

TRADE POLICY:1950-1990

IMPORT SUBSTITUTION

In the first seven plans, trade was characterised by what is commonly called an inward looking trade strategy. Technically, this strategy is called **Import substitution**

Meaning/Aim

- ❑ This policy aimed at replacing or substituting imports with domestic production.

For example, instead of importing vehicles made in a foreign country, industries would be encouraged to produce them in India itself.

- ❑ In this policy the government protected the domestic industries from foreign competition.



How were domestic producers protected from import?

Protection from imports took two forms: -----**tariffs and quotas**.

Tariffs

- ☐ a tax on imported goods.
- ☐ they make imported goods more expensive and discourage their use.



Quotas

- ☐ Quotas specify the quantity of goods which can be imported.

The effect of tariffs and quotas is that they restrict imports and, therefore, protect the domestic firms from foreign competition.

LET'S REVISE AND LEARN A BIT MORE



Tariff - a tax on Imported Goods

Why would a country put a tariff or quota in place?



Quota- A restriction on the amount of goods that can be imported from another country.

Trade Barriers

Trade barrier		What does it do?	Who does it benefit?	Who collects the money?
Tariffs 	→	Raise the price of imported goods	<u>Domestic suppliers</u> • raises their demand • Increases their prices	<u>government</u>
Quotas 	→	Creates shortages thus <u>raises price</u>	Domestic suppliers • <u>raises demand / prices</u>	No money collected

**The Idea behind adopting this kind of restrictive trade policy
Or,
Why was the policy of import Substitution adopted?**

- The policy of protection is based on the notion that industries of developing countries are not in a position to compete against the goods produced by more developed economies.
- It is assumed that if the domestic industries are protected they will learn to compete in the course of time.
- Our planners also feared the possibility of foreign exchange being spent on import of luxury goods if no restrictions were placed on imports.

➤ Note-Nor was any serious thought given to promote exports until the mid-1980s.