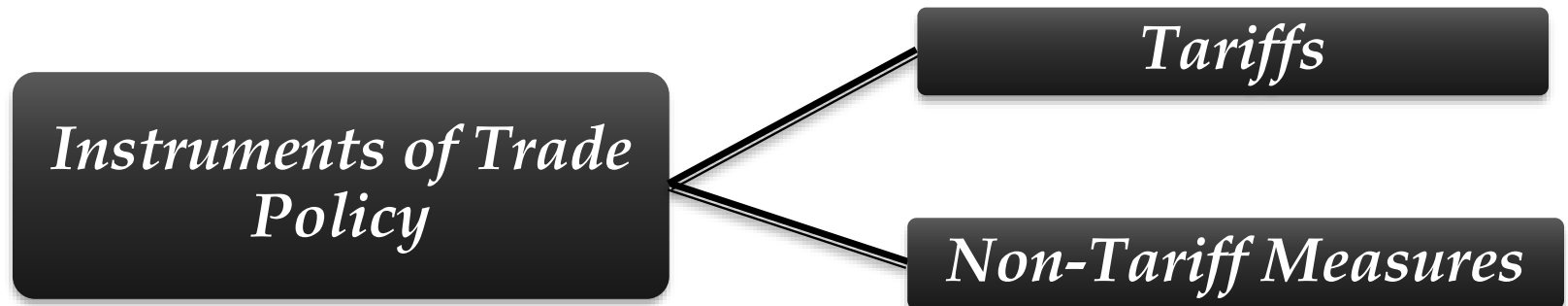


The Instruments of Trade Policy

*Prof. Prarthna P
Assistant Professor
Department of Economics
St. Joseph's College*

Trade Policy

- ▶ *Trade policy encompasses all instruments that governments may use to promote or restrict exports and imports.*
- ▶ *It also includes the approach taken by countries in trade negotiations.*



Tariffs

- ▶ *Also known as **customs duties**.*
- ▶ *Taxes or duties imposed on goods and services which are imported or exported.*

Definition – *A financial charge in the form of a tax, imposed at the border on goods going from one customs territory to another.*

- ▶ *Most visible & universally used trade measures that market access for goods.*

Significance of Tariffs

- ▶ *Aimed at altering the relative prices of goods & services imported, so as to contract the domestic demand & thus regulate the volume of their imports.*
- ▶ *World market prices are unaffected; while raising their prices in the domestic market.*
- ▶ *Goal – raise revenue for the government & to protect the domestic industries.*

Major Classification of Import Tariffs

- ▶ *Specific Tariff* – It is an import duty that assigns a fixed monetary tax per physical unit of the good imported.

Drawback – its value varies inversely with the price of the import.

- ▶ *Ad valorem Tariff* – levied as a fixed percentage of the monetary value of one unit of the imported good.

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- 1. Mixed Tariffs – Mix of specific & ad valorem tariffs depending on which generates the most income for the nation. Eg: 10 % or Rs. 5000 per tonne whichever is higher.*
- 2. Compound Tariff – combination of ad valorem & specific tariff.*
- 3. Technical /Other Tariff – calculated on the basis of the specific contents of the imported goods i.e., the duties are payable by its components or related items.*
- 4. Tariff Rate Quotas – combination of tariffs & quotas. Imports under the specified quota – lower tariff & above the limit – higher tariff.*

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- 5) **Most Favoured Nations Tariffs** – MFN tariffs are what the countries charge on imports from other members of the WTO, excluding countries with PTA. MFN rates are the highest & most restrictive.
- 6) **Variable Tariff** – fixed to bring the price of an imported good up to the domestic support price for the good.
- 7) **Preferential Tariff** – countries with PTA promise to charge lower tariffs than MFN rate. PTAs like EU , NAFTA, GSP.
- 8) **Bound Tariff** – tariff which a WTO member binds itself with a legal commitment not to raise beyond a certain level.

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- 9) *Applied Tariff* – charged on imports on a MFN basis, applied level should not be higher than the bound level.
- 10) *Escalated tariff* – tariff on a product increases as that product moves through the value – added chain. It is discriminatory in nature.
- 11) *Prohibitive Tariff* – tariff that is set so high that no imports will enter.
- 12) *Import Subsidies* – a payment per unit or as a percent of value for the import of a commodity.
- 13) *Tariffs as response to Trade Distortions* – countries affected with unfair trade practices resort to measures in the form of tariff responses to offset the distortion.

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- 14) **Anti - Dumping Duties** – tariffs to offset the effects of dumping by imposition of additional import duties.
- 15) **Countervailing Duties** – tariffs that aim to offset the artificially low prices charged by exporters who enjoy export subsidies & tax concessions offered by their home countries. (an import tax imposed on certain goods in order to prevent dumping or counter export subsidies)

Effects of Tariffs

- ▶ *Create obstacles to trade, reduces the volume of imports & exports, restricted market access.*
- ▶ *Discourage domestic consumption by making imported goods more expensive.*
- ▶ *Encourages consumption & production of domestic goods – protects domestic industries.*
- ▶ *Higher prices due to import tariffs increases the well being of producers in the importing country. Also increases producers surplus in the industry.*

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- ▶ *Price increase induces an increase in the output of the existing firms – addition of new firms – increases employment in the industry.*
- ▶ *Discourages efficient production in foreign countries & encourages inefficient production in home country.*
- ▶ *Tariffs increase government revenues of the importing country by the value of the total tariff it charges.*

Calvin and Hobbes

by WATERS

15 BUCKS A GLASS? THAT'S RIGHT! WANT SOME?



HOW DO YOU JUSTIFY CHARGING 15 DOLLARS?? SUPPLY AND DEMAND.



WHERE'S THE DEMAND?? I DON'T SEE ANY DEMAND!

THERE'S LOTS OF DEMAND!



YEAH? SURE! AS THE SOLE STOCKHOLDER IN THIS ENTERPRISE, I DEMAND MONSTROUS PROFITS ON MY INVESTMENT!



AND AS PRESIDENT AND CEO OF THE COMPANY, I DEMAND AN EXORBITANT ANNUAL SALARY!



AND AS MY OWN EMPLOYEE, I DEMAND A HIGH HOURLY WAGE AND ALL SORTS OF COMPANY BENEFITS! AND THEN THERE'S OVERHEAD AND ACTUAL PRODUCTION COSTS!



BUT IT LOOKS LIKE YOU JUST THREW A LEMON IN SOME SLUDGE WATER!

WELL, I HAVE TO CUT EXPENSES SOMEWHERE IF I WANT TO STAY COMPETITIVE.



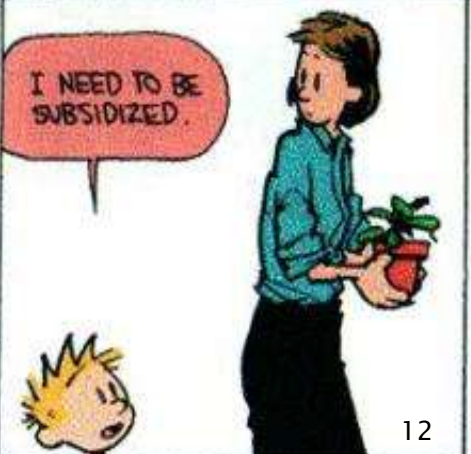
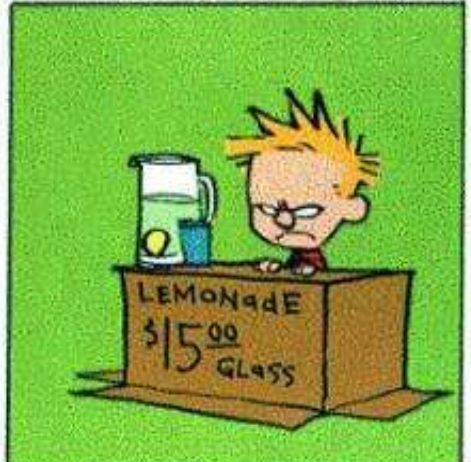
WHAT IF I GOT SICK FROM THAT?

"CAVEAT EMPTOR" IS THE MOTTO WE STAND BEHIND! I'D HAVE TO CHARGE MORE IF WE FOLLOWED HEALTH AND ENVIRONMENTAL REGULATIONS.



YOU'RE OUT OF YOUR MIND. I'M GOING HOME TO DRINK SOMETHING ELSE.

SURE! PUT ME OUT OF A JOB! IT'S YOU ANTI-BUSINESS TYPES WHO RUIN THE ECONOMY!



I NEED TO BE SUBSIDIZED.

Non - Tariff Measures

- ▶ *NTMs are policy measures that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both.*
- ▶ *Used as means to avoid free-trade rules & favour domestic industries at the expense of foreign competition.*

Categorisation

- ▶ **Technical Measures** – technical measures refer to product – specific properties such as characteristics of the product, technical specifications & production processes. These measures are intended for ensuring product quality, food safety, environmental protection, national security & protection of animal & plant health.
- ▶ **Non – technical Measures** – relate to trade requirements; for eg., shipping requirements, custom formalities, trade rules, taxation policies, etc...

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Non-technical Measures are further distinguished as:

- ▶ *Hard measures (eg. Price & quality control measures)*
- ▶ *Threat measures (eg. Anti – dumping & safeguards)*
- ▶ *Other measures such as trade – related finance & investment measures.*

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Furthermore, the categorisation also distinguishes between :

- ▶ *Import-related measures : imposed by importing country*
- ▶ *Export-related measures : imposed by exporting country*
- ▶ *Procedural Obstacles (PO) : that make it difficult for businesses to adhere to a given regulation, such as, practical problems in administration, transportation, delays in testing, certification, etc...*

Technical Measures

- 1) *Sanitary & Phytosanitary (SPS) Measures* : these include ban or prohibition of import of certain goods, all measures governing quality & hygienic requirements, production processes, and associated compliance assessments.
- 2) *Technical Barriers to Trade* : which covers both food & non-food traded products refer to mandatory 'Standards and Technical Regulations' that define the specific features that a product should have, such as its size, shape, design, labelling, marking, packaging, productions methods, etc... Eg. Food laws, quality standards, organic certification...

Non-Technical Measures

- 1) *Import Quotas* : it is a direct restriction which specifies that only a certain physical amount of the good will be allowed into the country during a given time period, usually one year.
 - ▶ *Import quotas set below the free trade level – binding quota*
 - ▶ *Import quotas set above the free trade level – non-binding quota.*

 - ▶ *Two types : absolute & tariff-rate quotas.*

Absolute Quotas

- ▶ *Quotas of a permanent nature limit the quantity of imports to a specified level during a specified period of time and the imports can take place anytime of the year.*
- ▶ *The government receives no revenue, profits earned by license holders earn 'Quota Rents'.*
- ▶ *An import quota always raises the domestic price of the imported good.*