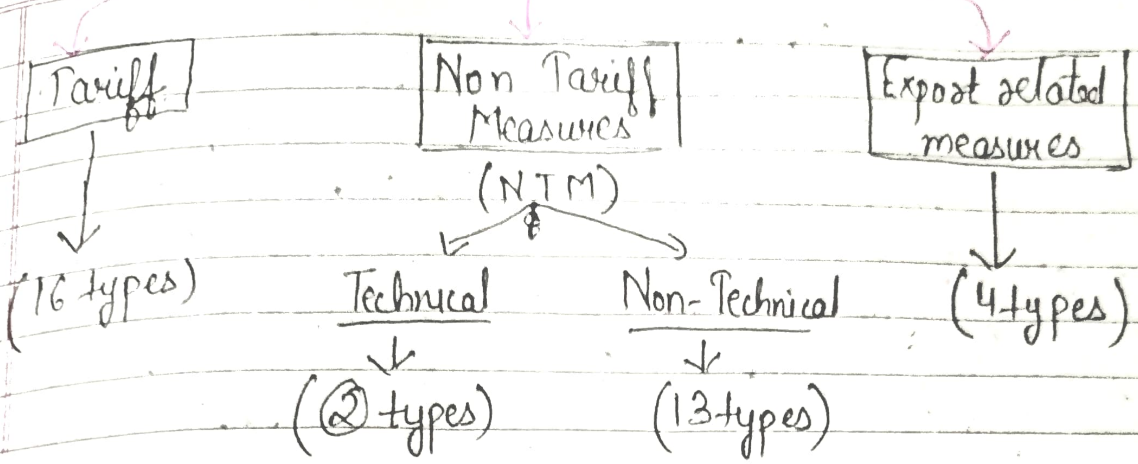
Unit-2 Instrument of Trade Policy



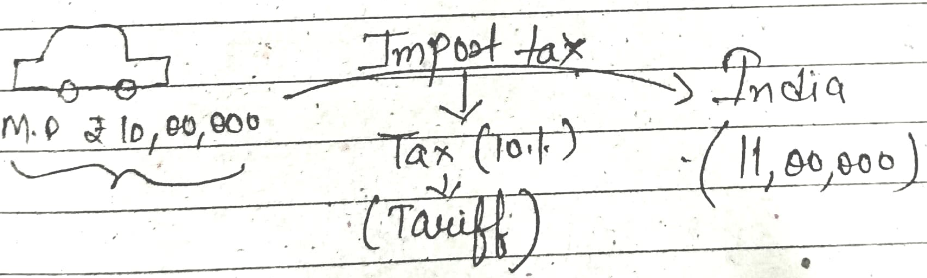
I TARIFF

→ Tariff is known as custom duties imposed on good & services which are imported or exported

→ In this unit, tariff would refer to import duties

* Tariff would leave the market price of the goods uneffected while raising their prices in the domestic market.

E.g.



Specific Tariff – Fixed amount of money per physical unit

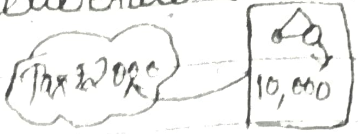
e.g. (₹ 1000 per bicycle)

Ad Valorem Tariff – Fixed % of the value of commodity

e.g.:- (20% on value of bicycle)

1000 → 20% = 200
1,00,000 → 20% = 20,000

★ Generally, it leads to deliberate undervaluati



③ **Mixed Tariff** : Tariff is expressed either on the basis of quantity or on the basis of value
↓ (Specific tariff)
↓ (Ad Velorem tariff)

e.g. [Tariff on cheese at 5% ad velorem or ₹ 100 per Kg ; whichever is higher]

★ **Compound Tariff / Duty** - Combination of both ad valorem & specific tariff :

④ **Technical / Other Tariff** :- Calculated on basis of specific contents of imported goods.

e.g - [₹ 3000 on solar panel and ₹ 50 per kg on the battery installed]

★ ⑤ **Tariff Rate Quotas : (TRQ)** ;— Combines two policy instruments, Quotas & Tariff.

→ Imports entering under the specific quota portion are usually charged lower tariff and imports above the threshold usually charged higher tariff :

e.g. (T-shirt) limit (Quota) (3 T-shirts) India

7 T-shirts

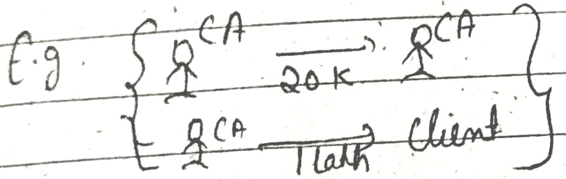
[3 T-shirt → Tax 0.5%
Extra 4 T-shirt → Tax 25%]

Most favoured Nation Tariffs (MFN)

— refers to import tariffs which countries promise to impose on imports from other members of WTO

- MFN rates are the highest that WTO members charge each other

E.g.



7) Variable Tariff

— Duty typically fixed to bring the price of an imported commodity upto level of the domestic support price of the commodity

E.g.

Minimum support price

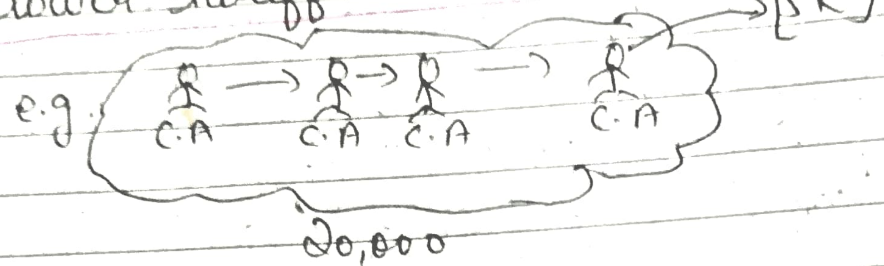
India (domestic product → ₹100)

other country

80 (+20) → Variable Tariff

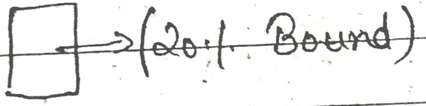
⑧ **Preferential Tariff** : Nearly all countries are part of atleast one preferential trade agreement under which they promise to give other country's product lower tariff than MFN rate.

e.g.



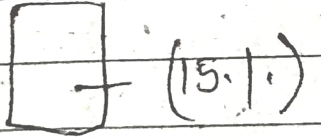
⑨ **Bound Tariff** :- Under this WTO member binds itself with a legal commitment not to raise tariff rate above a certain level.

E.g.



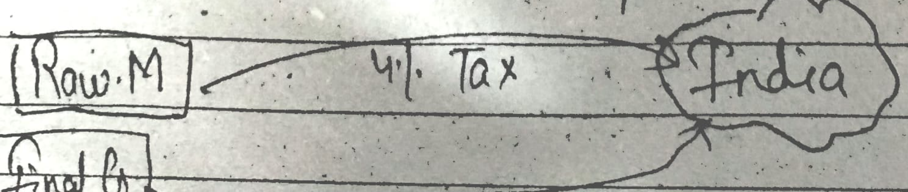
⑩ **Applied Tariff** :- It is the actually charged tariff on MFN bases.

E.g.



⑪ **Escalated Tariff** :- It is a system where in the nominal tariff rates on import of manufactured goods are higher than the nominal tariff rates on intermediate inputs (raw materials)

E.g.



(12) Prohibitive Tariff :- It is a tariff set so high that no imports can enter

e.g. □ ₹100 (Tax 500%)

3) Import Subsidies :- An import subsidies is simply a "payment" per unit or as % of value on goods imported

4) Tariff as Response to Trade Distortion :- The affected importing countries, upon confirmation of distortion, respond quickly by measures in form of tariff response (Also known as Trigger price Mechanism)

E.g. → (India) Tax 150% → ₹(रदे)

5) Anti-Dumping Duty :- It is a protectionist tariff that domestic government imposes on foreign imports that it believes are priced below fair market value

E.g. (China) → (Dump) '(2017)' → (40%) (India)
(colored coated steel product) very low price

6) Countervailing duties :- Tariff that aim to offset the artificially low prices charged by exporters who enjoys export subsidies.

"ASEAN"
[Association of South East Asian Nations]

2016 E.g. India

12.5.T. Tax

Lowprice
₹70

Export

Gold Jewellery

₹100
₹ (40) Subsidy
₹60

Effects of Tariff

- It creates obstacle to trade.
- Imported goods becomes expensive.
- Tariff encourages production & consumption of domestically produced goods.
- Producers importing goods may charge higher prices, which may lead to increase in their profit.

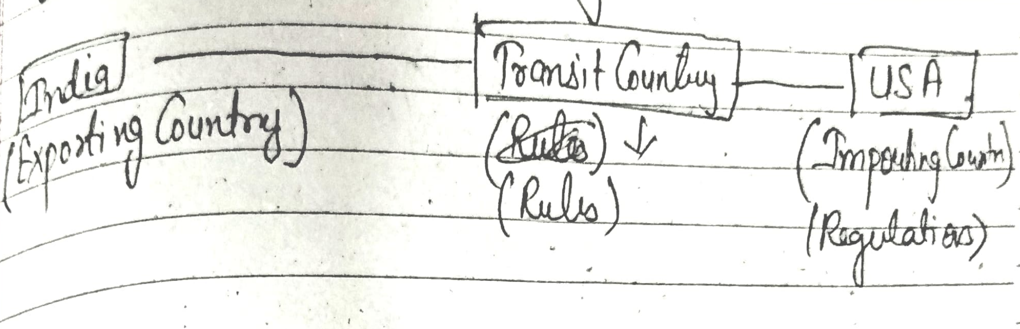
India ← good import
(Producer)

$$\begin{array}{r} 100 \\ +20 \\ \hline 120 \end{array}$$

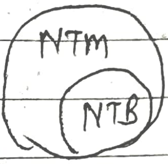
- Tariff also increases government revenue.

(II) NON- TARIFF MEASURES (NTM)

-> NTMs consist of mandatory requirements, rules, or regulations that are legally set by the government of the exporting, importing, or the transit - country



-> NTMs are not the same as non-tariff barriers [NTM ≠ NTB]



(NTBs is subset of NTM)

-> Two types :-

~~1/ Technic~~

① Technical Measures

(a) Sanitary and Phytosanitary (SPS) Measures

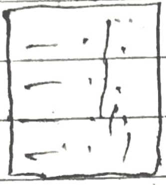
To protect human, animal or plant life from risks arising from pests, toxins contaminants etc & to protect biodiversity

Eg :- [Prohibition of poultry from countries affected by flu]

(b) Technical Barriers to Trade (TBT)

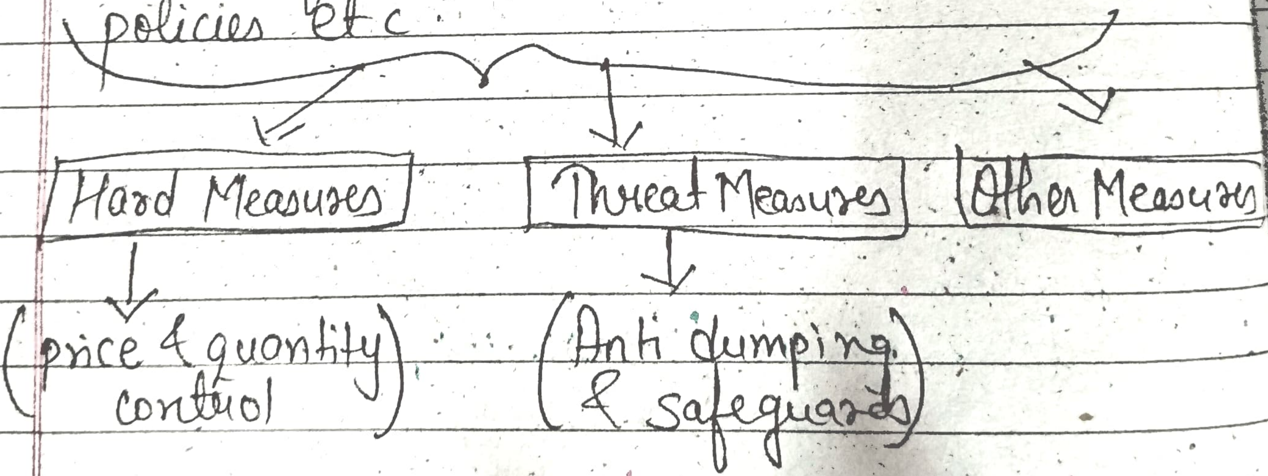
- It covers both food and non-food traded products refer to mandatory "Standards and Technical Regulations" that define the specific characteristics that product should have.

e.g :- Food laws, labelling.



(2) Non-Technical Measures

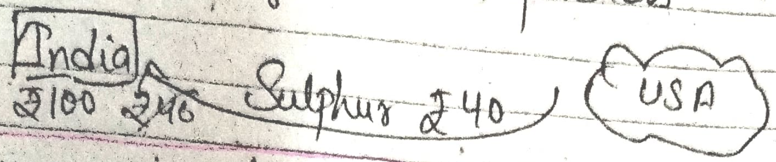
- It relates to trade requirements like shipping requirements, custom formalities, trade rules, taxation policies etc.



(1) Import Quotas :- Import quota is a direct "restriction" which specifies that only a certain physical amount of the good will be allowed into the country during a given period of time (generally 1 year)

② **Price Control Measures** :- Steps taken to control or influence the prices of imported goods in order to support the domestic prices of certain products!

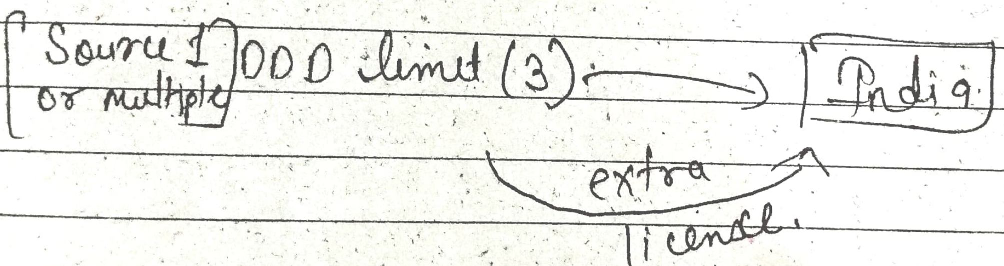
E.g.



Minimum import price established for sulphur

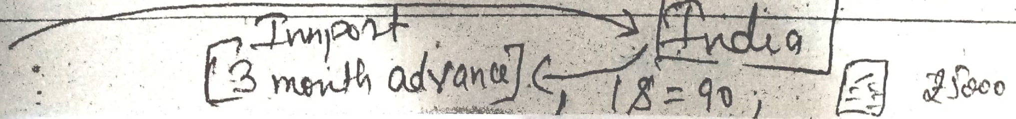
③ **Non-automatic licensing & prohibitions** :- These measures are normally aimed at limited the quantity of goods that can be imported, regardless of whether they originate from different sources or from one particular supplier.

For eg :- Textiles may be allowed only on discretionary license by the Importing country.



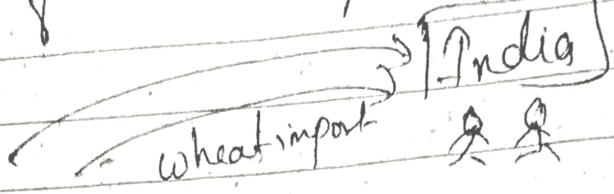
④ **Financial Measures** - The objective of these measures is to increase the import costs by regulating the access to and cost of foreign exchange for imports and to define the terms of payment.

E.g



Measures affecting Competition:- These measures are aimed at granting exclusive or special preferences/priviledges to one or few limited groups of economic operators.

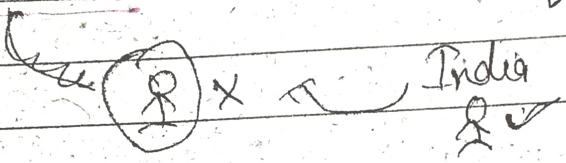
E.g.



खरीदना

Government Procurement Policies:-

Government may give preference to the local tenders rather than foreign tenders



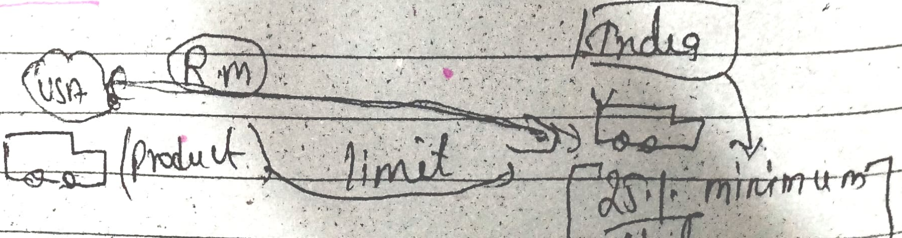
Trade related Investment Measures

Requirement to use certain minimum levels of locally made components

Restricting the level of imported components.

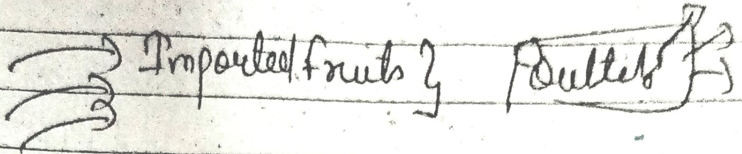
Limiting the purchase / use of imported products

E.g.

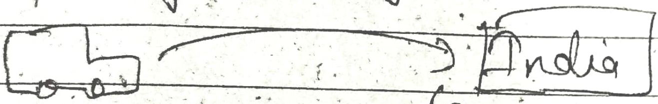


(8) **Distribution Restrictions** : These are limitation imposed on distribution of goods in the importing country involving additional license or certification requiremen

e.g. Restriction that imported fruits may be sold only through outlets having refrigeration facilities



(9) **Restriction on post-sales services** :- Services may be reserved to local service companies of the importing country.

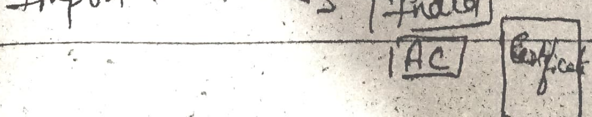


(Post sale service in India)

(10) **Administrative Procedures** :- Any kind of particular procedure and formalities.

(11) **Rules of origin** :- Important procedural obstacle occur in the home country for making available certifications regarding origin of goods

e.g. 'origin' (कहाँ Manufactured)



⑫ Safeguard Measures :- Restrict imports of a product ~~temporaily~~ temporarily.

⑬ Embargoes :- It is a total ban imposed by government on import / export of particular product for undefinite period.

(III) Export Related Measures

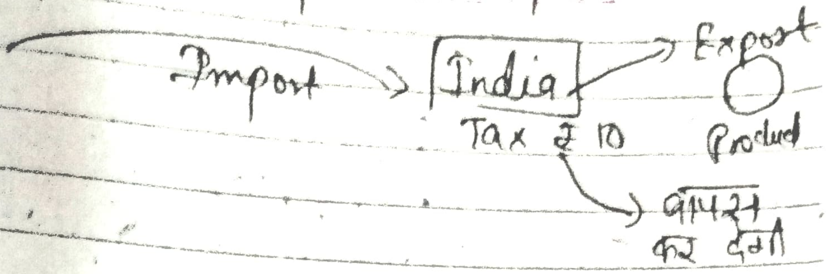
① Ban on exports :- During the period of shortage export of agricultural products may be prohibited to make them available for domestic consumption.

e.g. export ← Ban — India खाने की कमी

② Export Taxes :- Export tax is a tax collected on exported goods and may be specific or ad valorem
specific → (fixed amount)
ad valorem → (fixed %)

③ **Export Subsidies & Incentives** :- Like duty drawback, duty free access to imported components etc

Eg.



④ **Voluntary Export Restraints (VER)** :- VER is type of informal quota administered by exporting country voluntarily restraining the quantity of goods that can be exported out of the country during a specified period of time

Recent Developments

→ Free Trade Agreement with Mauritius on 1st April, 2021

→ 18 Feb, 2022 :- Comprehensive economic partnership Agreement (CEPA) with UAE

→ Economic Cooperation & Trade Agreement (ECTA) with Australia on 2nd April, 2022