# REMOVAL OF QUANTITATIVE RESTRICTIONS ON INDIA'S IMPORTS

## CRISIS OF INCREMENTAL IMPORTS OR CRISIS OF CONFIDENCE

*B Bhattacharya**

*Present paper aims at presenting the analytical framework to analyse the impact of removal of quantitatiive restrictions on Indian economy. Using the available data the paper examines the likely impact of removal of Q.Rs. A major finding is that Q.Rs. removal will have very little adverse impact on Indian economy. The paper alos discusses the policy alternatives available to Indian Government in this context.*

### THE ANALYTICAL FRAMEWORK

The possible impact of QRs removal on imports can be analysed in terms of the following parameters:

First, the QRs removal can result in a higher import bill thereby putting a pressure on the balance of trade.

Second, since QRs are currently imposed on some specific product categories, mostly concentrated in agriculture and goods originating in the small scale sector, it is expected that the effect of the removals will be pronounced in those sectors. This may result in a situation where the overall impact on the balance of trade may be insignificant but there can be a disproportionate adverse impact on certain production sub-sectors.

Third, the adverse impact on the production sub-sectors can be analysed in terms of possible decline in production, income and employment. To have a proper quantitative estimate, it will be necessary not only to consider the first order effects but also the second order effects on the rest of the economy.

Fourth, the QRs removal can also have a resource allocational impact. As production in the affected sectors get squeezed due to higher level of import penetration, the resources from those sectors may flow to other sectors with higher level of competitive efficiencies. This, of course, will be possible only if both economic and institutional rigidities are absent.

Fifth, higher level of competition through imports can also act as a catalytic agent for enhanced efficiency.

### POLICY DILEMMA

The dilemma before the Government in terms of a policy response stems form some of the following considerations :

First, the inflow of competitive imports can increase welfare of the consumers in terms of lower prices as well as a higher level of

*Dean, Indian Institute of Foreign Trade, New Delhi.

choice among competing product offerings. But against this consumer welfare gain, the loss to the producers will have to be offset. Public choice theory predicts the governmental response to be mostly in favour of producers in view of their better institutional linkages with the Government and the diffused character of the consumers-class as a whole. The dilemma is aggravated by the perception that the cheaper imports coming after the QRs removal may not necessarily be due to higher level of efficiency of the exporters but may be attributed to various supports measures of the respective governments or unfair trade practices.

There is a larger policy issue in this context which the Government has to keep in mind. The QRs removal, even if proximately caused by India's losing the case in the WTO, is to be seen in the overall process of the trade policy and economic reforms. Since reforms process extends a higher degree of importance to the import signals, QRs removal can be seen as an exercise towards that direction, independent of the WTO-imposed obligations.

## POLICY INSTRUMENTS

The policy instruments available to the Government include :

1. Have access to safeguard measures as allowed under article XIX of GATT 1947.
2. Impose anti-dumping duties if justified, under article VI of GATT 1947.
3. Attempt renegotiation of special safeguard measures in WTO so far as agricultural imports are concerned.
4. Introduce flexible tariffs subject to the bound tariff requirement under the WTO.
5. Convert ad valorem duties to specific duties in the case of those products which are more price sensitive, thereby giving constant level of protection to the domestic industry.
6. Can think of intervention in the foreign exchange market, subject to other macro economic objectives, to have a lower exchange rate which will indirectly increase the level of protection from imports.
7. Develop support measures which are WTO consistent such as subsidy for research and development, financial help for fighting anti-subsidy and anti-dumping cases, introduce measures to reduce transactions costs, such as EDI and simplification of regulatory process.
8. Improve infrastructure and better operational efficiency of the existing infrastructure.

## FACTS

The most significant step recently taken to liberalise India's imports and make it consistent with our obligations to the WTO is to remove quantitative restrictions (QRs) on 714 six digit HS code tariff lines and a commitment to remove the residual 715 items as well from QRs with effect from 1 April, 2001. This has been done as India lost the case in WTO on the maintainability of QRs on Balance of Payment grounds. These 714 items covered a substantial number of items originating in the agricultural and small-scale sector. Apprehensions have been expressed that imports under OGL of these items can affect adversely the SSI sector in particular, apart from a large scale expansion in imports.

The empirical way of analysing the impact of the QRs would have to start with the current status of imports of these items. It can be argued that data on current level of imports are underestimates because of the restrictions. This is correct but since there is no way to know what would have been the level of imports in the absence of QRs, this is what we will have to start and then make allowances for such underestimation. Of the 714 items which were freed this year, only 227 items show any positive imports during 1997-98. This means import of 487 items where imports were nil would not suddenly increase because of removal of QRs. This is because if imports were nil, this because the prevailing tariff rate makes imports uncompetitive, and these tariff rates have not been reduced. Further, many of these 218 items have really insignificant, level of import of few lacs and even thousands. If we take a modest cut-off rate of Rs 10 crore, there are only 19 products. Many of these 19 products fall, within the miscellaneous category of "Others", i.e., there comprise many small insignificant items totalled up for reporting trade data. Total imports of these 19 products amounted to Rs. 1573 crores. Five largest import items in descending order of importance are given in Table 1 :

**Table 1 : Five Largest Import Items**

| | |
|---|---|
| Other machines & mechanical appliances having individual functions | Rs. 536 Crores |
| Trays, cups etc. of paper board | Rs. 406 Crores |
| Other chemical products | Rs. 114 Crores |
| Professional beauty equipments | Rs. 99 Crores |
| Other machinery, plant equipment to temperature control | Rs. 79 Crores |
| Total | Rs. 1134 Crores |

These five accounts for more than two-thirds of imports of these 19 major commodities. Out of these items, small scale sector is important in the paper products, though they figure in other product categories as well. But no imports values are significant to cause any concern. Among these 19 product groups there are three agricultural products, viz, 42 other animal feed, bulger wheat and some processed foods (snacks), with total import of Rs. 76 crores in 1997-98. Animal feed has a bound tariff rate of 150 percent while the other two are bound at 55 percent. At such rates, hardly any import expansion is expected to take place. The data do not justify any fear regarding substantial damage to Indian industry, large, medium or small.

The removal of quantitative restrictions on agriculture products has been severely criticized by some sections of the society as it was felt that the interests of the farmers are getting affected. There was also concern that subsequent to liberalisation, import of foodgrains may jeopardize India's food security. While the question of food security is a complex one and will be more determined by a large number of long term trend factors rather than the removal of quantitative restrictions, there can definitely be a short-term pressure on price realisation if imports substantially increase in the post QR-removal period. The data availability as of now does not allow an empirical verification of this hypothesis. However, the Department of Revenue, Ministry of Finance has released some data which reveal that during 1990-2000, imports of agricultural products amounted to Rs. 11,511 crores against Rs. 12,585 crores in 1998-1999. As a percentage of total imports, value of agricultural imports amounted for 5.63 percent in 1999-2000 as against 7.05 in 1998-1999. The cumulative duty structure as applicable to major agricultural products, show the minimum rate to be 30 percent which goes up to 108.4 percent (Annex 1). Applied rates of such level should, under normal cirucumstances, provide adequate protection to Indian agriculture.

## CONCLUSIONS

There is a danger that sectoral interests may cloud the overall process of reforms. The sectoral gains or losses must be viewed against the overall gains and losses for the economy. It is equally necessary that the governmental response does not result in a regression on the desirability and onward movement of the reforms process. The action of the Government, so far, has been towards the protection of the affected interest groups. The tariff rates on most agricultural products have been hiked up substantially. Several measures which can be termed as non-tariff measures have been introduced to curb imports from China. There are reports that an auto policy is being considered, presumably with the objective of the providing protection to the domestic automobile manufacturers.

Without making any value judgement on the desirability and efficacy of these measures, it appears that the overall signal from the Government is towards offering protection whenever there is a threat perception from imports. This can effectively create a psychological climate in which the producing sectors will loose the desire to attempt global competitiveness. Since it is

**Table 2 : Comparison of Chinese and International Agricultural Prices**

| Product | Unit Price | Chinese Price | International Price | % by which Chinese price exceeds international price |
|---|---|---|---|---|
| Wheat | RMB/ton | 1,450 | 1,006 | 44 |
| Rice | RMB/ton | 2,260 | 1,796 | 26 |
| Corn | RMB/ton | 1,300 | 777 | 67 |
| Soybeans | RMB/ton | 2,400 | 1,523 | 58 |
| Soybean Oil | RMB/ton | 8,400 | 3,611 | 133 |
| Sugar | RMB/ton | 2,900 | 1,651 | 76 |
| Cotton | RMB/ton | 12,340 | 10,521 | 17 |

inevitable that the process of trade liberalisation is irreversible globally, such a mindset will be detrimental to the long term economic growth of the country.

The Chinese example is possibly useful in this context. China obviously finds WTO membership to be beneficial in the long run, though there are short-term adjustment costs which in fact are quite substantial.

The sector which will be worst affected is agriculture. China's agricultural production though huge is not globally competitive for many important crops such as wheat, rice, corn.

Cheaper imports are bound to cause problems for the inefficient producers. Large scale unemployment is also feared. According to a USDA report, entry into WTO will cause produce of rice, cotton, wool and edible oils to shrink by 1,4 percent to 37 percent, causing job loss of 13.2 million. A Chinese study on the other hand estimates that after the transition period is over, domestic production of wheat, rice, corn, cotton and soya will decline. About 20.9 million to 25.5 million jobs will disappear.

Opening up the economy is a process which will inevitably create its own set of losers and gainers, causing both resource allocational and income distributional problems. But the real test lies in whether the long-term gains outweigh the short-term adjustment costs.

**Annex-1**

## Customs Duties and Import Restrictions On Agricultural Products

| Sl. No. | Item Description | Cumulative Duty (%) | Current Import Policy |
|---|---|---|---|
| **Cereals** | | | |
| 1. | Wheat (Other than mesline) | 50 | Canalised |
| 2. | Maize (Com) seed | 50 | Restricted |
| 3. | Maize (Com), If imported under TRQ upto an aggregate of 3,50,000 MT in a financial year | 15 | Restricted for use as animal feed or poultry feed/otherwise Canalised through FCI and PEC |
| 4. | Maize (Cm), if imports are not under TRQ | 50 | Restricted for use as animal feed or poultry feed/otherwise Canalised through FCI and PEC |
| 5. | Rice in the husk | 80 | Canalised through FCI |
| 6. | Husked (brown)) rice; broken rice | 80 | Canalised through FCI |
| 7. | Semi-milled or wholly miled rice whether or not polished | 70 | Canalised through FCI |
| 8. | Millet, Jowar, Shorghum | 50 | Restricted if seed quality, Otherwise Canalised through FCI |
| **Cereal Products** | | | |
| 9. | Atta | 44.04 | Free |
| 10. | Maida | 44.04 | Free |
| 11. | Sooji | 44.04 | Free |
| **Dairy Products** | | | |
| 12. | Fresh milk and cream | 44.04 | Free |
| 13. | Butter, dairy spreads and melted butter (ghee) | 44.04 | Restricted |
| 14. | Cheese | 44.04 | Grated, powdered and bluevein cheese free; Others restricted |
| 15. | Milk powder upto 10000 MT under TRQ | 19.60 | Restricted for milk food for babies; low fat milk powder other than skimmed milk and unsweetened whole milk powder; Others - free |
| 16. | Milk Powder | 66.40 | Same as for item 15 |

**Annex-1 (Contd...)**

| | | | |
|---|---|---|---|
| **Meat & Poultry** | | | |
| 17. | Poultry meat & Chicken legs | 118.4 | Restricted |
| 18. | All other meat | 44.04 | Restricted |
| **Horticulture** | | | |
| 19. | Apples | 56 | Free |
| 20. | Grapefruit, plums & sloes, prunes | 30 | Free |
| 21. | Fruits (other than 19 & 20) | 44.04 | Free (except coconuts, fresh oranges and grapes) |
| 22. | Fruits juices | 62.90 | Free |
| 23. | All vegetables (other than onions) | 38.5 | Free (except fresh garlic, cauliflowers, sweet potatoes and potatoes) |
| 24. | Arecanut | 108 | SIL |