International Management I + II

A Study on Trade Barriers in India

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1. Introduction

India is the seventh largest economy in the world, but it has managed to position itself only as the 17th largest exporter in value terms which accounts for around USD 271 billion and the 10th largest importer demanding USD 402 billion in 2016. Although it is claimed that the liberalisation of the Indian economy in 1991 has greatly transformed it by removing many trade barriers and de-licensing of the industrial sector, its value or trade flow has remained very ordinary for a country with a population size of 1.26 billion \([\textit{Census, 2011}]\).

India witnesses much lesser trade flow by value not only when compared to the bigger economies such as the US and China, but also in comparison with smaller economies, such as Singapore and Taiwan.

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Value 2016 Billion USD</th>
<th>Import Value 2016 Billion USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2011</td>
<td>1437</td>
</tr>
<tr>
<td>United States</td>
<td>1471</td>
<td>2205</td>
</tr>
<tr>
<td>Germany</td>
<td>1283</td>
<td>987</td>
</tr>
<tr>
<td>Japan</td>
<td>641</td>
<td>629</td>
</tr>
<tr>
<td>Singapore</td>
<td>353</td>
<td>271</td>
</tr>
<tr>
<td>Taiwan</td>
<td>314</td>
<td>248</td>
</tr>
<tr>
<td>India</td>
<td>271</td>
<td>402</td>
</tr>
</tbody>
</table>

**Table 1: Trade value flow across some major counties**

*Source: International Trade Statistics 2016*

The reason behind such a peculiar trade scenario is that despite its network of trade agreements and commitments under the WTO, India still has significant tariff and non-tariff barriers that limits its trade with the world.

Most of the agreements offer only partial access to markets limited to specific goods. India imposes and maintains an average applied tariff of 13 per cent which is among the highest in the world. \([\textit{Global Competitiveness Report 2016, WEF}]\),
2. Trade Barrier

Trade barriers are government-induced restrictions on international trade. [Wikipedia]

Trade barriers are measures that governments or public authorities introduce to make imported goods or services less competitive than locally produced goods and services. Not everything that prevents or restricts trade can be characterised as a trade barrier. [Ministry of Foreign Affairs Denmark]

They classified mainly into two categories

1. Traffic Trade Barrier - Custom duties, form of a tax on imports and exports
2. Non-Tariff Trade Barriers

Non-Tariff Barriers

Non-tariff barriers to trade (NTBs) or sometimes called "Non-Tariff Measures (NTMs)" are trade barriers that restrict imports or exports of goods or services through mechanisms other than the simple imposition of tariffs. [Wikipedia]

Non-Tariff barriers includes [Investopedia]

- Licenses

  Countries may use licenses to limit imported goods to specific businesses. If a business is granted a trade license, then it permits it to import goods that otherwise are restricted for trade in the country.

- Quotas

  Countries typically use quotas for the importing and exporting of goods. In nontariff barrier procedures, countries agree on specified limits of goods and services that are permitted for importation to a country, typically without restrictions, up to a specified limit. Quotas can also be set for specific time frames. Additionally, quotas are also often used in international trade license agreements.
• Embargoes

Embargoes restrict the trade of specified goods and services. Embargoes are a measure used by governments for specific political or health circumstances.

• Sanctions

Countries impose sanctions on other countries to limit their trade activity. Sanctions can include increased administrative actions and additional customs and trade procedures that slow or limit a country’s ability to trade.

• Voluntary Export Restraints

Voluntary export restraints are a type of nontariff barrier used by exporting countries. Voluntary export restraints set specified limits of goods and services to be exported to specified countries. These restraints are typically based on availability and political alliance.

Figure 1: Trade Barrier

Source: https://sites.google.com/site/haitidevelopingnationsproject/international-barriers
3. India’s Foreign Trade Policy (FTP/EXIM)

India's Foreign Trade Policy also known as Export Import Policy (EXIM) in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favourable balance of payments position.

**Highlights of FTP/EXIM 2015-2020**

- FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the ‘Make in India’ programme.

- The Policy aims to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country’s economic growth and development.

- FTP 2015-20 introduces two new schemes, namely ‘Merchandise Exports from India Scheme (MEIS)’ for export of specified goods to specified markets and ‘Services Exports from India Scheme (SEIS)’ for increasing exports of notified services.

- Duty credit scripts issued under MEIS and SEIS and the goods imported against these scripts are fully transferable.

- For grant of rewards under MEIS, the countries have been categorized into 3 Groups, whereas the rates of rewards under MEIS range from 2 per cent to 5 per cent. Under SEIS the selected Services would be rewarded at the rates of 3 per cent and 5 per cent.

- Measures have been taken to give a boost to exports of defence and hi-tech items.

- E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values up to INR 25,000).

- Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various forms of bilateral and regional trade agreements. This ‘Approved Exporter System’ will help
manufacturer exporters considerably in getting fast access to international markets.

- A number of steps have been taken for encouraging manufacturing and exports under 100 per cent EOU/EHTP/STPI/BTP Schemes. The steps include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.

- 108 MSME clusters have been identified for focused interventions to boost exports. Accordingly, ‘Niryat Bandhu Scheme’ has been galvanised and repositioned to achieve the objectives of ‘Skill India’.

- Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP. One of the major objective of new FTP is to move towards paperless working in 24x7 environment.

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**Figure 2: India’s Major Import and Export Products**

*Source: www.linkedin.com/pulse/list-india-top-exported-imported-products-sucheta-bhattacharya*
4. India’s Trade Barriers

Import Licensing:

One of the most common non-tariff barriers is the prohibition or restrictions on imports maintained through import licensing requirements. For example, the Indian government requires a special import license for motorcycles and vehicles that is very restrictive. Import licenses for motorcycles are provided to only foreign nationals permanently residing in India, working in India for foreign firms that hold greater than 30% equity or to foreign nations working at embassies and foreign missions. Some domestic importers are allowed to import vehicles without a license provided the imports are counterbalanced by exports attributable to the same importer.

Standards, testing, labelling & certification:

The Indian government has identified 109 commodities that must be certified by its National Standards body, the Bureau of Indian Standards (BIS). Another agency, the Food Safety and Standards Authority of India established under the Food Safety and Standards Act, 2006 as a statutory body for laying down standards for articles of food and regulating manufacturing, processing, distribution, sale and import of food. The idea behind these certifications is to ensure the quality of goods seeking access into the market, but many countries use them as protectionist measures. For more on how this relates to labelling requirements, please see the section on Labelling and Marking Requirements in this chapter.

Anti-dumping and countervailing measures:

Anti-dumping and countervailing measures are permitted by the WTO Agreements in specified situations to protect the domestic industry from serious injury arising from dumped or subsidized imports. India imposes these from time-to-time to protect domestic manufacturers from dumping. India’s implementation of its antidumping policy has, in some cases, raised concerns regarding transparency and due process. In recent years, India seems to have aggressively increased its application of the anti-dumping law.
Export subsidies and domestic support

Several export subsidies and other domestic support is provided to several industries to make them competitive internationally. Export earnings are exempt from taxes and exporters are not subject to local manufacturing tax. While export subsidies tend to displace exports from other countries into third country markets, the domestic support acts as a direct barrier against access to the domestic market.

Service barriers

Services in which there are restrictions include: insurance, banking, securities, motion pictures, accounting, construction, architecture and engineering, retailing, legal services, express delivery services and telecommunication.

Procurement

The Indian government allows a price preference for local suppliers in government contracts and generally discriminates against foreign suppliers. In international purchases and International Competitive Bids (ICB’s) domestic companies gets a price preference in government contract and purchases.

Other barriers

Equity restrictions and other trade-related investment measures are in place to give an unfair advantage to domestic companies. The Government of India continues to limit or prohibit FDI in sensitive sectors such as retail trade and agriculture. Additionally, there is an unpublished policy that favours counter trade. Several Indian companies, both government-owned and private, conduct a small amount of counter trade.

<table>
<thead>
<tr>
<th>Import Procedures</th>
<th>Time (days)</th>
<th>Cost Per Container (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs clearance and Technical Control</td>
<td>4</td>
<td>200</td>
</tr>
<tr>
<td>Port and Terminal handling</td>
<td>5</td>
<td>250</td>
</tr>
<tr>
<td>Inland Transportation</td>
<td>3</td>
<td>400</td>
</tr>
<tr>
<td><strong>Total(incl. other procedures)</strong></td>
<td><strong>20</strong></td>
<td><strong>1250</strong></td>
</tr>
</tbody>
</table>

Table 2: Import Procedures and Costs of India

Source: www.doingbusiness.org
5. Outlook & Conclusion

Imports procedures in India takes 9 more days and requires 7 more documents when compared with that of the import procedures in OECD countries.

Even though paying 200 USD more that of the import costs in OECD countries, the importers has go through these tedious procedures and a longer waiting period. This creates a heavy toll on the shoulders of the importers.

Other barriers like corruption at the borders, inappropriate telecommunication infrastructure, crime and theft also adds on to the problems of the importer making the trade difficult.

The ‘Make in India’ Policy in the FTP 2015-2020 is also a barrier for import. Even though it encourages the local producers, the flow of products into the country from outside is affected which may lead to reconsidering or reframing trade agreements between other countries which may or may not beneficial for India.

Consequences of High Tariff / Import Barriers in India

- Affects the firms and industries due to high costs of raw materials which may in turn affect the export of the finished products.
- Price burden on the consumers increases.
- Reduction in Demand of import(affects the domestic market)
- Product with low quality and high price in the Market
- Paves way for Black market and smuggling.

The consequences mentioned above project a great threat to the country by adversely affecting its economy. The Government should give more attention to these consequences and have to update or amend some controversial trade barriers (Ex: Printing of all ingredients in food products) and also making new policies in the next FTP-EXIM which would reduce the burden on the importers. For a beginning, they might start with reducing the amount of paper work and speeding up the import procedure.

As many experts say today, India WAS a developing nation but now the development is not progressive enough or rather it is stagnant. The Trade Barriers is one of the main reasons for the non-progressive behaviour and this issue cannot be overlooked.
References

1. Pinak Sarkar and Dr. (Prof.) Martin Patrick, “India’s Trade Barriers: An Analysis with Reference to Tariff and customs procedure”, Centre for Public Policy Research, January 2015.


4. www.investopedia.com