THE WALL OF PROTECTIONISM

Rise and Rise of Protectionist Policies in the Global Arena

PHD RESEARCH BUREAU
PHD CHAMBER OF COMMERCE AND INDUSTRY

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1. Introduction

The area of international trade policies are bifurcated into two forms: Liberalized trade policies, viz. general laissez faire economic policies and protectionist trade policies, viz. imposing tariffs and non-tariff measures on exporting countries by importing countries. The term protectionism has been around for a long time in the international trade arena.

Protectionism[1] consists of economic policies that restrict trade between countries in order to promote "fair competition" between imported domestically produced goods. On the back of robust logistics and development of efficient modes of transportation, global trade rose at a tremendous pace during 1970s and accounted for 30% of the global GDP by 1980.

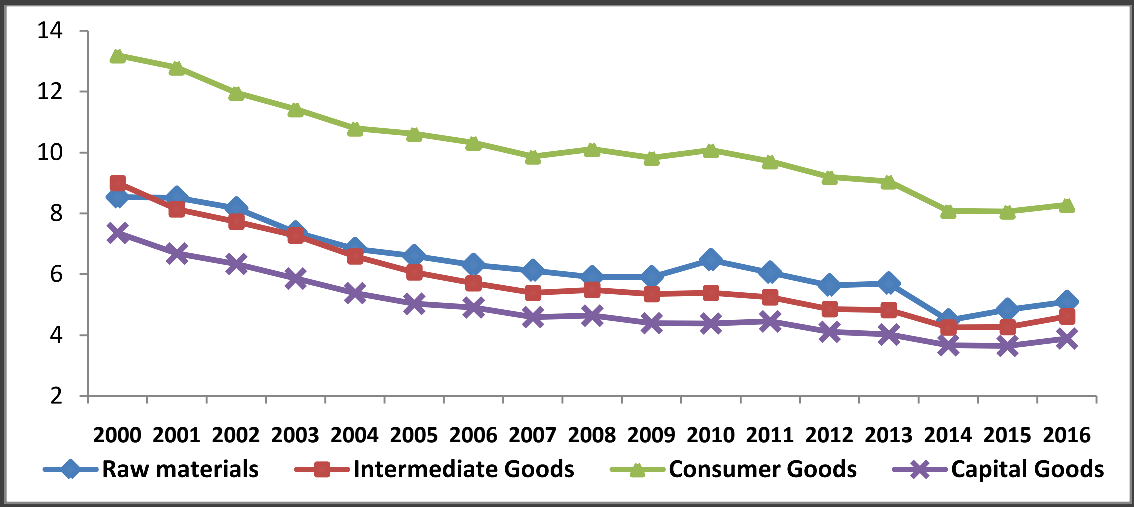
Most of the time, protectionist policies stem from an urge to improve the well being of domestic manufacturers by making them more competitive in comparison with imported goods. And some times, these urges stem from a weak jobs market that could be improved with more domestic manufacturing jobs, more domestic manufacturing jobs.

Some of the popular protectionist policies include **Import Tariffs,** i.e. taxing imported goods increase the cost to importers and raises the price of the imported goods in local markets; **Import Quotas**, i.e. limiting the number of goods that can be produced abroad and sold domestically, thereby limiting foreign competition in domestic markets; **Domestic Subsidies**, i.e. subsidizing costs or providing cheap loans to domestic companies to increase their competitiveness against foreign imports, **Exchange Rates**, i.e. intervening in the forex market to lower a currency's valuation to raise the cost of imports and lower the cost of exports and last but not the least, **Administrative Barriers**, i.e. excessive government regulations to place huge burdens on foreign imports, making it difficult to sell them in domestic markets.

[1] https://www.thebalance.com/what-is-protectionism-1978989

2. The wall of protectionism: Status of Trade restrictive policies

Table 1: Trend of Global Simple Average Tariffs (in %)

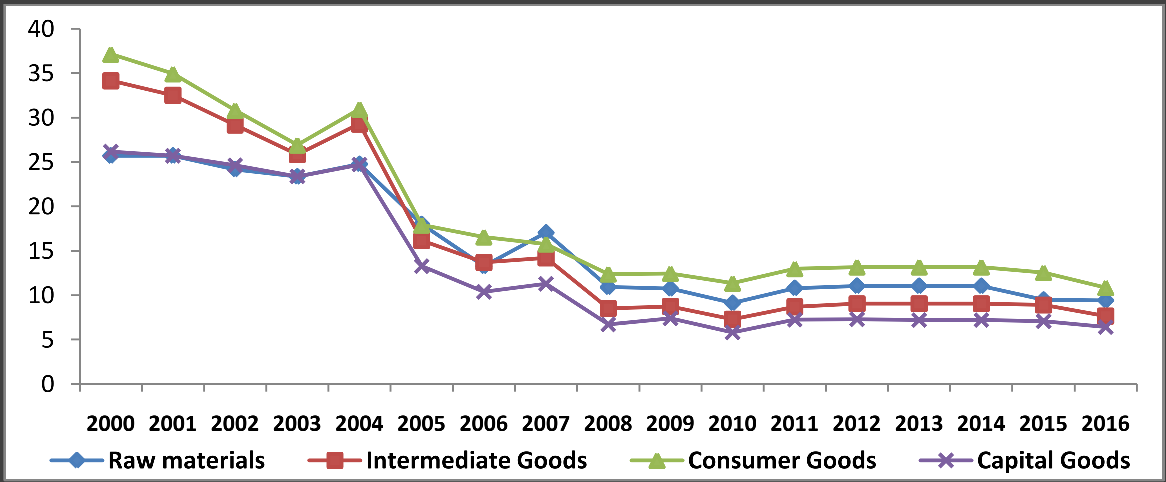


Source: PHD Research bureau; Compiled from WITS Database

It can be illustrated from the figure above that there has been a consistent drop in tariffs over the years. During 2000-2016, tariffs for all categories have gone down; for raw materials the global average tariff rates have fallen from 8.5% in 2000 to 5.1% in 2016, for intermediate goods from 9% in 2000 to 4.61% in 2016, for consumer goods 13.19% in 2000 to 8.28% in 2016, and for capital goods 7.36% in 2000 to 3.89% in 2016.

Interestingly, there has been remarkable percentage gap between tariffs of consumer goods and other categories.

Table 2: Trend of Simple Average Tariffs imposed by India (in %)

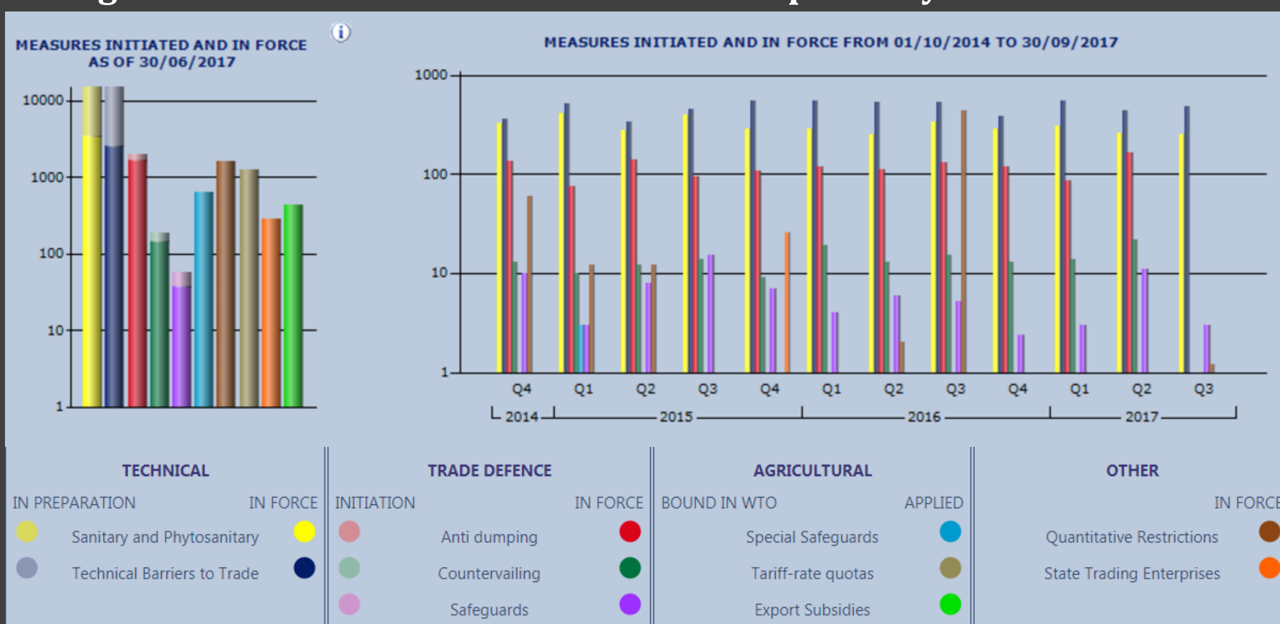


Source: PHD Research bureau; Compiled from WITS Database

India has eased its restrictive policy measures to a greater extent compared to other countries. During 2000-2016, rate of average tariff for raw materials has been reduced from 25.7% in 2000 to 9.4% in 2016, for intermediate goods has been reduced from 34.6% in 2000 to 7.28% in 2016, for consumer goods from 37.15% in 2000 to 10.8% in 2016, and for capital goods from 26.18% in 2000 to 26.18% in 2016.

The ease in trade restrictive measures from India has improved its trade relations with various countries over the years. This can be witnessed from growth in imports from USD 50 billion in 2000 to USD 356 billion in 2016. However, since 2010, India has kept its average tariffs at a constant level, which led to a contraction in imports during that period to an extent.

Figure 1: Trend in Non-Tariff Measures imposed by all economies



Source: WTO's i-TIP Database

According to the WTO's i-TIP Database, 3489 Sanitary and Phytosanitary measures are in force; followed by 2632 Technical Barriers to Trade, 1685 anti-dumping duties, 149 countervailing duties, 38 safeguard mechanisms, 633 special safeguards, 1628 Quantitative restrictions, 1274 Tariff rate quotas, 287 state trading enterprises, and 429 export subsidies.

According to WTO Trade Policy Review Body, 22 new trade-restrictive measures were initiated by WTO members per month during the October 2015 - May 2016, making the cumulative to 154 new trade restrictive measures. This indicates a significant increase compared to the same period previous year, which recorded an average of 15 measures per month, and is the highest monthly average since 2011.

The overall basket of restrictive measures grew by 11% during the same period. Of the 2,835 trade-restrictive measures, including trade remedies since 2008, recorded only 708, i.e. 25%, had been removed by May 2016. The rate by which countries have been eliminating trade restrictions remains very low to make a change in the global trade volumes. The total number of restrictive measures still in place today stands at around 2,127.

It has been observed that the international trade growth has weakened in the last few years largely reflecting continued weakness in the global economy and growth in protectionist policy measures in the world economy. Trade has the potential to strengthen global growth if the movement of goods and supply of services across borders remains liberalized. However, if policymakers attempt to hold severe restrictions on imports, trade cannot help boost growth and may even constitute a drag on the recovery.

India is a staunch follower of liberalized foreign trade policy. India has steadily opened up its economy, with consistent drop in overall tariffs with partner countries. India is of the 'rapid globaliser' of the 21st Century.

India was a relatively closed economy during 1990s, wherein average tariffs exceeded 200%, quantitative restrictions on imports were extensive, and there were stringent restrictions on foreign investment. The country began cautious and gradual transformation since 1990s. After 27 years of globalization policy being pursued by India, India has become an example of liberalized foreign trade policies across the globe.

Since 1991, trade reforms have produced remarkable results. India's trade as a percentage of GDP has increased from 15% to 40% of GDP between 1990 and 2016 and the economy is among one of the fastest growing in the world.

The trade to GDP ratio for South Africa was 60%, followed by UK (58%), Russia (46%), India (40%), China (37%), USA (28%), and Brazil (25%) during 2016.

Table 3: World GDP and Trade scenario at a glance

	World Economic Growth	World Trade growth
2010	5.4%	11.5%
2011	4.3%	6.5%
2012	3.5%	2.8%
2013	3.5%	2.9%
2014	3.6%	3.6%
2015	3.4%	3.3%
2016	3.2%	2.6%
2017 (estimated)	3.6% (IMF World Economic Outlook)	3.6% (WTO)

Source: World Bank database and WTO Database

Nations	Category	2007	2016
Advanced Economies (US, UK and Japan)	Import Volume (in USD billion)	3319.3	3492.2
	Growth (in %)	-	5.2%
Emerging Economies (China, India and South Africa)	Import Volume (in USD billion)	1254.6	2019.4
	Growth (in %)	-	60.9%

Source: PHD Research Bureau; Compiled from Trade map database

As per the table above, emerging economies such as China, India and South Africa have increased their import volume at a remarkable growth rate of 61% during 2007-16 whereas for Advanced economies like US, UK and Japan the import growth increased by 5% during the same period. This clearly indicates the growing integration and opening-up of emerging economies with the rest of the world compared to advanced economies.

In the past decade, the import volume from advanced economies grew from USD 3.32 trillion in 2007 to USD 3.5 trillion in 2016. On the other hand, for Emerging economies the import volume grew from USD 1.2 trillion to USD 2.1 trillion during the same period.

3. Conclusions

In the current global environment, a rise in trade restrictions may not seem an accentuating move. This increase could have negative domino effects effect on trade flows, with discouraging effects on economic growth and job creation. India has the potential to jump-start a stagnating global economy.

There lies a misconception that protectionism may be applied to save jobs, however, this may backfire by disrupting supply chains and costing domestic jobs. Some may think that promoting import substitution or restricting exports for industrial policy reasons is a good idea, but this will only hold back trade in intermediates and investments into value chains. It is also imperative to understand that an open trade regime is also not enough on its own to benefit from multilateral and liberalized form of economies.

All in all, increased protectionism would impede global output of goods and services and would reduce trade. At the same time, more expensive imports of both consumer goods and input goods would lead to temporarily higher inflation in the countries raising trade barriers.

Widespread global protectionism would lead to a loss of the benefits brought about by previous trade liberalization measures. Global real incomes would fall and there would be a risk that the supply of goods and services would diminish.

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