India tries unfree trade for a change

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Over the past century, free trade across borders has been seen as bene cial to global economies. Quantitative import and export restrictions against WTO members are specifically prohibited by article XI of the WTO Agreement. An exception to this provision is article XIX of the agreement and the Agreement on Safeguards.

In September 2021, the Directorate General of Trade Remedies (DGTR), Ministry of Commerce, recommended for the rst time that quantitative restrictions on imports of Isopropyl alcohol (IPA) be imposed for a period of two years under section 9A of the Foreign Trade (Development & Regulation) Act, 1992, read with the Safeguard Measures (Quantitative Restrictions) Rules, 2012. The recommendation followed a determination by the DGTR that there had been a surge in imports of IPA as a result of unforeseen circumstances, causing serious injury to the domestic industry. The domestic industry also submitted a plan for positive adjustment and the DGTR formed the opinion that the restriction would be in the public interest. The DGTR xed quarterly global import quotas for IPA after considering its domestic availability, the projected future demand for IPA and the imports of IPA in the previous three years. The quotas were not xed for individual exporting or importing rms, but separately for each exporting country.

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Globally and in India, tariffs are preferred over quotas as trade remedial measures. This is not only because tariffs earn tax revenues for the government, but also because implementation is fairly straightforward. Fixing and implementing quotas is complex. Import quotas are calculated on an estimation of domestic supply and the potential demand for the product in the Indian market having regard to economic factors. If future demand is overestimated, the quotas would be unduly high, and the measure will become ineffective in protecting the local domestic industry. For a measure that underestimates future demand, the quotas would be too restrictive, and can result in shortages of a critical import, with far-reaching adverse implications for downstream industries.

The implementation of quotas can be an administrative nightmare. In the IPA case, the allowed import quantities are xed quarterly for each country. Exporters will rush to export their products at the beginning of each quarter to qualify for the quotas. A proper mechanism to assess importers and exporters and the quantities they import, and the remaining balances available under the quota at any given time has to be put in place. These types of measures create uncertainty in the trade and are disadvantageous to smaller importers unable to maintain large inventories. The main drawback of quotas is that importers are unable to import quantities in excess of the quota, even if they are willing to pay higher duties and taxes.

The Finance Act, 2020, amended section 8B of the Customs Tariff Act, 1975, to include the application of tariff-rate quotas (TRQ) as a safeguard measure. The amendment to the Customs Tariff (Identi cation and Assessment of Safeguard Duty) Rules, 1997, required to operate the TRQ were, however, only introduced in February 2021. TRQs, unlike quotas, do not result in blanket restrictions on imports, but permit imports beyond the quota quantity on payment of higher tari s. TRQs offer a greater exibility to downstream industries in India as well as to foreign exporters. In future, India will have to balance the interests of producers against the interests of user industries to achieve balanced and sustained economic growth.

India aims to become a global manufacturing hub, with the introduction of government schemes such as Make in India, Atmanirbhar Bharat or self-reliant India, and production-linked incentives. Maintaining global supply chains is essential while protecting local industries from unfair trade practices. Pre-liberalisation, imports were subject to licensing restrictions that created market distortion and restricted critical materials. Following liberalisation, most goods became freely importable. Quotas return India to the era of trade restrictions. The government would be wiser using tariffs and TRQs as safeguards and saving quotas for exceptional cases. Tari s and TRQs are more effective at protecting local industries without the drawbacks of quotas.

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