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IMPLEMENTATION OF PROTECTIONISM THEORY IN INDIA AND ITS IMPACT ON THE ECONOMY

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ABSTRACT

Trade practices in the world can be traced back to ancient times, which started with barter exchange, i.e., exchanging goods for goods. The first international trade that took place was the Silk Route where trade happened between Europe, Asia, and Africa. Later, from that phase international trade started developing, and still now it is in a developing stage. In the case of international trade, the domestic industry will have an impact on their development because of the entry of foreign industries into the economy. This is the reason why the protectionism theory came into the picture. Through this theory, the domestic industries were protected from the international industries in the domestic market by implementing various measures. The implementation of this theory is necessary to protect domestic industries from external forces. This research discusses how India has implemented the protectionism theory as it is a follower of the protectionism theory. To ascertain how India implements it, various rules, regulations, and laws enacted by India are analyzed.

INTRODUCTION

International trade is mainly an aspect that helps the country's economy grow. Every country focuses on international trade primarily to maintain foreign exchange. International trade results in the inflow of foreign goods in the domestic market, because of this the domestic customers in the market can easily access the foreign goods. This makes the domestic industry competitive. The domestic industry's market is affected by the entry of foreign industry. But somehow in the economy, the dominant industries manage a stable position in the economy even after the entry of international industries because of their wealth and power. Still, the small-scale industries are the ones who are affected more because of the entry of international industries into the economy. This was the main reason why protectionism theory came into the picture.

The theory states that the country should focus more on the domestic industry than the

international trade. The main purpose of this theory is to protect the domestic industries from external forces. When international products are sold in the domestic market people tend to buy international products as it is different from domestic products, so in such a situation the sales of the domestic product go down and their market will be affected. So, it is necessary to take the required measures to protect the domestic product and market. This theory emphasizes that the country should be less dependent upon the goods and services provided by other countries and should depend more on its local market. In other words, it can be said that the country should focus more on exportation rather than importation. When a country's imports are higher, it is that the country is dependent more on foreign goods and it affects the domestic market. When a country exports more, it is that the country is less dependent on foreign products and the domestic market is protected. There is a similar theory in international trade law as the protectionism theory is the infant industry theory, which says that the infant industries must be protected by the state from the international industries.

The theory emphasizes the state to protect domestic industries from international industry and boost the production of domestic goods and services. This theory is seen as the most important theory in international trade law by economists, but it has its advantages and disadvantages.

The advantages of the theory are:

- This theory provides more growth opportunities to the domestic industry and helps them to compete with the international market.
- By implementing this theory, the countries' imports would be less which helps in balancing the Balance of Payment and helps to maintain the foreign exchange reserve.
- This theory results in the boost of the domestic industry, by this the employment opportunity in the domestic industry would increase, which helps in reducing the unemployment rate.
- When there is a boost in the domestic economy and when there are more exports than imports, the GDP of the economy increases, which results in economic development.

The disadvantages of this theory are:

- As the domestic industries need not worry about international competition their spending on research and development would be less, which result in less or no advancement in the products in the market.

- When there is only a domestic product present in the market the consumer would have limited choice in the market to choose. They would have access only to the domestic product.
- When there is no much international product in the market, the competition in the market would decrease and the domestic industries would charge high prices for their product with the customer as the customer doesn't have any other choice in the market.
- This theory may lead to political and cultural isolation in the economy.

INSTRUMENTS OF TRADE PROTECTION

The theory states to put restrictions on the import of goods and services from the foreign country. Every country often tries to put restrictions on the import of goods and services to protect the domestic industry under this theory. The tool that the country uses to put restrictions on imports is the barriers. These barriers are imposed by the government to decrease the import of goods and services so that the domestic products in the Indian market have less competition.

The barriers are of two types:

- Tariff barrier and;
- Non-tariff barriers

Tariff Barrier –

Tariff barriers are the tax barrier which is put on imports. It is the tax that is imposed by the government on imported goods and services. It may be applied to the import of both intermediate and final goods. The tariff may be specific or ad valorem. Tariffs are levied as a fixed amount per unit of goods and services. The tax in Ad Valorem is charged basically in a percentage manner, a particular percentage of tax is charged for a particular quantity of goods and services. The tariff imposed on the final goods and services makes the goods costly for the consumer to produce, as the goods are costly the demand for that particular goods and service in the market would be less. In such cases, the consumer would prefer domestic products over international products. Imposing a tariff on the intermediate goods or the raw materials makes the cost of production of those goods high, which makes the raw material costly for the producer to buy and at the end of production, the price of that particular good will also be high. So, the demand among the consumer for such goods would be less and in such a situation, the consumer prefers domestic goods.

Non – Tariff Barriers –

In simple words, a non–tariff barrier means non–tax barriers. This kind of barrier includes the forms of barriers other than tax. The types of non–tariff barriers are:

- **Quotas –**

Quotas impose restrictions on the quantity of imports. The Quotas is administered through an import license. Only the license holders are allowed to import a particular quantity of goods and services. With quota, the domestic price of the imported goods will be high so the demand for the imported goods in the domestic market will be less, and as the product price is high in the market, the consumer will prefer domestic products over imported products.

- **Exchange control –**

Exchange control is the restriction imposed by the central bank of a particular country by limiting the domestic resident to acquire foreign currency for domestic currency. The domestic resident should acquire permission from the country's central bank to hold foreign currency.

- **Import Deposit Scheme**

This restriction is imposed by the country's central bank. This Scheme puts restrictions on the importer, where they should deposit a certain amount with the central bank before importing. This restriction makes the imported goods costly in the domestic market.

- **Health and Safety Standards**

The central government of the country imposes health and safety standards on the goods imported by the importer. The goods will be allowed to be traded in the domestic market only if the goods meet the health and safety standards given by the central government of that country. By imposing these kinds of restrictions, cheap products and low-quality products can be prohibited from entering the domestic market. As these cheap products and low-quality products are less expensive, the consumer might opt to buy imported products, so in such a situation the domestic product would be affected.

- **Rules, Regulations and Procedures**

This is one of the common forms of non–tariff barriers. The central government of the country imposes rules, regulations, and procedures for import which the importer is bound to follow. This puts a restriction on the import of the importer, which also makes the imported goods expensive to the domestic consumers. Some of the procedure or rules includes; Sanitary and Phytosanitary measures, technical barriers, Pre-shipment

inspection, contingent trade protective measures, Finance policies for imports, Distribution restrictions, Restrictions on post-sales services, Intellectual property, and Export-related measures.

- **License procedure**

The central government puts license restrictions on the importer. The central government mandates the importer to acquire an import license from the government to import goods and services from the foreign country. The government also mandates the renewal of the license issued by them to the importer.

- **Prior approval**

The central government issues notifications on the import of certain goods and services where prior approval from the central government is necessary to import the goods and services. By this form of barrier, the central government can have control over the import of certain goods and services and they may impose certain restrictions even while granting such approval, by this the central government can protect the domestic industry.

- **Rule of Origin**

This is the rule that requires the importer to produce the document relating to the country from where the goods are being imported. This barrier is made by the government to ensure the origin of the goods, to determine the quality of the goods, to determine the price of the goods, and to determine whether such imports are dumping or not.

IMPLEMENTATION OF TRADE PROTECTIONISM THEORY IN INDIA

Indian economy is in the developing stage, so at this stage, it is essential to protect the domestic industries from the international economy. To protect the domestic industry, India has taken various steps to implement this protectionism theory in the Indian economy. India has implemented this protectionism theory in various ways such as:

- **Import Export Code**

The Code is a 10-digit number allotted to any entity or company for import and export activity. The IEC holds a greater importance in the import and export. No import or export can take place in India without this code. No organization or company shall be allowed to import or export without this number. This number is allotted by the Director

General of Foreign Trade by the application of the party. This puts restrictions upon the person who can export and import.

- **Export and import procedure**

India has imposed a complicated export and import procedure. The export procedure includes; producing of bill of lading, airway, or railway receipt. The procedure of export includes; producing of bill of lading, airway, or railway receipt, no objection certificate from DGFT, and bill of entry which shall be acquired from the DGFT, and in specific cases prior permission from the DGFT is also required to be taken for importing the goods and services.

- **Forex reserve**

This control is done by the central bank in India. The central banks mention the amount that is to be spent on foreign trade. The central banks set the limit for the foreign exchange which can be done by an organization or company in the course of foreign trade. By this, the amount spent on foreign trade can be controlled and it can be seen that the country's exports are more than imports so that the domestic industries can be promoted and protected.

- **Label**

According to the Act of the standard of weight and measure of packed goods or commodities, any goods which are imported or exported in India shall consist of a label providing information regarding the quantity and quality of goods, name of the goods, address, and place to where it is been imported or exported, address and place from where it is been exported to India, the market value of the commodity, the manufacturing and expiry date of the commodity, and the taxes included in the goods. If such a label is not been attached to the package of the commodity the central government has the power to prohibit such goods from being exported or imported. By this, the central government can have control over the goods that are exported and imported from India and they can also protect the domestic goods from being exploited.

- **Indian Quality Standard**

In India, the exporters and importers must comply with the Indian Quality Standard and ensure that the goods and services that they export or import are of good quality. The exporters and importers should register themselves with the Bureau of Indian Standards only then, they will be allowed to import or export goods in India. Under this, the central government gives certain conditions which need to be followed by the companies in importation and exportation. By issuing notice the central government sets standards

for each good and service that is imported and exported.

- **Taxes**

In India taxes are been imposed for the importation of goods and services. The exportation in India is a zero-rated tax. Taxes are been imposed on the import of goods and services to make the imported goods costly in the domestic market to protect the domestic industries from the foreign industries in the market and also to reduce the demand for foreign goods in the domestic market. By this, the domestic industries and products can be protected.

- **Anti-dumping measures**

Anti-dumping measures are been taken in India to prohibit the dumping of unsold and low-quality goods from foreign countries. One of the anti-dumping measures taken by India is charging a high import tax on such goods upon the condition that the country has to prove that some material injury has been suffered by the domestic market the product quality is low and even the price of the product is also low. By this measure, the price of such product would be high in the domestic market which makes it costly for the consumer to purchase. So, the demand for such products in the market would be less and the consumer would prefer domestic products over the imported product.

IMPACT OR EFFECT IN THE INDIAN ECONOMY

India has implemented the protectionism theory in various forms. There are both positive and negative impacts on the implementation of this theory in India. The effects of such implementation are:

POSITIVE IMPACT –

- **Job Creation**

Under protectionism theory, the country tends to protect domestic industries from foreign industries by providing support through means of finance, schemes, etc. In return, the domestic industry tends to develop, creating more employment opportunities for the people.

- **Increase GDP**

When the government assists in the protection of domestic industry through this theory, the domestic industry tends to grow more and faster. Therefore, the earnings of domestic industry would increase which in turn increase the income/ GDP of the country.

- **Growth Opportunity**

Under protectionism, the domestic industry receives more assistance from the government, which provides them with growth opportunities due to which they can compete with more experienced international firms.

- **Increase in Trade Balance**

Protectionism results in a reduction import of goods and services, which later helps in the reduction of the Trade balance/ Balance of Payment (BOP) of the country.

NEGATIVE IMPACT –

- **Limited choice of consumers**

There is a lack of a wide array of products and services available in the domestic country. This will make the market uncompetitive with the rest of the world. The problem that the consumer faces is that they have to pay a high price to purchase a product because of the import tax imposed on them. The domestic firms pass on the high cost of intermediate products to the consumers.

- **Less competitiveness of infant industries**

This is one of the major issues that is faced due to the implementation of protectionism theory in India. When there is less presence of international industries in the domestic market the domestic industries may not try to improve their performance as they have an assurance of their sale in the market. This reduces the innovativeness in the market. Therefore, industries may not put much effort into making high-quality products and services. This also puts a burden on the government where they have to invest more to protect the infant industries.

- **Increase in price of domestic product**

Due to the less competition or less intervention of international industries, there would be limited choices in the market, which paves the way for the domestic industries to abuse it, by means of the price of the products. When there is not much choice for the consumer in the market, they are forced to buy the domestic (which are fewer choices), therefore, the domestic industries misuse this and set high prices for their product. This leads to long-term inflation in the market which affects the consumer at large.

- **Trade war**

When a country adopts an approach, it induces other countries to adopt the same, with its trading partner i.e. if India adopts protectionism theory, it induces other countries which are trading with India to adopt the same against India. The other country takes

the stand of higher tariffs and duties which makes domestic industries difficult to access other country's domestic markets. This happened between the United States and Japan in the year 1945 when both countries adopted policies against each other, which affected the consumers in both countries where they had to pay high prices for the products and there was a lack in the variety of products. Due to this both the countries had incurred a loss of billions of dollars to both countries. This eventually resulted in deteriorating real GDP growth and increased costs to consumers and the government. Therefore, it results in the reduction of the GDP of the country.

- **Increase in price of foreign goods**

When protectionism theory is followed, one of the measures that the country takes is to increase the tax on the importation of goods and services. As a result, when the good comes to the market, the price of the product is more expensive. This reduces the purchasing power of the consumer and their standard of living.

SUGGESTION AND CONCLUSION

Suggestion

- **Balanced Approach:** India should adopt a balanced approach towards protectionism, considering the dynamic nature of global trade. While protecting domestic industries is essential, excessive protectionism can stifle innovation and competitiveness. Thus, policies should aim for a balance that fosters growth while safeguarding domestic interests.
- **Investment in Innovation:** To overcome the drawbacks of protectionism, the Indian government should incentivize domestic industries to invest in research and development. Encouraging innovation will enhance the competitiveness of domestic products in both domestic and international markets.
- **Trade Diversification:** Instead of solely relying on protectionist measures, India should focus on diversifying its trade partners and export markets. By expanding its export base, India can mitigate the risks associated with protectionism and enhance its resilience in the face of global economic uncertainties.
- **Efficiency Improvements:** The government should prioritize improving the efficiency and productivity of domestic industries through infrastructural development, skill enhancement programs, and ease of doing business reforms. Enhanced efficiency will

enable Indian industries to compete effectively in the global market without resorting to excessive protectionism.

Conclusion

In conclusion, the protectionism theory has had both positive and negative impacts in the Indian economy. While it has provided temporary relief to domestic industries and protected them from external competition, it has also led to drawbacks such as limited consumer choice, uncompetitive infant industries, and trade conflicts. Therefore, India must adopt a nuanced approach towards protectionism, ensuring that it promotes industrial growth and competitiveness without undermining long-term economic sustainability. By combining protectionist measures with strategies aimed at promoting innovation, diversifying trade, and enhancing efficiency, India can achieve sustainable economic development in an increasingly interconnected global economy.

