III UNIT

CAPITAL FORMATION AND ECONOMIC DEVELOPMENT

Capital is the life blood of all economic activities. The UDCs are caught in a vicious circle of poverty due to shortage of capital. It is not possible to raise the level of production and productivity in these countries unless more capital resources are made available because rate of economic growth is mainly a function of the rate of capital formation. Thus, the problem of capital formation is the root cause of the problem of economic development of undeveloped and developing countries of the world.

MEANING AND DEFINITION OF CAPITAL FORMATION

Capital may be defined as “that part of wealth which is used or is intended to be used for further production of wealth”. Example: Plant and machinery, buildings, equipment, tools etc.

United Nations Study defines capital, “as those goods resulting from economic activity which are used for the further capital production of other goods”. It refers to the net addition made to the existing stock of capital during a given period of time. In other words, capital formation means making of more capital goods, such as, machines, tools, factories electricity etc.

ROLE (OR) IMPORTANCE (OR) SIGNIFICANCE OF CAPITAL FORMATION

a. Technological progress.
b. Expansion of market.
c. Rapid economic development.
d. Facilitates capital-widening.
e. Decrease in inflationary pressure.
f. Increase in the economic welfare.
g. Building up capital equipment and creation of economic and social overhead capital.
h. Increases the level of income and employment.
i. Self-sufficiency of economy.
j. Optimum utilisation of natural resources.

PROCESS (OR) STAGES OF CAPITAL FORMATION

a. Creation of savings.
b. Mobilisation of savings.
c. Investment of savings.

CAUSES (OR) REASONS OF LOW CAPTAL FORMATION

a. Poverty and low level of income.
b. Low level of real national income and per capita income.
c. Demographic features.
d. Lack of skilled and able enterprise.
e. Lack of economic and social overheads.
f. Low production and productivity.
g. Lack of Efficient financial structure.
h. Inequalities in the distribution of income and wealth.
i. Lack of supply of capital.
j. Economic backwardness.

k. Technological backwardness.
l. Demonstration effect.
m. Increases in taxes.
n. Lack of investment incentives.

MEASURES TO RAISE CAPITAL FORMATION (OR) SOURCES OF CAPITAL FORMATION

The problem of capital formation in UDCs becomes two-fold. Firstly, how to increase the propensity to save of the people in the lower income groups. Secondly, how to utilise current savings for capital formation. This leads to sources of capital formation which may classified under two heads:

a. Domestic or internal sources
b. Outside or external sources.

DOMESTIC (OR) INTERNAL SOURCES

They are the internal sources of the country. It is reliable sources which help to break the vicious circle of the poverty. The various domestic sources of capital are as follows:

a. Mobilisation of savings- saving drive.
b. Rural savings.
c. Increase in national and per capita income.
d. Establishment of financial institutions.
e. Reduction in consumption function.
f. Increasing profits.
g. Reduction in income inequalities.
h. Fiscal measures.
i. Inflation.
j. Profits of public corporations.

EXTERNAL (OR) OUTSIDE SOUCRES

a. Loans, grants and aid from foreign countries.
b. Restrictions on imports.
c. Incentives to exports.
d. Favourable terms of trade.
e. Encouragement to private foreign investment.

MAJOR ISSUES OF DEVELOPMENT

Since 1991, the Indian economy has pursued free market liberalisation, greater openness in trade and increase investment in infrastructure. This helped the Indian economy to achieve a rapid rate of economic growth and economic development. However, the economy still faces various problems and challenges, such as corruption, lack of infrastructure, poverty in rural areas and poor tax collection rates.

a. Unemployment

Despite rapid economic growth, unemployment is still an issue in both rural and urban areas. The fast rate of economic growth has left unskilled workers behind, and they have struggled to find work in growing industries. In 2017, the official unemployment rate was just below 5 per cent. However, a report by the OECD found over 30 per cent of people aged 15-29 in India are not in employment, education or training (NEETs). Live mint reported on March 6, 2017. With, little if any government welfare support for the unemployed, it leads to dire poverty.

b. Poor educational standards

Although India has benefited from a high per cent of English speakers, (important for call centre industry) there is still high levels of illiteracy amongst the population. It is worse in rural areas and amongst women. Over 50 per cent of Indian women are illiterate. This limits economic development and a more skilled workforce.

c. Poor Infrastructure

Many Indians lack basic amenities lack access to running water. Indian public services are creaking under the strain of bureaucracy and inefficiency. Over 40% of Indian fruit rots before it reaches the market; this is one example of the supply constraints and inefficiency's facing the Indian economy.

d. Balance of Payments deterioration

Although India has built up large amounts of foreign currency reserves, the high rates of economic growth have been at the cost of a persistent current account deficit. In late 2012, the current account reached a peak of 6% of GDP. Since then there has been an improvement in the current account. But, the Indian economy has seen imports growth faster than exports. This means India needs to attract capital flows to finance the deficit. Also, the large deficit caused the depreciation in the Rupee between 2012 and 2014. Whilst the deficit remains, there is always the fear of a further devaluation in the Rupee. There is a need to rebalance the economy and improve the competitiveness of exports.

e. High levels of private debt

Buoyed by a property boom the amount of lending in India has grown by 30% in the past year. However, there are concerns about the risk of such loans. If they are dependent on rising property prices it could be problematic. Furthermore, if inflation increases further it may force the RBI to increase interest rates. If interest rates rise substantially it will leave those indebted facing rising interest payments and potentially reducing consumer spending in the future.

f. Inequality has risen rather than decreased

It is hoped that economic growth would help drag the Indian poor above the poverty line. However, so far economic growth has been highly uneven benefiting the skilled and wealthy disproportionately. Many of India's rural poor are yet to receive any tangible benefit from India's economic growth. More than 78 million homes do not have electricity. 33 per cent (268million) of the population live on less than $1 per day. Furthermore with the spread of television in Indian villages the poor are increasingly aware of the disparity between rich and poor.

g. Large Budget Deficit

India has one of the largest budget deficits in the developing world. Excluding subsidies, it amounts to nearly 8 per cent of GDP. Although it is fallen a little in the past year. It still allows little scope for increasing investment in public services like health and education.

h. Rigid labour Laws

As an example Firms employing more than 100 people cannot fire workers without government permission. The effect of this is to discourage firms from expanding to over 100 people. It also discourages foreign investment. Trades Unions have an important political power base and governments often shy away from tackling potentially politically sensitive labour laws.

k. Inefficient agriculture

Agriculture produces 17.4 per cent of economic output but, over 51per cent of the work force are employed in agriculture. This is the most inefficient sector of the economy and reform has proved slow.

l. Poor tax collection rates

According to the Economist, India has one of the poorest tax to GDP rates in the whole world. India's tax revenue as a per cent of GDP is just 12 per cent. Compared to an EU average

of 45 per cent. This poor tax collection rate reflects widespread corruption, tax avoidance and complicated tax rates. In 2017, Narendra Modi has sought to improve tax collection rates and reduce complications through the introduction of a General Sales Tax (GST) which involves a single tax rate – rather than tax rates applied multiple times at different stages of production.

m. Business difficulties

According to the World Bank, the ease of doing business in India is poor. India ranks 130/190. Big issues for companies include

- Ease of enforcing contracts.
- Dealing with construction contracts.
- Paying taxes.
- Trading across border.

n. Inequality within regions

India's economic growth has benefitted some regions more than others. Technological hubs, such as Delhi and Mumbai have attracted higher-paying jobs. This has attracted an inflow of most mobile and skilled workers; this has created congestion in these super-cities but failed to address the poverty of rural areas, especially in the northeast.

BASIC CHARACTERISTICS OF INDIAN ECONOMY

MEANING OF UNDERDEVELOPED COUNTRIES

Eugene Staley defined an underdeveloped country as – "A country characterised by (i) mass poverty which is chronic and not the result of temporary misfortune and (ii) obsolete methods of production and social organisation, which means that the poverty is not due to poor natural resources and hence could presumably be lessened by methods already proved in other countries".

- This definition of underdevelopment is quite satisfactory. A group of experts of the **United Nations** states, "We have had some difficulty in interpreting the term 'underdeveloped countries 'in which per capita real income is low when compared with the per capita real income of the United States of America, Canada, Australia and Western Europe. In this sense, an adequate synonym would be poor countries".
- The **Planning Commission of India** offered a definition of underdeveloped country as one "which is characterised by the co-existence, in greater or lesser degree, of unutilised or under-utilised manpower on the one hand and of the unexploited natural resources on the other".
- **Prof. Ragner Nurkse** was of the opinion that underdeveloped countries are those which "Compared with the advanced countries are under-equipped with capital in relation to their population and natural resources".

CHARACTERISTICS OF INDIAN ECONOMY:

They are classified into four ways:

1) Economic

(i) General

- Over population in agriculture
- Disguised unemployment
- Poor income and no savings
- Zero marginal productivity
- Export of raw materials and minerals
- Poor marketing and credit facility

(ii) Agricultural

*Sub-division and Fragmentation
*Little Mechanisation
*Rural Indebtedness

2) Demographic

- Absence of family Planning
- Poor Nutrition
- High Fertility Rate

3) Cultural and Political

- High Illiteracy
- Low status of Women
- Prevalence of Child labour
- Traditional Outlook
- No technical Education
- Casteism Paroachialism Regionalism
- Non-recognition of Middle class.

4) Technological

- Poor technology development
- Under Utilisation of Resources
- Poor Transport Facilities

AGRICULTURE AND ECONOMIC DEVELOPMENT IN INDIA

Development of agriculture, in broader sense, is the core of all strategies of planned economic development of underdeveloped and developing countries of the world. It can be taken as the base of the economic development of a country because industrialisation is basically made possible by agriculture development. Agriculture makes its contribution to economic development in several ways, viz.

a. Sources of food supply.
b. Supply of industrial raw materials.
c. Contribution to capital formation.
d. Ensuring supply of labour to industry.
e. Source of foreign exchange earnings for the country.
f. Employment opportunities for rural people.
g. Improving rural welfare.
h. Extension pf market for industrial output.
i. Agricultural expansion as a part of economic development.
j. Dominating share in national income.

WTO (WORLD TRADE ORGANISATION) AND INDIAN AGRICULTURE

The original GATT (General Agreement on Tariffs and Trade) is now a part of the WTO agreement which came into force from January1, 1995. The WTO is the successor to the GATT. It is properly established permanent world trade organisation. It has a legal status and enjoy privileges and immunities on the same footing as the IMF and the World Bank.

STRUCTURE OF WTO

a. It is headed by the ministerial conference composed of representatives of all members which meet at least once every two years. It is the supreme authority of WTO.
b. General Council composed of representatives of all the members to oversee the operation of the WTO agreement and ministerial decisions on regular basis. Head office in Geneva to meet on an average of once a month.
c. The secretariat of the WTO headed by the Director General. He is appointed for a four years term.

OBJECTIVES OF WTO

a. Raising the standard of living and income.
b. Promoting full employment.
c. Expanding production and trade.
d. Optimum utilisation of world's resources.
e. Introducing sustainable development.
f. To make positive efforts designed to ensure that developing countries.

FUNCTIONS OF WTO

a. It facilitates the implementation, administration and operation of the objectives of the Agreement and of the Multinational Trade Agreement.
b. It provides the negotiation facilities among the member countries concerning their multilateral trade relations and matters of agreements.
c. It is duty to administer the Trade Review Mechanism.
d. Acting as a Dispute Settlement Body.
e. It administers the Undertaking on Rules and Procedures governing the Settlement of Disputes of the Agreement.
f. It co- operates with IMF and World Bank.

CRITICISMS

a. Agriculture.
b. Textile and Clothing.
c. TRIMs.
d. GATT Rules.
e. Dispute Settlements.

WTO AGREEMENT.

a. TRIPS - Trade Related Aspects of Intellectual Property Rights.
b. TRIMs - Trade Related Aspects of Investment Measures.
c. TRS - Time Release Study.

TRIPS- TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS)

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an international legal agreement between all the member nations of the World Trade Organization (WTO). It sets down minimum standards for the regulation by national governments of different forms of intellectual property (IP) as applied to nationals of other WTO member nations. TRIPS was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) between 1989 and 1990 and is administered by the WTO.

DEFINITION OF TRIPS

It defined as, "information with a commercial value". This is characterised by "ideas, inventions and creative invention and creative expression" including the "public willingness to bestow the status of property on them and give their owners the right to exclude others from access to or use of protected subject matter". In other words, IPRs may be legally protected by patents, copyrights, industrial design, geographical indications and trademarks.

Special forms of protection have been emerged to address specific needs of knowledge producers as in the case of plant breeder's right and the protection of layout designs of integrated circuits. A number of countries also have trade secret to protect undisclosed information that gives a competitive advantage to its owner.

Specifically, TRIPS requires WTO members to provide copyright rights, covering authors and other copyright holders, as well as holders of related rights, namely performers, sound recording producers and broadcasting organisations; geographical indications; industrial designs; integrated circuit layout-designs; patents; new plant varieties; trademarks; trade names and undisclosed or confidential information. TRIPS also specifies enforcement procedures, remedies, and dispute resolution procedures. Protection and enforcement of all intellectual property rights shall meet the objectives to contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

The TRIPs Agreement covers seven categories of intellectual property:

a. Copyright and related rights.
b. Trademarks.
c. Geographical indications.
d. Industrial designs.
e. Patents which also include micro-organism and plant varieties.
f. Integrated circuits and
g. Trade secrets.

TRIMS- TRADE RELATED INVESTMENT MEASURES

It calls for the removal of all trade related investment measures within a period of five years. These measures are confined to quantative restrictions and national treatment. In particular, they relate to such measures as investment in identified areas, level of foreign investment for treating foreign companies at par with national companies, export obligations, and use of local raw materials. It prevents the imposition of any performance clauses on foreign

investors in respect of earnings of foreign exchange, foreign equity participation, and transfer of technology. It requires foreign investment companies to be treated at par with national companies. It prevents the imposition of restrictions on areas of investment. It requires free import of raw materials, components and intermediates.

The Agreement recognises that certain investment measures restrict and distort trade. It, therefore, requires mandatory notification of all non-confirming TRIMs and their removal within two years for developed countries, within five years for developing countries and within seven years for least developed countries. It establishes a Committee on TRIMs which will monitor the implementation of these commitments and report to the Council of Trade in Goods annually.

OBJECTIVES OF TRIMs

a. To ensure fair treatment of investment in all member countries.
b. As per the TRIMs Agreement, members are required to notify the WTO Council for Trade in Goods of their existing TRIMs that are inconsistent with the Agreement.

TRS –TIME RELEASE STUDY

The Time Release Study (TRS), recognised by World Customs Organization (WCO), is a systematic and standard method to measure the average time taken to release cargoes and for each step or intervention in a border procedure. In an attempt to improve the global trade, India's first-ever National Time Release Study was conducted by the Department of Revenue, Ministry of Finance. The first phase was held from 1st to 7th August 2019 and the second phase lasted from 3rd – 9th September 2019. Considering its cascading effect on overall global trade of Indian companies, the TRS shall be institutionalised on an annual basis around the same period, every year. This brings us to question and understand the Time Release Study in detail and how can businesses benefit due to the same.

MEANING OF TIME RELEASE STUDY

With the global trade becoming a norm, there has been a dramatic change in the cross border trade in recent years. The parties at both sides of the trade prefer international corridors where the release time for goods is lesser and the procedure is simpler. Hence, to enhance cross border trade, governments are focussing on optimising the regulatory processes to reduce the time required for trade-related procedures.

Time Release Study, a strategic and internationally recognized tool, is used to measure the actual time required for the release and/or clearance of goods, from the time of arrival at borders until the physical release of cargo. A TRS thereby measures relevant aspects of the effectiveness of operational procedures that are carried out by Customs and other regulatory actors in the standard processing of imports, exports and in transit movements.

It seeks to measure these elements of trade flows with accuracy so that related decisions aimed at improving such performance can be properly conceived and implemented. The WCO TRS is specifically referenced in Article 7.6 of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA) as a tool for members to measure and publish the average release time of goods.

REASON FOR TIME RELEASE STUDY CONDUCTED IN INDIA

Earlier, individual customs formations used to conduct independent TRS study at port level. However now, the process across the ports has been unified and a uniform, a multi-dimensional methodology has been made available at all ports. This uniformity will help In the long run to measure the ease of cargo clearance and average release time of goods.

The study was instituted at 15 ports (Sea, Air, Land and Dry Ports) across the nation, at the same time. These ports cumulatively account for 81per cent of total Bills of Entries for import and 67 per cent of Shipping Bills for exports filed within India.

The Time Release Study has been conducted to help officials identify and address the bottlenecks in the trade flow process. This will help the government to make industry-friendly port policies and operational measures. This is an important aspect to improve the effectiveness and efficiency of border procedures, without hampering the efficiency of the trade control.

With national TRS, a baseline performance measurement will be established, thereby standardizing the operations and procedures across the ports. Furthermore, the TRS initiative will help in improving the Ease of Doing Business (EODB), particularly on the trading across borders indicator. The indicator measures the adeptness of the cross-border trade ecosystem.

BENEFIT FROM THE ANNUAL TIME RELEASE STUDY

'The baseline data from the study can be used to determine the efficiency of customs clearance and streamline the border trade process. The expected outcomes include a reduction in the duplication of forms, reduced time (for goods to clear Customs) and improved system of information sharing amongst agencies,' as per World Bank.

Advance cargo reporting, information for small and medium-sized traders, regulatory harmonisation, data harmonisation and risk management are all potential areas for improvement highlighted in worldwide TRS studies.

Thus the outcome of the Time Release study will be very beneficial for the export-oriented industries as well as the Micro, Small & Medium Enterprises (MSME). With TRS in place, the industry will witness standardization of trade processes in the country viz-a-viz international standards.

TRS can be used for assessment of performance in terms of supply chain efficiencies and the integration of border procedures between two countries. It provides Customs, other border agencies, businesses and policymakers with baseline data relating to the supply chain and integration of border procedures. It also serves as a performance measurement tool for these two purposes, if undertaken on a regular basis.

MERITS OF TIME RELEASE STUDY

The main focus of the WCO TRS is the clearance time at the border, although it is also applicable to the time required for processes related to documentation and to the time taken for intervention. With TRS implemented at ports as of now, the study will help companies dealing in port transactions. Few ways how TRS will help the businesses:

a. Measuring the time taken at various points for the release of goods will help to address the concerns of trade circles regarding long delays in Customs clearance.
b. TRS will help companies who are in need of advance planning for the movement of goods across borders in order to meet tight production schedules and just-in-time inventory systems.

c. The international trading community assesses the time required to release goods to measure the effectiveness of a Customs administration. A lesser release time will enhance trade relationships of Indian companies.

TRS AROUND THE GLOBE

Many international institutions and donors such as the World Bank, the Asian Development Bank (ADB), and the United States Agency for International Development (USAID), the Swedish International Development Cooperation Agency (SIDA) and Japan International Cooperation Agency (JICA) recognize the usefulness of WCO TRS and favour its implementation. Many of these donors have been even helping the recipients to conduct TRS.

The international donor community and the WCO development partners have been recommending it as a key performance measure to assess, evaluate, and enhance the implementation of the WTO TFA. The TRS is being increasingly used by WCO Members around the globe, for ability in drafting strategic plans and the proper sequencing of Trade TFA measures in accordance with their National Committees on Trade Facilitation (NCTF).

TARIFF AND NON-TARIFF BARRIERS

MEANING OF TARIFF

A tariff is a tax or duty levied on goods when they enter and leave the national frontier or boundary. A tariff refers to import or export duties.

TYPES OF TARIFFS

1) On the basis of purpose
    a. Revenue tariff
    b. Protective tariff
2) On the basis of origin
    a. Ad valorem Duty
    b. Specific Duty
    c. Compound Duty
    d. Sliding Scale Duty
3) On the basis of Discrimination
    a. Single Column Tariff
    b. Double Column Tariff
        a. General and Conventional Tariffs
        b. Maximum and Minimum Tariffs
        c. Multiple or Triple Column Tariffs
4) On the basis of Retaliation
    a. Retaliatory Tariffs
    b. Countervailing Duty

EFFECTS OF A TARIFF UNDER PARTIAL EQUILIBRIUM OR SMALL COUNTRY.

When tariff is imposed on the imports of a single commodity by a small country. It does not affect the rest domestic economy and also the world price of this commodity.

Assumptions:

a. There is only one small country.
b. It imposes tariff on one commodity
c. The demand and supply curves a commodity relate to the country which levies an import duty.
d. These curves are assumed as given and constant.
e. Tastes, income and prices are fixed in demand side.
f. Changes in cost condition such as externalities, technological remain constant in supply side.
g. The world supply of the commodity is perfectly elastic with respect to price.
h. The home country does not impose import tariff on the import of materials required for producing a commodity.
i. No transport cost.
j. The foreign price of the commodity remains unchanged.
k. Perfect substitutes in imported and domestically produced commodity.

Prof. Kindle Berger has listed eight effects of tariffs

a. Protective Effect
b. Consumption Effect
c. Revenue Effect
d. Redistribution Effect
e. Terms of Trade Effect
f. Competitive Effect
g. Income Effect
h. BOP Effect

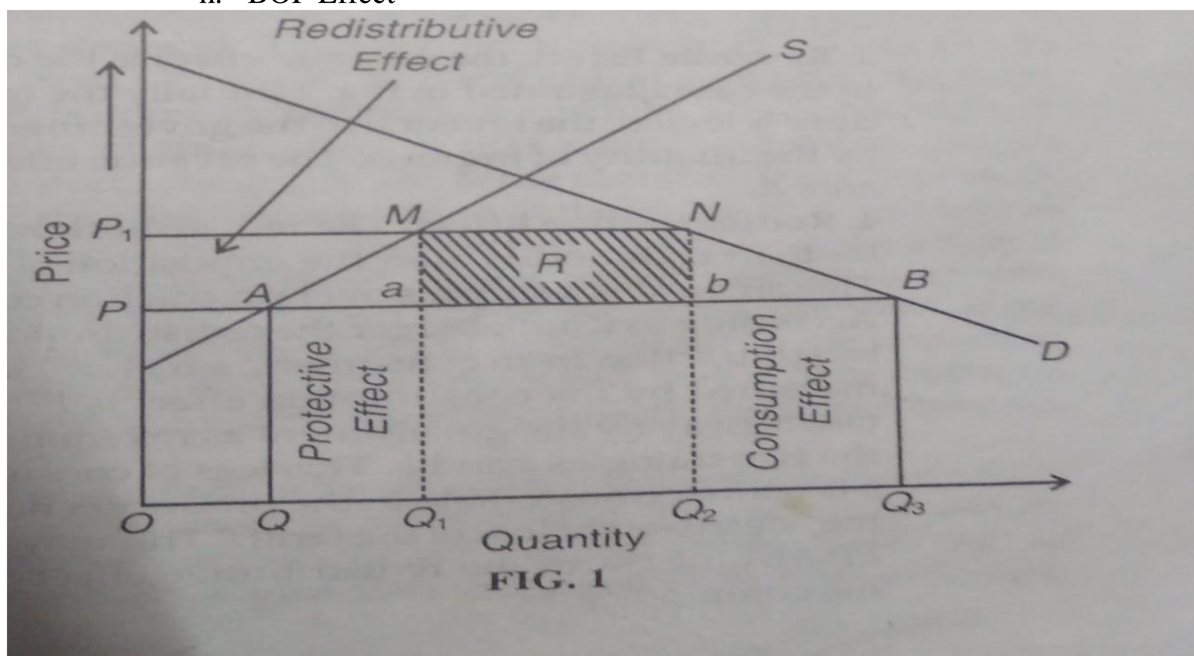


FIG. 1

D –Domestic demand curve, S - Domestic supply curve, OP- Constant world price, PB –Supply curve of imports.

Under free trade – Equilibrium market position point is B. The total demand of the commodity is OQ3.The domestic supply is OQ. Importing OQ3 quantity at OP price.

Suppose tariff imposed (PP1) - domestic prices of the commodity rises by the fall amount of tariff of OP1.Thus rise price of the commodity by PP1 is the price effect. Find new equilibrium point N. Higher the price domestic demand fall OQ3 to OQ2 and domestic sly increases from OQ to OQ1. Total demand is OQ2.

Protective effect – Free trade-OQ3 quantity imported at OP price. Imposed tariff (PP1) – imports reduced to Q1Q2. But domestic sly increases from OQ to OQ1. This increase domestic production by OQ1 – Protective effect.

Consumption effects- Before imposition of tariff consumer consuming OQ3 quantity at Op price. If tax is levied (PP1) the price of the commodity rises OP1.--imports reduced by Q3Q2, the total consumption is reduced from OQ3 to OQ2. Thus Q3Q2 = Consumption effect.

Revenue effect –Initially the tariff is zero at price is OP. If tax is imposed (PP1) the revenue of the government is equal to the amount of the import duty multiplied by the quantity of imports. PP1XQ1Q2= Revenue effect.

Redistributive effect – it is the result of producers receiving a higher prices for their commodity after the imposition of tariff. PP1MA= redistributive effect.

BOP effect- Under free trade OQ3 quantity imported at OP price. The total value of imports is AQQ3B.= Deficit BOP. To remove this deficit tax is levied (PP1) = imports reduced OQ3 to Q1Q2. The government gets revenue equal to the area R.= Improvement in BOP (aQ1Q2b<AQQ3B).

<u>EFFECTS OF A TARIFF UNDER GENERAL EQUILIBRIUM OR LARGE COUNTRY.</u>

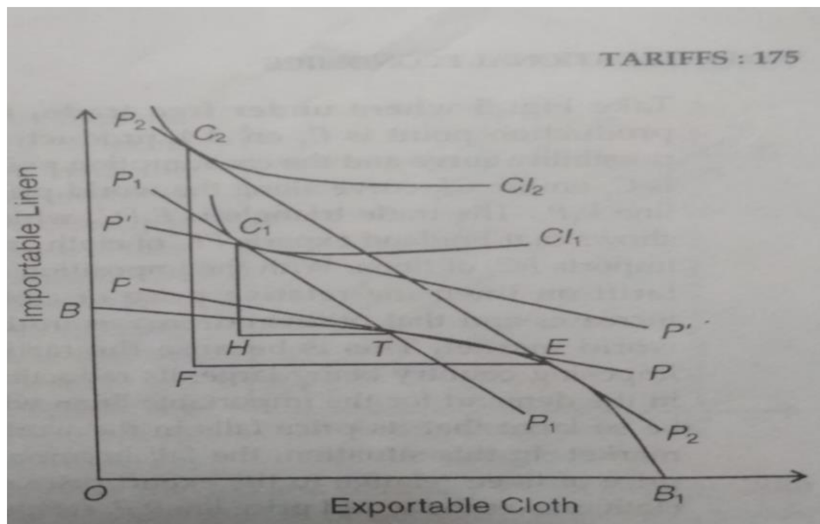
<u>Assumption:</u>

a. Two trading country England and Germany.
b. England is home country which is small.
c. Two commodity cloth and linen.
d. Cloth is exportable commodity in England and linen is importable commodity.
e. Prices on the world market remain constant.
f. The revenue from the tariff spent on consumption.

With these assumption the imposition of tariff raises the domestic prices of importable commodity linen while the price of exportable commodity cloth remains constant.

BB1 – PPC of two goods. P2P2 – world price. The trade triangle of England is EFC2. = exports FE quantity of cloth in exchange of FC2 quantity of imports linen. = Production effect.

The production & consumption effects leads to the new triangle THC1-england export HT of cloth & import HC1 of linen= consumption effect.



NON-TARIFF BARRIERS

Non-tariff barriers (NTBs) are obstacles to imports other than tariffs. They are administrative measures that imposed by a domestic government to discriminate against foreign goods and in favour of home goods.

TYPES OF NTBs

a. VERs –Voluntary Export Restraints.
b. Export Subsidy.
c. Countervailing Duty.
d. Government Procurement.
e. Import Licensing procedure.
f. Local Content Regulation.
g. Technical Barriers.

VERs Voluntary Export Restraints

It is an agreement by an exporter country's exporters or government with an importing country to limit their exports to it.

EXPORT SUBSIDY

It is a government grant given to an export firm to reduce the price per unit of goods exported abroad.

COUNTERVAILIN DUTY

It is an import duty or tariff imposed by an importing country to raise the price of a subsidised export product to offset its lower price.

GOVERNMENT PROCUREMENT

Government discriminate between domestic and foreign suppliers of goods and services required by the government departments.

IMPORT LICENSING PROCEDURES

Many country adopt complicated and expensive import licensing procedures to restrict imports. Import licensing are often auctioned to the highest bidders.

LOCAL CONTENT REGULATIONS

In many developing countries, import of manufactured products like cars, TVs, computers, etc. are restricted if they do not meet local content regulations. This is done to protect domestic producers of parts from foreign competition.

TECHNICAL BARRIERS

There are various types which restrict imports. It include health and safety regulations, sanitary regulations, industrial standards, labelling and packing regulations and so on.

ROLE TRADE RESTRICTIONS IN PROMOTING ECONOMIC DEVELOPMENT

a. Protection.
b. Improving BOP.
c. Increase in saving and investment.
d. Increase in productivity.
e. Increase in public revenue.
f. Self-reliance.

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