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Unit 2: International Trade

Tariffs :- Taxes imposed on commodities imported & exported.

a) Specific Tariff: Tariff always remains fixed no matter how expensive the item is

b) Ad volarun Tariff :- Instead of a fixed amount a fixed % is charged. Volarun stands for value.

c) Mixed Tariff :- Among ad volarun and specific, whichever is higher, that tariff will be charged. This way more income will be generated for the nation.

d) Compound Tariff :- Fixed tariff + Ad volarun tariff

e) Technical Tariff :-

1 solar panel = 5000 Rs/- as duty

I imported 6 batteries along with panel cause govt will only charge 5000 as duty for the panel. This way ~~exptort~~ evading happens.

To prevent ppl from evading tax, gov. started imposing tax on whatever content being imported along with the finished good.

f) TRQ :- Gov. starts increasing tariff when the amount imported exceeds a certain limit prescribed

g) Most favourable nation :- Less tariff imposed on countries which come under most favoured nations.

Some countries impose higher tariffs on countries that are not part of WTO.

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h) Variable tariff :- Tariff imposed to balance out diff b/w the price of ~~pr~~ imported product and domestic product
Eg: Rate of pataka in china = Rs 4/-
Rate of pataka in India = Rs 10/-
India imposes Rs 6/- as duty to match price of imported country.
- Imported goods ka price domestic goods ke price ke saath match karne ke liye.

i) Bound tariff :- An agreed maximum limit of tax to be imposed b/w any two countries. No country can change the limit of tax unilaterally as it is an agreement b/w 2 countries. Neither can the tariff be cancelled.
Eg: Limit - 1-25%. Tariff imposed: 5%.
Here bound tariff is 25%.
Applied tariff is 5%.
- Applied tariff can never exceed bound tariff.

j) Escalated tariff :- Higher tariff will be imposed on finished goods whereas lower tariff will be imposed when a country imports ~~goods to a~~ inputs to another nation and manufactures the good using the inputs in that other nation itself.

Raw material & manufacturing } Less Tariff   Finished goods } More Tariff

k) Prohibitive tariff :- Higher tariffs on goods that are prohibited in our country. This is done by a country to prevent prohibited goods from entering into that nation.

l) Import subsidies :- when a nation wants certain goods to be imported for the nation's growth and development, the country will have to pay per unit or a % of value of the good imported to increase its import.

Tariff as a Response to Trade Distortions: when trade b/w 2 countries are distorted as a result of unfair practises by one country, certain duties are imposed by the other country.

i) Anti Dumping duties:

China:

China → Bear loss: unfair means

Rate of toy manufacture : 1000

Rate of toy imported : 200, so that ppl buy chinese toys and indian manufacturers bear loss.

The local manufactures of India won't be able to match price & shut down. This way trade gets distorted.

Once gov gets knowledge of the unfair ~~gov~~ practise, it imposes anti dumping duty (extreme heavy tax) on other nation.

ii) Countervailing duties:

Chinese manufactures makes and wants to sell toy in India for 1000 but gov of China orders him to import toy to India for 200. So that the cheeni manufacturer doesn't bear loss, the chinese gov pays him compensation so that he sells the toy at low in India.

The duty imposed by our nation in such case is countervailing duties.

Non Tariff Measures (NTM):

A) Technical measures:

a) Sanitary and Phytosanitary measures: Ban or prohibition on goods that might cause harm to environment & animal life. Such products include goods laden with pesticides, disease causing organisms, etc.

b) Technical Barries To Trade: Ban on import of goods which contain excess additives and might prove to be bad for citizens health.

Checklists will be provided from our country to country from which goods are to be imported. Only if these technical ~~specifications~~ conditions are followed, import will be made.

Eg: Banning import of chicken & eggs from countries where bird flu is being experienced.

Study examples from Text.

B) Non technical measures

i) Import quotas: A certain limit of a particular commodity will be imported and not more than that. Anything more will not be accepted. Such quotas are enforced by issuing licenses.

a) Absolute quotas: can be imported anytime within a specific period. Has no barriers related to country of origin.

Govt receives no quota through revenue. Quota is beneficial to the country which has the license.

c) Price Control Measures: Govt will have already decided a certain cost at which ~~amnt~~ goods will be imported. No price more or less than that will be accepted.

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Import > ₹100 — 40/- No!! / 80/- Not accepted

↓

will only accept imports at 100 Rs/-

- Such measures are also called para - tariff measures.

D) Non automatic Licensing and Prohibitions : Govt of a nation orders that if a country wants to import, they must be provided with an exime (export import) license by the nation. Only then will you be allowed to import goods. It is a type of restrictive measure.

E) Financial measure: A country to import into other nation should first have to provide INR, then the nation after a period of days will exchange for the deposit after only which the country which wants to import will be able to import goods into the nation.

F) Measures Affecting Competition: Govt orders that govt will be the only one to import a particular commodity and no other country or orgnstn can import it. Buyers can then buy the goods imported by the govt.

G) Govt Procurement Policies: Policies made by govt where the govt orders that a certain portion of the commodity required will be imported and the other portion should be bought from local manufacturers.

Eg: Steel: 25% import 75% local makers

I want to buy 100% from local makers ⇒ Allowed

I want to buy 100% from import ⇒ Not allowed

(only 25% allowed)

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H) Trade Related Investment Measures: Govt orders country which wants to import, to import a fraction that is finished completely whereas the other fraction of commodity should be manufactured domestically using domestic inputs of the country where the goods r being imported.

I) Distribution Restrications: Anyone can import the goods but restrictions will be imposed on distribution of imported goods. Not everyone can buy or sell those goods, certain conditions will have to be fulfilled. Import should also be done when you are suitable and have all the facilities for importing the goods in proper condition.

J) Restriction on post sale services: Countries are allowed to import finished goods and sell, but after sale services related to the goods should be done by local companies (present in our nation) of the importing country. Such services include, servicing, repairs.

K) Administrative procedures: Country which wants to import will undergo a lot of procedures include licensing, paperwork, signatures, etc. This will also lead to corruption, delays and other hardships being faced by the country which wants to import as the process is costly & time consuming.

L) Rules of origin: Countries who are not on good terms with our nation will not be allowed to import.

M) Safeguard Measures: If our govt feels that goods imported from some nation are proving to be disadvantageous to the local industry, then that country will be temporarily prohibited from making trade relations with our country.

N) Embargos: Trade relations with a country will be permanently restricted due to political, religious or any other reason. If the country causes injury or proves to be disadvantageous in terms of trade, ~~the~~ or any other cause, business with that country will be over. Total Ban on imports & exports.

Export Related Measures:

A) Ban on exports: Due to shortages and necessities exports by our country will be banned and will be only ltd to 2 or 3 countries that too a prescribed qty.
Eg: Ban on onion exports.

B) Export Taxes: If we want our sellers to export less, taxes will be imposed to decrease ~~tax~~ export of that goods.

C) Export subsidies: Incentives and subsidies imposed by the gov to ↑ export of a particular commodity.

i) Duty drawback: export ↑, lesser will be the tariff on goods imported by the seller. The greater export, lesser will be tax on imports.

ii) Duty free access to intermediates: duty free imports lead to increased exports.

iii) Financial contribution's by gov. Gov becomes a partner of a business and holds equity/shares - Equity infusion.

D) Voluntary Export Restraints: Unofficial restraints on trade ordering that no more than the prescribed limit should be exported.

Effects of Tariff:

i) Affects both exporting country & importing country

ii) Obstacles to trade. ↓ in both exports and imports due to trade barriers.

iii) Makes import goods expensive. This leads to less consumption of imported goods.

iv) Tariffs incourage consumption of domestically prdcd goods

v) Welfare of domestic producers. Price of domestic prdct then ↑ due to ↑ demand.

vi) As super normal profits are made by local producers, others also enter into the business.

vii) Increases govt. revenue.