

INTERNATIONAL TRADING ENVIRONMENT

Expansion of trade and the benefits of trade depend a lot on the trading environment.

--it affects not only trade but also international investments and financial flows.

International Trading Environment includes:

- **Trade Policies**
- **Trade Barriers**
- **Trade Agreements**
- **Trading Blocs**
- **Cartels and • Multinational trade negotiations**

An international Trading firm encounters **3 sets of Environment:**

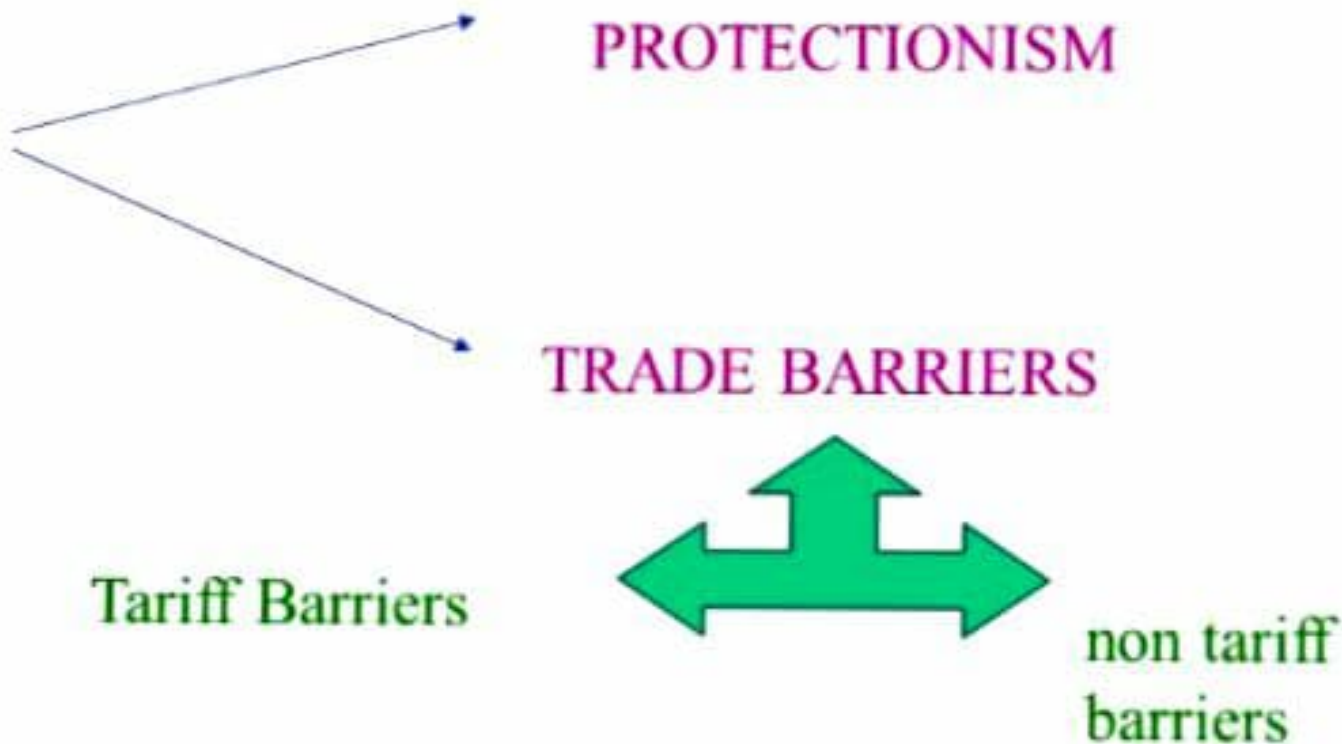
- the **domestic** environment, the **foreign** environment, and the **global** environment.
- e.g.: of an Indian firm engaging in International Trade:

Domestic environment = governed by Indian laws

- e.g. the Foreign Trade Development & Regulation Act, FEMA, Foreign Trade Policy etc;
- --regulations relating to minimum export price; also affected/influenced by export promotion measures—also by the general business environment of the country.

- **Foreign Environment** = environment in the relevant foreign market, and the international trade regulations
- **Global Environment** = the global factors which affect international trade
- such as WTO principles and agreements;
--other international conventions/
treaties/agreements/ declarations/protocols
etc.

Various International Trading Environmental factors:



TRADE BARRIERS or PROTECTIONISM

- --there are so many trade barriers now
- --after WWII and the successive rounds of negotiations in the GATT: there had been **significant reduction in trade tariffs** (from an average level of 40 % in 1947 to about 3 % in the industrialized countries)
- --but since mid 1970s the trade liberalizations in the developed countries have given way to **growing protectionism.**

Why?:

- Oil crises; Currency crisis; debt crises; recession; high unemployment and trade deficits in those countries;
- --so also the increasing competition from Japan & NICs.
- Hence, the Developed countries reacted by increasing the **NTBs** (non tariff barriers) like: quotas, MFA, voluntary export restraints, price restraints, health and safety regulations.
- --the exports of **developing countries** were **affected more** than those from developed by such protectionism.

Reasons for Protection:

- ** to protect domestic inds; promote local R&D; conserve forex.

a) Infant Industry argument:

- so need temporary protection at least; otherwise it is unequal fight.
- **Nurse the baby, Protect the child, and Free the adult.**

Danger: of infant always remaining infant (like SSI incentives)

b. Diversification argument:

- --Need to have a diversified industrial structure if we want a strong and self-sustaining economy
- --A country relying too much on foreign countries runs a big risk.
- --So the need to protect & develop a number of local industries

c. Improving the terms of trade: (by imposing duties or quota)

- By imposing tariff (custom duties) the country can expect to **obtain larger qty of imports for a given amount of exports.**
- – so also, it will need to part with a lesser qty of exports for a given amount of imports.
- **BUT:** this will be possible only if: the imports are inelastic
- Also, quite possible that they may **retaliate** – counter tariffs, quotas.

d. Improving BOP:

- --by restricting imports (also conserve scarce forex)

e. Anti-dumping:

- if foreign cos resort to dumping: will ruin our industries
- the relief to our consumers will only be temporary

g. Employment argument:

- Protection to stimulate domestic economy and expand employment:
- by import substitution
- **BUT:** the import substitution can lead to:
 - recession in foreign country and so fall in demand for our exports
 - they may retaliate to protect their employment

h. National Defence:

- –Certain inds have to be developed for strategic reasons e.g.: defence, atomic energy..

i. Key industry argument:

Certain basic & key inds are vital for development of other inds and so need to be developed locally

Other Arguments: fallacious/ less serious

■ **Keeping Money at home:**

- **‘When we buy goods manufactured abroad, we get the goods and the foreigner gets money; but when we buy the goods manufactured at home, we get both the goods and the money’** (falsely attributed to Abraham Lincoln)
- but don't forget the imports are paid for by exports.

TRADE BARRIERS



TARIFFS = duties or taxes imposed on internationally traded goods when they cross the national borders.

- **Since II WW:** tariffs have been reduced significantly in developed countries
- But in developing countries it is generally higher.

INDIA:

- Had one of the highest tariff walls in the world.
- But following the Tax Reforms Committee (**Chellaiah Committee**) these have been steadily reduced
- So also, import duties on CGs, project imports, etc., were also brought down
- And continue to be lowered.

If protection is required:

- Tariffs are preferred to NTBs, as tariffs are transparent and less regressive.
- Hence, WTO is also against NTBs.

- However, **tariffs of Developed countries continue to be very highly** loaded against developing countries.

e.g.: Although most tariffs in developed countries are low, those on several categories are prohibitively high –esp those on many consumer, agricultural and labour-intensive products (10-20 times higher)

- EU applies 236% tariff on meat; 180% on cereals; but its tariffs on raw materials and electronics are only 5%!
- The US collected duties on imports of \$2.4 billion **from Bangladesh** (a major clothing exporter) of \$331 million in 2001, which was a little more than the \$330 million it collected on the \$30 billion imports **from France** during the same period.
- US tariff on imported shirt is only 1.9 % while it is 20% on cotton shirts and 32.5% on synthetic fibre shirts. (regressive rates!)

NON TARIFF BARRIERS:

- Have grown considerably particularly since 1980s

- **Types of NTBs**

Used by **developing countries** to prevent forex outflow

Used by **Developed countries** to protect domestic inds from 'cheap' imports/protect less efficient home inds; also VER.

Hard Core NTBs:

- significant restrictive effects
- e.g.: Import prohibitions, QRs, VER (Voluntary export restraints), Variable levies, MFA restrictions.

Non-hard core NTBs:

- technical barriers (health and safety restrictions/stds)
- minimum pricing regulations etc

a) QUOTAS:

- --e.g. textile exports from developing countries were severely affected by QRs imposed by developed countries under the MFA
- ---there are both export quotas and import quotas

- **Export quota:**

- a country may impose a quota on exports if the govt feels that exports in excess will affect the domestic consumers.
- Sometimes this export quota is the result of an international commodity agreement.

- **Import quota:**

- aim to protect the interests of domestic producers or to conserve forex.

b) Licensing:

- **QRs are generally implemented by means of licensing**
 - --the prospective importers have to obtain a license from the govt. authorities...
 - Sometimes, exports of certain products also require license.

c) Voluntary Export Restraints (VER):

- as per **bilateral arrangements**
- --the exporting country voluntarily restrains the export of the specified product in order to either help the country reduce its trade deficit or to protect domestic industry (of the importing country).
- --usually adopted **under pressure from importing country**
- e.g.: **MFA**-- against Japan & NICs: by US & EU.

d) Administered Protection: (AP)

- --several types of AP, e.g.: Licensing, even VERs are result of AP

Other types of AP:

1. **Safeguards:** Article XIX of WTO enables member countries to undertake temporary restrictions (safeguards) against surges in imports threatening the viability of domestic inds.
 - --but often continued and becomes permanent barrier.

2. Health Standards:

–Several health and product stds imposed by developed countries hinder exports from Developing countries (because of the added costs of technical requirements).

3. Customs Procedures: become trade barriers

e.g.: the frequent changes of Japan's Customs regulations

4. Consular formalities:

- --like certification of export documents by respective consulates (very high fees/ cumbersome procedures, or certificates of origin)

5. Govt. Procurement:

- --greater international competition needed in govt. procurements.

6. State Trading: also hinders free trade

--because of the counter-trade practices, canalisation etc.,

7. Monetary Controls:

- --in addition to restriction on forex, measures such as higher interests on import credit, or higher cash margins and/or restrictions in the opening of L/Cs for imports.

8. Environmental Protection Laws: may lead to regulate imports

eg. US imposed restrictions on import of shrimp for not using turtle exclusion nets..

Impact of NTBs:

- --NTBs are less transparent, difficult to identify, and their impact on exporting countries is almost impossible to quantify.
- And non-discriminant
 - discriminate against the lowest-cost sources of imports.

NTBs and Indian Exports:

- The problem of NTBs for Indian exports have been growing:
- An **ADB study** of the effects of NTBs on India's exports to Developed countries found that:
- –exports of **Iron and steel, chemicals, textiles** (esp RMG), **vegetables and allied categories** are denied market access in the developed world, by the **imposition of various NTBs** (anti dumping duties, sanitary & phytosanitary sanctions, QRs, Environmental clauses, IPRs etc..)

- According to **estimates of GOI (2002)** about **44%** of the total exports to the US faced some or other form of NTBs.
- --e.g.: the threat under Super 301 and Special 301.
- -- also when the exporting country does not toe the ec or political lines
- --NTBs prevent the industry from making full use of technological potential and economies of scale (esp in the RMG sector).

UNDER THE WTO FRAMEWORK

- NTBs are permitted if the items in question are seen to **compromise health and environmental stds** in the importing country, or undermining the interests of the domestic industry.
- But now it is leading increasingly to “**neo-protectionism**”.
- e.g.: **anti dumping duties**: permitted where the foreign players sell products below COP to destroy domestic producers.
- --but now the instances of such antidumping suits have gone up to nearly 300 p.a.

- **Countervailing duties:** meant to offset unfair advantage due to export subsidies --but now used merely as a protectionist measure against cheap foreign goods.
- Similarly, prescribing far higher than required **sanitary and phytosanitary stds** (to safeguard the health of consumers).