers basically. So, we were doing tariff barriers and which I said there are issues like specific duty, ad valorem duty right and then protective tariff right. So, in protective tariffs I was saying that protective tariffs are generally done because the government wants to protect its local industries and reduce the imports to a maximum as maximum possible right. So, from there we continue today. So, the some other types of tariff barriers. So, tariff means money right related to money.

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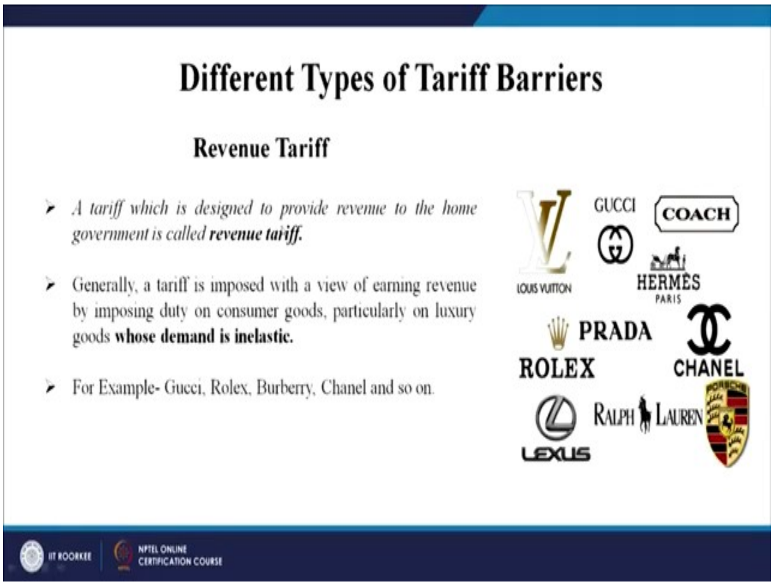

So, revenue tariff. Now, what is revenue tariff? It says a tariff which is designed to provide revenue to the home government is called revenue tariff. Generally, a tariff is imposed with a view of earning revenue by imposing duty on the consumer goods right. So, the government imposes some duty particularly on luxury goods whose demand is inelastic right. So, when a luxury goods are costly goods and it is purchased by people who have a high purchasing power right. So, on such kind of goods the generally a tariff is imposed, so that the government can earn more revenue right. Example are Gucci, Rolex, Burberry, Chanel and so on right.

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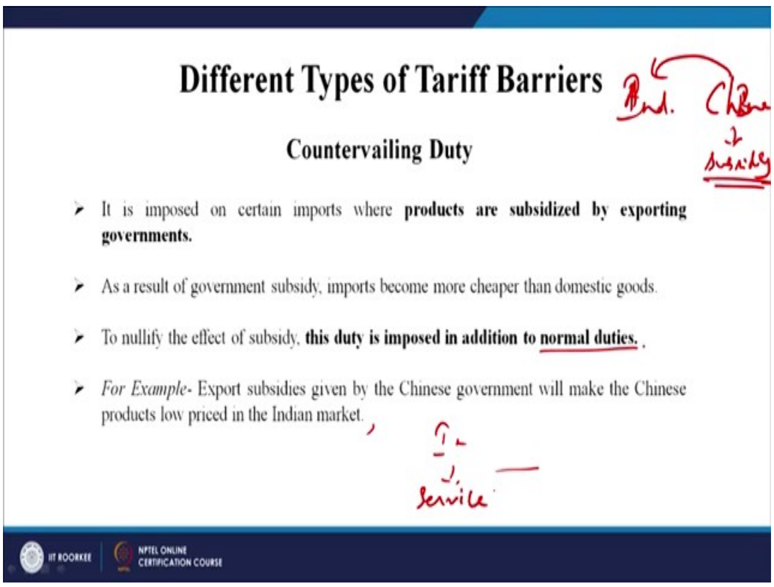

Another kind of duty or a tariff barrier is called countervailing. Now, the word countervailing also you can understand. What it is saying? It is imposed on certain imports where the products are subsidized by exporting governments. So, there are well while importing certain items where the government has subsidize the government of the local country. So, there is government A and government let say government A or let say I say India versus any other country which is B or let say this is also China right.

So, China from China we are importing certain items right, but China suppose is giving a lot of you know subsidy to its players to its local players. So, in that condition the they have an unfair advantage, the producers in China have an unfair advantage. To reduced this unfair advantage the Government of India would levy a countervailing duty right. So, as a result of the government subsidy the imports become more cheaper than the our domestic goods in India. So, Chinese imports become cheaper than our Indian domestic goods.

To nullify the effect these duties imposed in addition to the normal duties ok. For example, export subsidies given by the Chinese government will make the Chinese products low priced in the Indian market. So, what happened in one case the Indian you know government levied import duties right. So, they used a countervailing duty on the vehicles on the 2 wheelers Chinese 2 wheelers. So, making them as costly as the Indian ones. So, what happened? As a result, of it they become uncompetitive why? Because the Indian players had a good service. You know a service the channel was well distributed. So, the parts were easily available.

But at the same price when the Chinese vehicles were coming into India otherwise they would have come 20 30 percent cheaper. So, that would have made it very difficult for the Indian players to be successful because India is a price sensitive market. So, on the other hand when they were the same price now and the services were not available. So, there was no way the Chinese players could enter into the Indian market in the vehicles in the 2 wheeler section ok.

The next is anti-dumping duty. Now, what is first let us understand when what is dumping. When somebody produces a product in the local market and then dumps or and sells it at another market at a very low price right.

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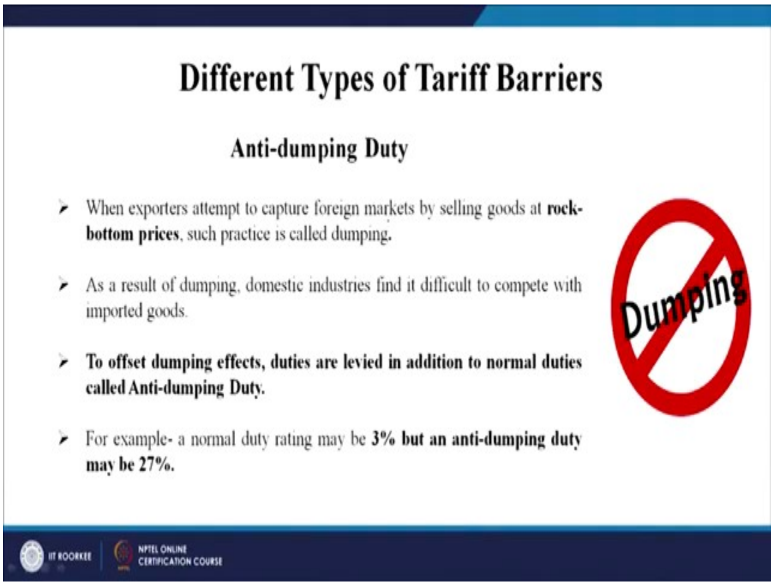

So, when exporters compete attempt to capture foreign markets by selling goods at rock bottom prices such practice is called dumping. So, to capture the foreign market the exporter is selling at a cost which is lesser right. So, this is generally done with a intention of you know capturing the market. So, once they capture the market then they can may be change the price.

As a result of dumping, domestic industries find it difficult to compete with the imported goods. To offset the dumping effects duties are levied in addition to the normal duties which are called anti-dumping. Indian government has levied anti-dumping duties on 99 such Chinese products right.

Example a normal duty rating may be 3 percent, but an anti-dumping duty maybe even 27 percent making it may be 30 percent right. So, anti dumping. So, to avoid dumping in our you know domestic market, so it is done. So, these are all what we discussed were called the tariff barriers right. Now, today we will also start with a non-tariff barriers. Now, what is non-tariff non-monetary barriers?

And interestingly I will tell you that the tariff barriers are sometimes easier to understand and to tackle, but the non-tariff barriers have been found to be more difficult sometimes right. Let see what are the non-tariff barriers.

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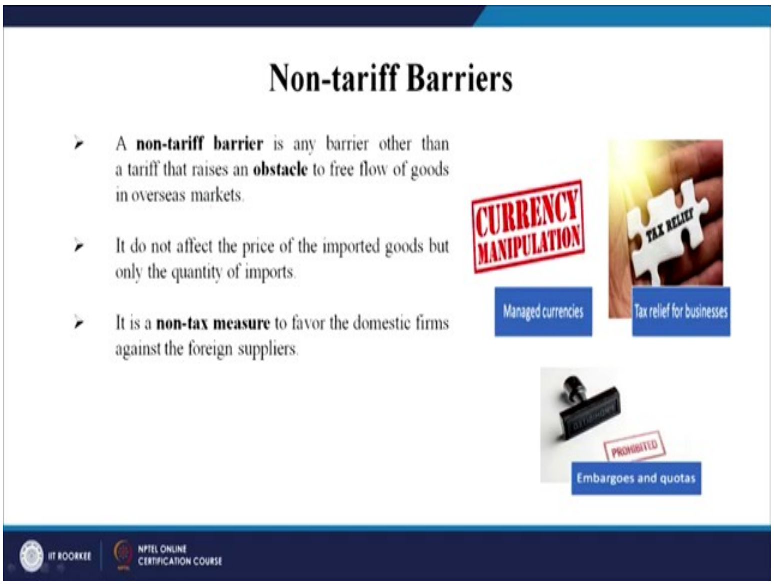

It is any barrier that raises an obstacle other than the tariff that raises an obstacle to the free flow of goods in the overseas market. It does not affect the price of the imported goods, it does not affect, but on the quantity of imports it affects. It is a non-tax measure to favor the domestic firms against the foreign suppliers. So, for example, you see tax relief, embargoes and quotas we will see what are what they are basically.

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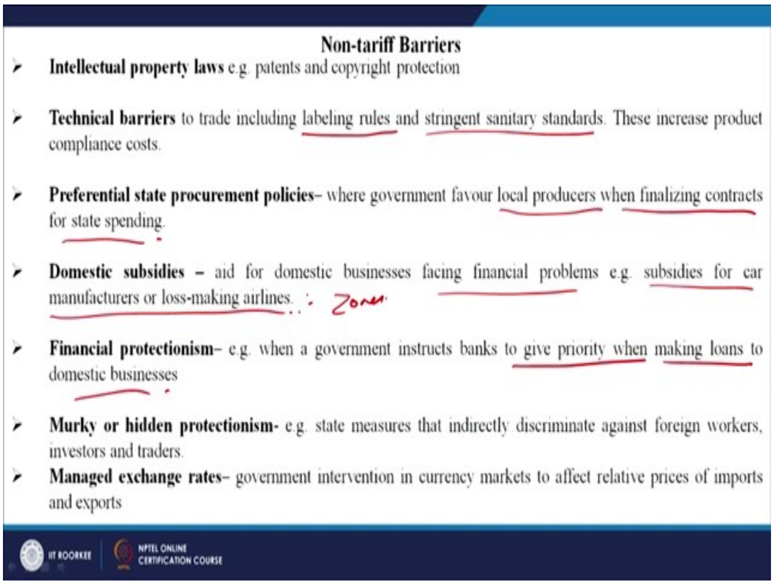

Non-tariff barriers are some types are for example, to avoid this intellectual property laws example patents and copyright, protection technical barriers for example, to in trade including labeling rules and stringent sanitary standards these increase the product compliance costs. So, when some country you know levys a technical barrier like labeling rules you have to label you have to write everything so in detail. So, that people are the consumer is aware.

So, such conditions increase the cost and it makes it very complicated for the exporter. Preferential state procurement policy. Now, the government favours local producers when finalizing the contracts for state spending. So, these are preferential treatment given and this is non-tariff right.

Domestic subsidies aid for domestic business facing financial problems example subsidies for car manufacturers or loss making airlines. For example, India the Indian government has been doing it in the recent past. So, we have been you know trying to aid the loss making airlines for example, Air India right. So, that they can still be competitive in nature. Financial protectionism when I say Air India do not understand it by price for example, I am talking about the flying zones right. So, the flying zones they are given more licenses flying zones are permitted. So, that becomes more competitive for them.

Financial protectionism example when a government instructs banks to give priority when making loans to our domestic business its a protectionism measure. So, in fact, it should be equal for everybody, but then when it is our own people our own domestic people the banks are the government ask the banks to give them first mover advantage.

Murky or hidden protectionism example state measures that indirectly discriminate against foreign workers, investors and traders. So, there are some measures that indirectly discriminate against the foreign workers. So, and their investors. So, this kind of hidden protectionism is also it is not advisable, but then it is sometimes required to support the domestic market.

Finally, the government intervention currency markets to affect relative prices of import and exports. So, the when that currency is controlled or is the government manages it. So, to favour either our import. Suppose the country needs more of import and while importing we know that the cost the money is going out. So, we would like that our dollar should be as less as possible right. So, when I am importing what do I do? I am paying in dollars right and when I am exporting I am getting; I am getting I am buying dollars.

So, it will be only exports will only increase when the price is cheaper, correct. So, when the price of the commodity or the price of the good is cheaper. So, the country is try to devalue their currency. So, that as the currencies devalued it is comes the price come the rate comes down. So, there foreign exporter foreign buyer can buy more of the goods for same money.

So, earlier suppose in 100 dollars he was buying let say 10 units. Now, because there has been of the devaluation of the currency the foreign player can buy 12 units because of the same 100 dollars right. So, this is what the government tries to do right. So, manage the exchange rates.

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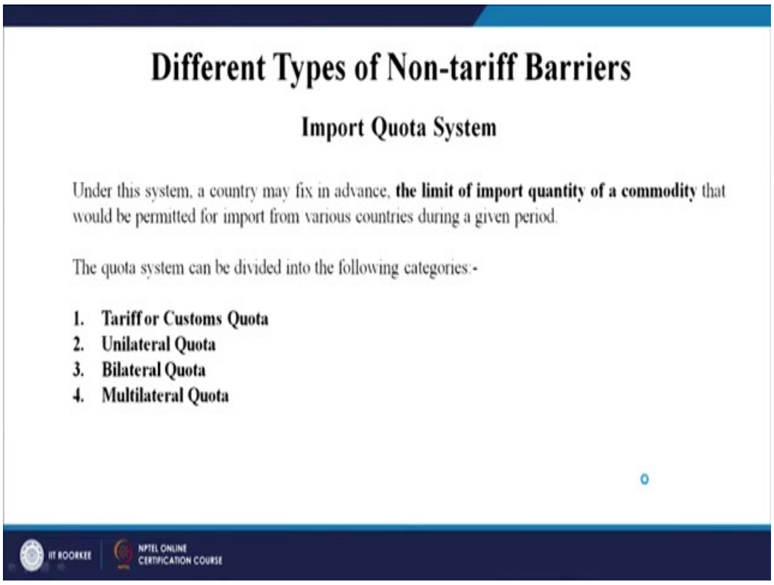

Different types of non-tariff barriers are for example, import quota system. Now, what is this? Under this system a country may fix in advance, the limit of import quantity of a commodity how much you can import? You can only import up to a level. Besides that it is not permitted that would be permitted for import from various countries. The quota can be divided into the following categories. What are they? Tariff or customs quota, unilateral quota, bilateral quota and multilateral quota, let us see.

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So, customs quota says that certain specified quantity of imports is allowed at duty free or at a reduced rate of import duty. So, additional imports beyond the specified quantity are permitted, but only at increased rate of duty. So, up to a certain level you are permitted after that if you want to import, then the charge will be higher. A tariff quota combines the features of a tariff and an import quota ok. What is unilateral quota? The total import quantity is fixed without prior consultations with the exporting countries.

Already there is no consultation, but we are fixed it from our own side bilateral. In this case, quotas are fixed after negotiation between the quota fixing importing country and the exporting country right. So, both the countries for some reason they want to fix the quota. A multilateral says a group of countries can come together and fix quotas for exports as well as imports for each country. So, according to the condition of the country and all they decide on this right.

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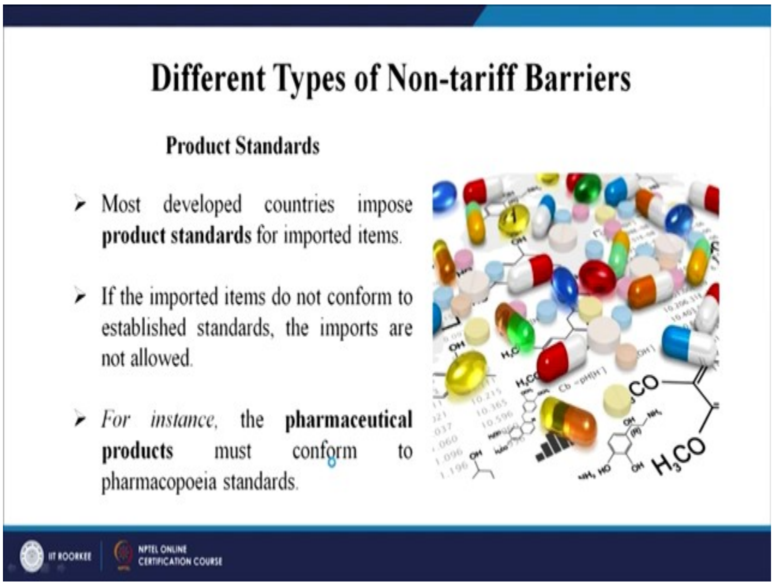

Some other type of non-tariff barriers are product standards. Now, this is very important again. Most developed countries impose product standards for imported items. So, what they say? The product should meet a particular quality a particular standard. If the imported items do not conform to the established standards, the imports are not allowed.

So, in terms of medicine this is an example diagram you can see. The pharmaceutical products must conform to the pharmacopeia standards. So, there is a standard setup and you have to meet it ok. This is also applicable to may other industries also right.

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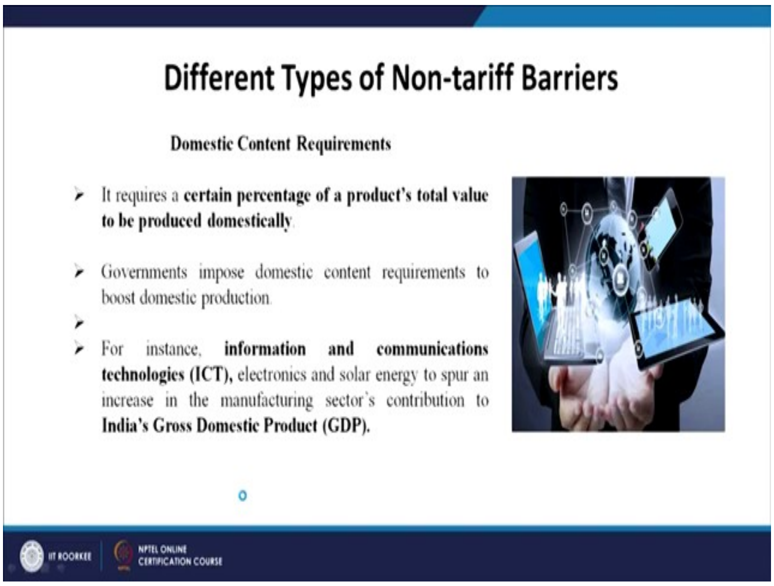

Domestic content requirement. Now, what does it say? It requires a certain percentage of a products total value to be produced domestically. So, during suppose you want to import export to a country you can export, but then certain percentage of this product should be made in the local market right, so domestically. Governments impose domestic content requirements to boost this domestic production. By doing this they are giving a form of protectionism to the local players.

For instance, information and communication ICT communication technology, electronics and solar energy to spur an increase in the manufacturing sectors contribution to India's GDP. So, in terms of ICT and you know renewable energy sectors the government wants that there should be a domestic content requirement ok. What is preferential arrangement? Another kind of a non-tariff barrier.

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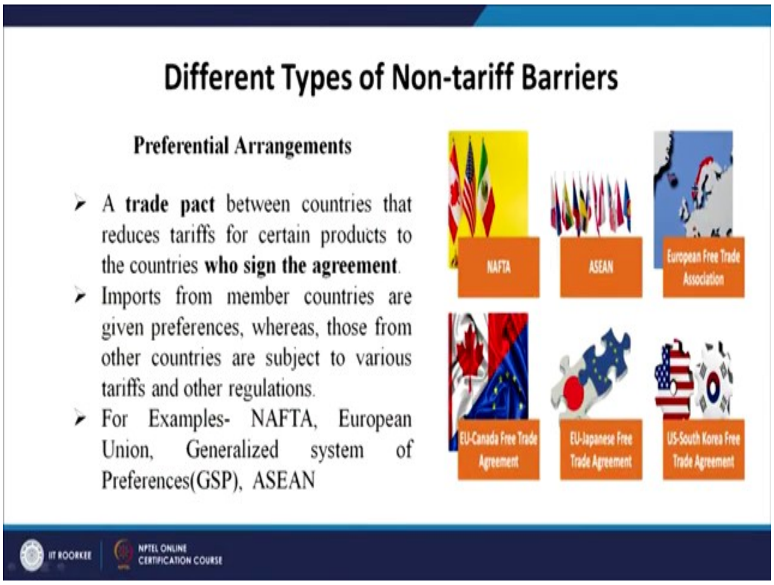

A trade pact between countries that reduces tariffs for certain products to the countries who sign the agreement. So, if you are a member of or you are a part of the agreement, then the tariff would be a different one a reduced tariff then what it would be for some other countries were not a part of the agreement.

Imports from member countries are given preference whereas, those from other countries are subject to various tariff and other regulations. Example, NAFTA right. European Union, Generalized System of Preferences (GSP), ASEAN right. So, all these are agreements which in which there are if you are a member of it you get a different rate if you are not a member you are getting a different rate ok.

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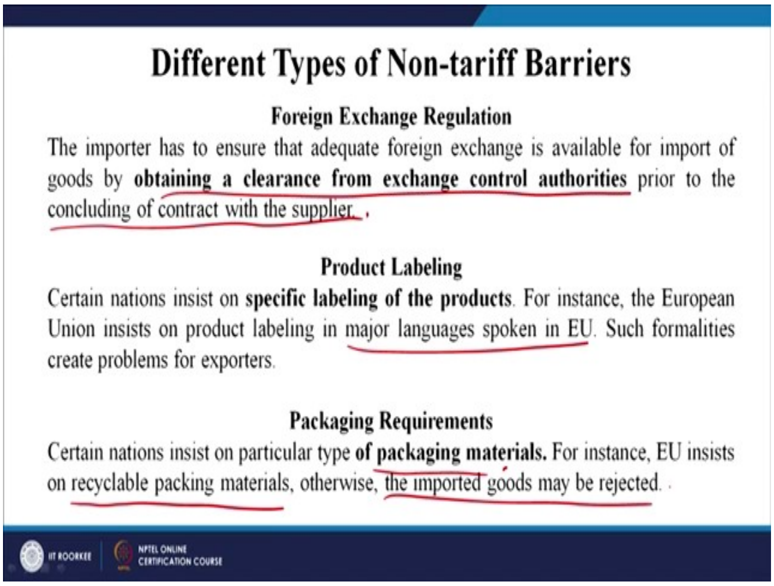

Foreign exchange regulation. The importer has to ensure that adequate foreign exchange is available for import of the goods by obtaining a clearance from the exchange control authorities prior to the concluding of contract with the supplier. So, what did he saying? The foreign exchange regulation the body, it tells that if you want to import something first you need to have a clearance from this authorities, so that they can you know tell you how much you can import right. And how much foreign exchange you are holding that also has to be very clearly mentioned you the otherwise you fall into a violation of the foreign exchange act ok.

The next non-tariff barrier is labeling of products. Certain nations insist on specific labeling. For instance, the European Union insists on product labeling in major languages spoken in EU right European Union. Such formalities create problems for exporters. Now, it seems very easy when you are in your own country, but just imagine for another country where you do not know the language and other things it becomes a problem to understand and their language, their you know customs and all right.

Packaging. Certain nations insist on particular type of packing materials right. For instance, EU insists on recyclable packaging material otherwise the imported goods may be rejected. So, there are certain rules also.

For example, when you are packing the packaging material should not be something that is harmful to the environment right. If you are using this then many countries the then they would stop. They would reject your products and they would not accept it right. Consular formalities. What it is saying?

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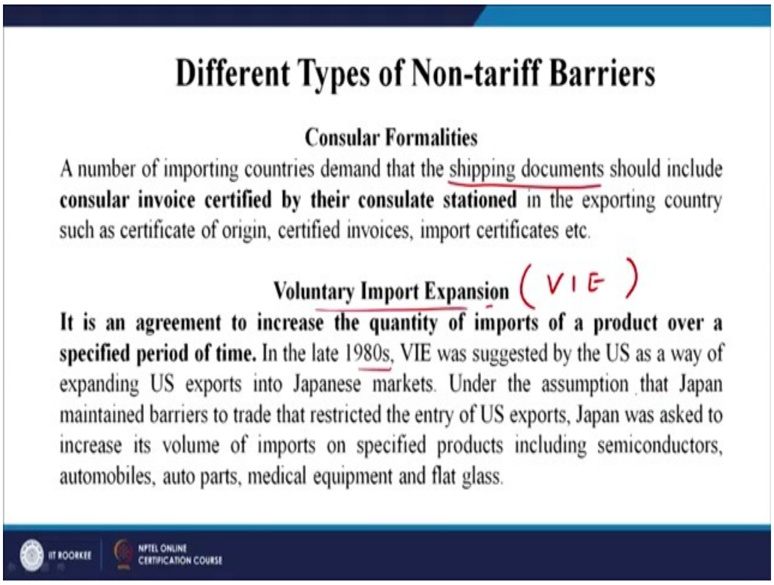

A number of importing countries demand that the shipping documents now this is very important should include consular invoice certified by their consulate stationed in the exporting country. So, such as certificate of origin, certified invoices, import certificates etcetera. So, the consulate in the exporting country where the export where from where the exporting is being done from there they should be signed properly. So, that is again creates a non-tariff barrier right. Voluntary import expansion. It is an agreement. What it is saying?

It is an agreement to increase the quantity of imports of a product over a specific period of times. For example, in the 80s VIE was suggested by the US as a way of expanding the US export in the Japanese markets. So, they said we will only do business if we are given a chance to expand with time. Under the assumption that Japan maintained barriers to trade that restricted the entry of US exports. At that time Japan had already permitted into the US market quite you know in extensively.

So, the US thought of using this technique to enter into the Japanese market similarly. Japan was asked to increase its volume of imports on specific products including semiconductors, automobiles, auto parts, medical equipment and flat glass ok.

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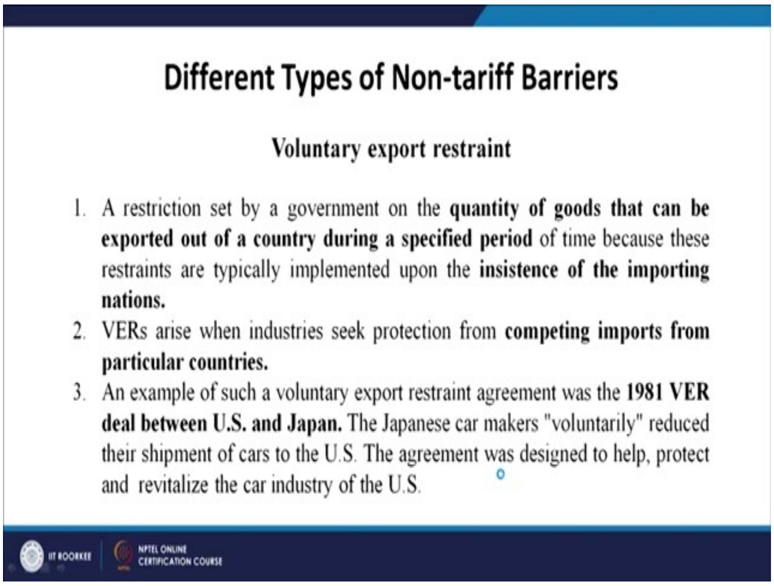

Voluntary export restraint. So, what is this saying? A restriction set by the government on the quantity of goods that can be exported out of a country during a specific period. Because these restraints are typically implemented upon the insistence of the importing nations. So, you say the importing nations says that we you can export only up to a certain limit right. So, the quantity of goods that particular country who is exporting they have they make a barrier, they make a condition that you cannot export more than this amount of the product. This arise when industries seek protection from competing imports.

So, for example, Indian industries want some support from the government right the they seek protection from competing imports from let say China right. An example of such a voluntary export restraint agreement was the 1981 VER between US and Japan. The Japanese car makers voluntarily reduced their shipment of cars to the US. They reduced it right. At that time Japanese had already as I said they entered into the US market and they had established themselves. The agreement was designed to help, protect and revitalize the car industry of the US.

So, the US car industry at that time had already got a shock from the Japanese automakers and they were feeling the pain. So, the government of US had talked to the Japanese government to reduce voluntarily the export of the cars.

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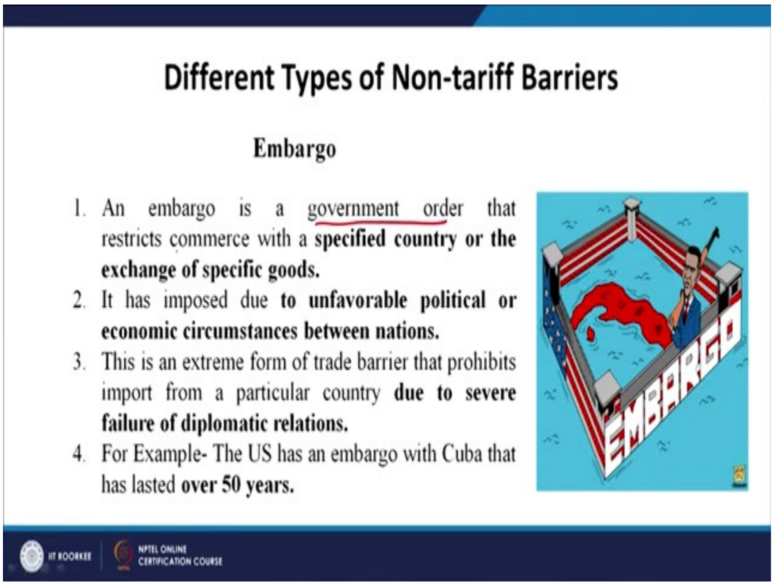

The another type of non-tariff barrier is embargo. Now, this is what it says? It is a government order. It says it is a government order that restricts commerce with a specific country or a specified country or the exchange of specific goods. For example, India and Pakistan. It has imposed due to unfavorable political or economic circumstances between the nations. So, India and Pakistan there is no there is nothing secret in that that we do not have a very good political climate right favorable political climate. So, this is an extreme form of trade barrier.

Obviously, because now you are saying just stop it nothing doing there is no regulation, there is no policy just stop it that prohibits import from a particular country due to severe failure of the diplomatic relations. So, no wonder than you know India and Pakistan I can think of no better example. The US has an embargo with Cuba. When Fidel castro was there and US always had a problem with Cuba that lasted over 50 years right. So, they had a embargo.

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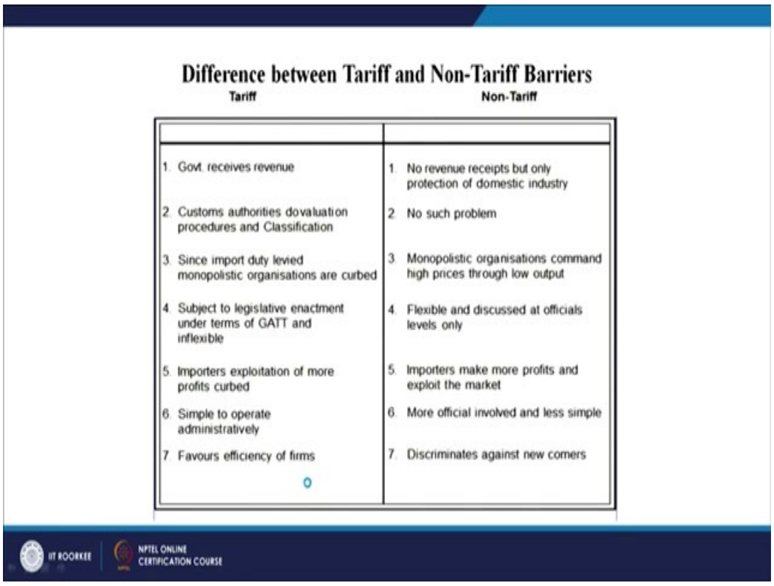

Now, this is some of the differences between the tariff and non-tariff barriers. These are some of the differences for example, it says what is the advantage difference between tariff and non-tariff. You see in tariff the government receives revenue, customs authorities do valuation, procedures and classification.

Since import duty levied monopolistic organizations are curbed. So, the monopoly is curbed right. Subject to legislative enactment under terms of GATT General Agreement or Tariff and Trade and inflexible. Importers exploitation of more profits is stopped curbed. Simple to operate favours efficiency of firms when you have a tariff barrier.

But, what is the arguments against non-tariff barrier? No revenue receipts, but only protection of the domestic industry right. No such problem; that means, customs authorities do valuation this problem is not there because there is no monetary involvement. Monopolistic organizations command high prices through low output.

So, the organizations command a high price through a lower output in terms of non when there is a non-tariff barrier. Flexible and discussed at official levels only. Importers make more profits and exploit the market. So, the importers make more profit because of the non-tariff barrier and they exploit the market.

More official involved and less simple it is complicated right. Discriminates against newcomers. So, non-tariff barriers can be sometimes more prohibitive, more dangerous because it is something that cannot be easily understood right. So, for example, as I said the production standards right the compliance of the policies the labeling. Now, these are issues which come under the non-tariff barrier and then it becomes it makes the extreme the trade more complicated and cumbersome. Why are trade and tariff barriers used?

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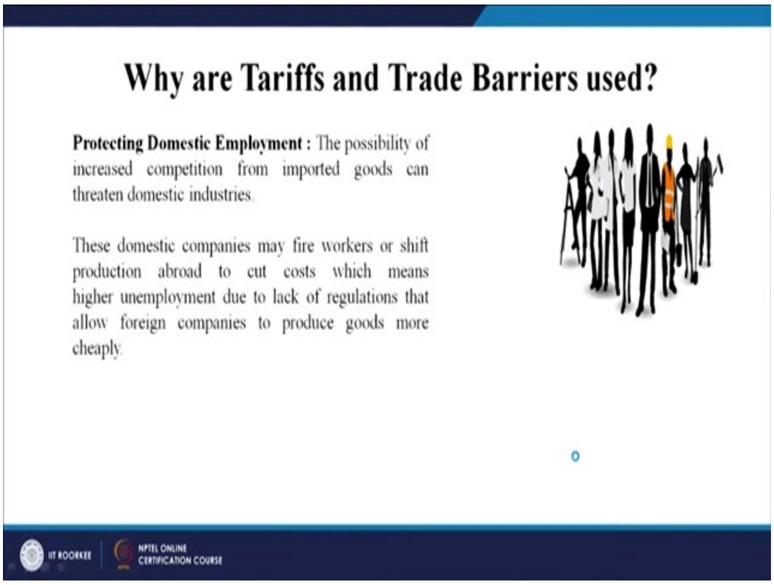

So, we have been discussing all throughout. First we have understood that it helps in protecting the domestic employment. So, the domestic employment is not hampered. So, the possibility of increased competition from imported goods can threaten the domestic industries. So, the government wants to create some regulations so that these domestic employment is saved.

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Protecting the consumers. A government may levy a tariff to in order to protect the consumer from the unfair practice right. So, and educating them about the right and responsibilities. Example Japan and South Korea banned on US beef after the mad cow disease in 2003. So, in order to protect the consumers the government of Japan and South Korea banned US beef because this mad cow disease was one which was widespread at that time right.

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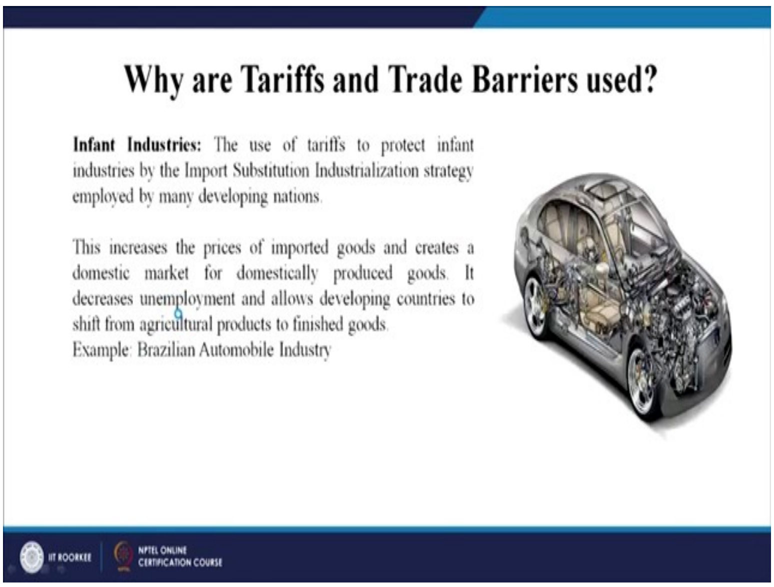

Infant industries to save them. The use of tariffs to protect infant industries by the import substitution, industrialization strategy. So, what was what is the import substitution strategy says? Now, instead of producing something in the local market, if it is cheaper outside. So, we would substitute it through imports. This increases the price of the imported goods and creates a domestic market for domestically produced goods right. It decreases unemployment and allows a developing countries to shift. So, this import substitution method this was being done by the governments.

So, when the governments when the players domestic players start doing this, then it will affect badly the domestic producers. So, in order to avoid that situation and save that infant industries, this import substitution method has been largely criticized right. For example you see the Brazilian automobile industry I have given an example of the Brazilian automobile industry right. So, they used this technique. So, that it would help them in saving the infant industry ok.

Retaliation. Action taken by one country whose exports are adversely affected by the rising of tariff or other traders. So, I start I said one example Indian government has a levied retaliation tax on 29 US products recently in this few months.

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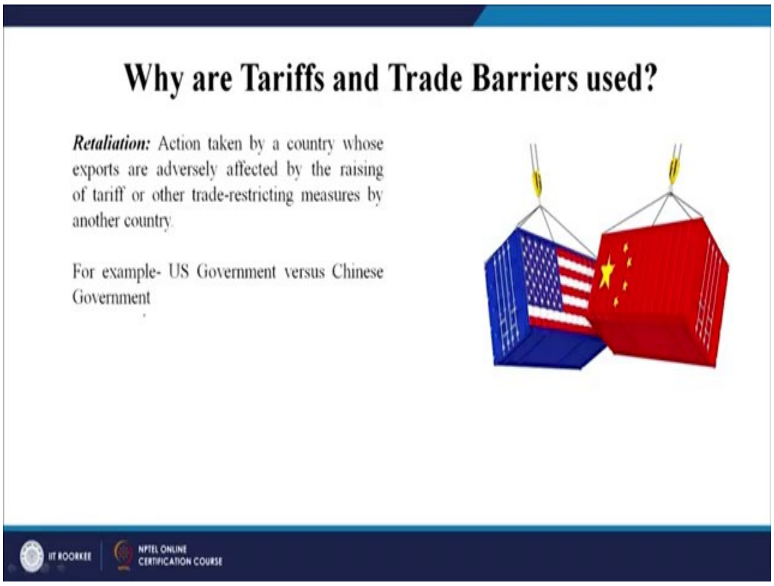

So, US government versus the Chinese government. This is a trade war which is going on between the 2 countries and one more example which I give is between India and China. Although we are sharing a very good relationship with US at the moment still the

Indian government has levied you know a retaliation tax on 29 US products. National security is also an issue. So, barriers are also employed by developing countries to protect industries that are deemed strategically important. So, defense for example, right.

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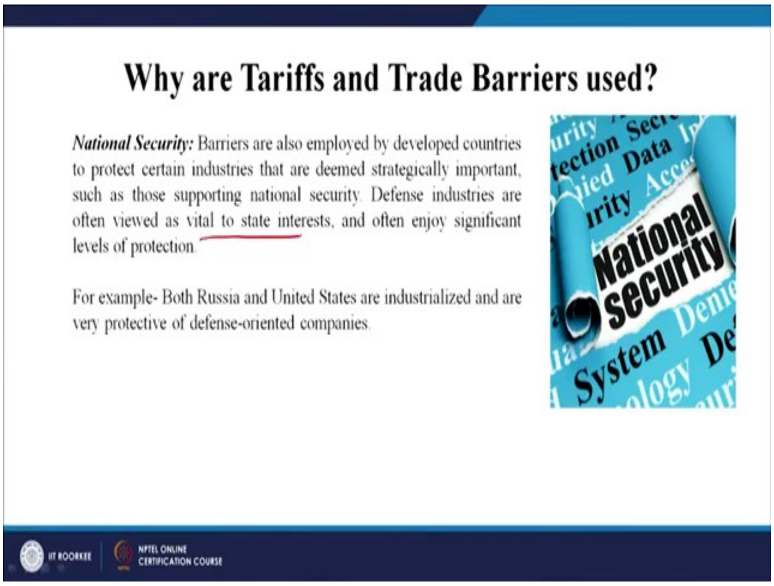

So, defense industries are often viewed as vital to state interests and often enjoys significant levels of protection. Let see this example. Both Russia and United States are industrialized and are very protective of the defense oriented companies right. So, these are some of the examples for in terms when it comes to national security, tariffs and trade barriers are used right.

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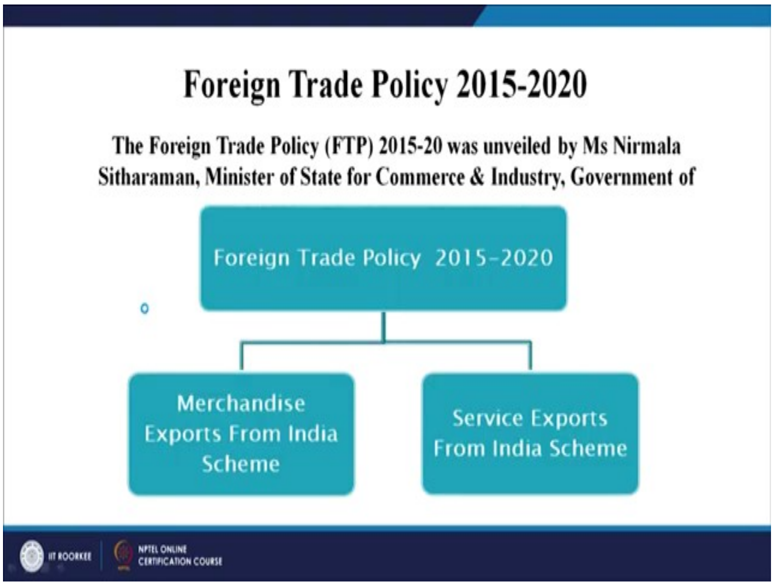

Now, this is the foreign trade policy from 15 20. So, this was unveiled by Miss Nirmala Sitharaman our Minister of State for Commerce and Industry, Government of India right. So, what it is comprise of? With the Merchandise Exports from India Scheme, Service Exports from India right.

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So, what are the highlights of this Foreign Trade Policy, let see. First it provides a framework for increasing exports and of goods and services as well as generation of employment and increasing value addition through the Make in India program. So, the when Prime Minister Modi came into power the government came into the BJP government came into power.

So, the first thing they talked about is the make in India campaign. They wanted the things to be made in India right. So, that they would create employment and an increased value addition right.

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It introduces two schemes as you can as you saw in the diagram. Merchandise Exports from India MEIS for export of specified goods to the specific markets and Service Exports from India Scheme SEIS for increasing exports of notified services. Duty credit scripts issued under this and the goods imported against these scrips are fully transferable. You are its transferable.

The rate of rewards in MEIS range from 2 percent to 5 percent while SEIS range from 3 percent to 5 percent and it focused on the paperless working environment and it helps to measure the boost of exports of defense and hi-tech items. Trade facilitation and enhancing the ease of doing business.

So, these were the major highlights of the Foreign Trade Policy of 15-20 ok. So, let me talk about trade protectionism. So, we have been discussing it from some time. So, what it is saying? It is an economic policy that restricts the unfair protection competition from foreign industries.

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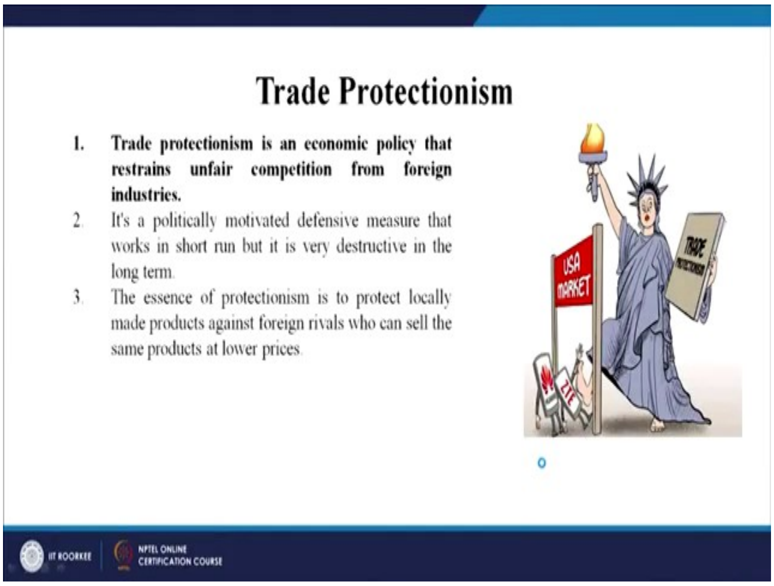

And why it is required? It is sometimes politically motivated; it is politically motivated. For example, when Donald Trump came to power he talked about the Americans and the local inhabitants of America and to provide jobs to them. So, he discourage the outsourcing companies the companies to outsource the products from outside countries. So, this resulted in a big fear among the exporters right. The essence of protectionism is to protect locally made products against foreign rivals.

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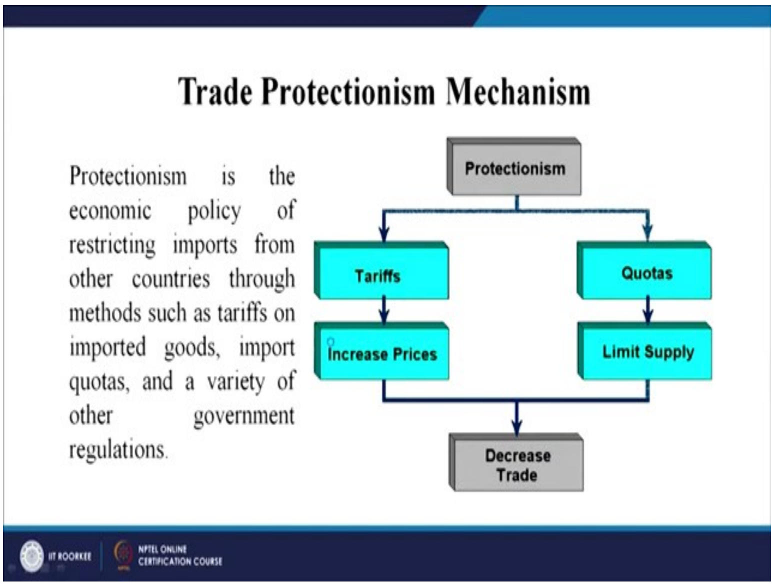

Now, what is the mechanism? So, tariff quota. So, increase price limit supply. So, we have done all these things. So, this is finally, the nutshell right. So, what of what we have discussed? So, we have discussed about tariff and non-tariff barriers and we talked about how they are impacting the flow of goods from one country to another and why the government wants to protect certain industries.

Maybe it is political reason maybe it is just the need of the hour because the government has to keep employment going. Otherwise what happens? If due to lack of employment there will be less of savings and all. People might get involved in activities which are not very good for the country and they might there would be low consumption in the domestic market. So, as a result of it could affect badly adversely the entire economy of any country. So, when we talk about you know trade and commercial policies.

So, it is very important to keep in mind how to protect the domestic market and also participate in a free trade mechanism with the outside world right. So, this entire unit talks about the policies regarding the free trade and protectionism and the tariff and the non-tariff barriers right. So, this is all we have for today.

Thank you very much.