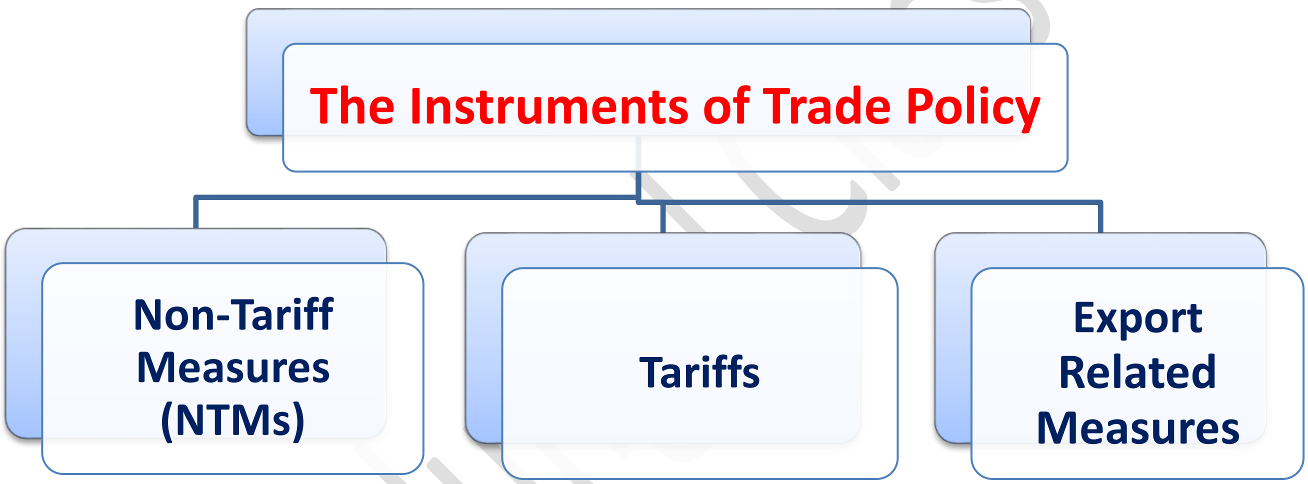
Chapter 4 : International Trade

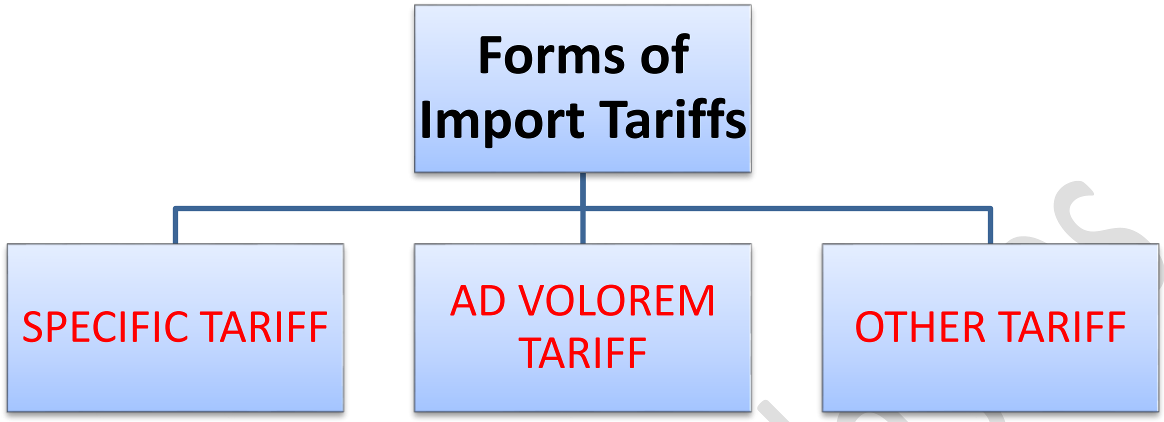
Unit-II The Instruments of Trade Policy

"Trade policy encompasses all instruments that governments may use to promote or restrict imports and exports"



Tariff

Tariff, also known as **customs duty** is defined as a "financial charge in the form of a tax, imposed at the border on goods going from one customs territory to another. Tariffs are the most visible and universally used trade measures"



SPECIFIC TARIFF

A specific tariff is an import duty that assigns a fixed monetary tax per physical unit of the good imported whereas an *ad valorem* tariff is levied as a constant percentage of the monetary value of one unit of the imported good.

AD VOLOREM TARIFF

An ad valorem tariff is levied as a constant percentage of the monetary value of one unit of the imported good.

OTHER TARIFF

1.Mixed Tariff **2. Tariffs as a Response**

3. Compound Tariff or a Compound Duty **4. Preferential Tariff**

5. Technical/Other Tariff **6. Bound Tariff** **7. Variable Tariff**

8. Tariff Rate Quotas **9. Applied Tariffs** **10. Important subsidies**

11. Most-Favored Nation Tariffs **12. Escalated Tariff** **13. Prohibitive Tariff**

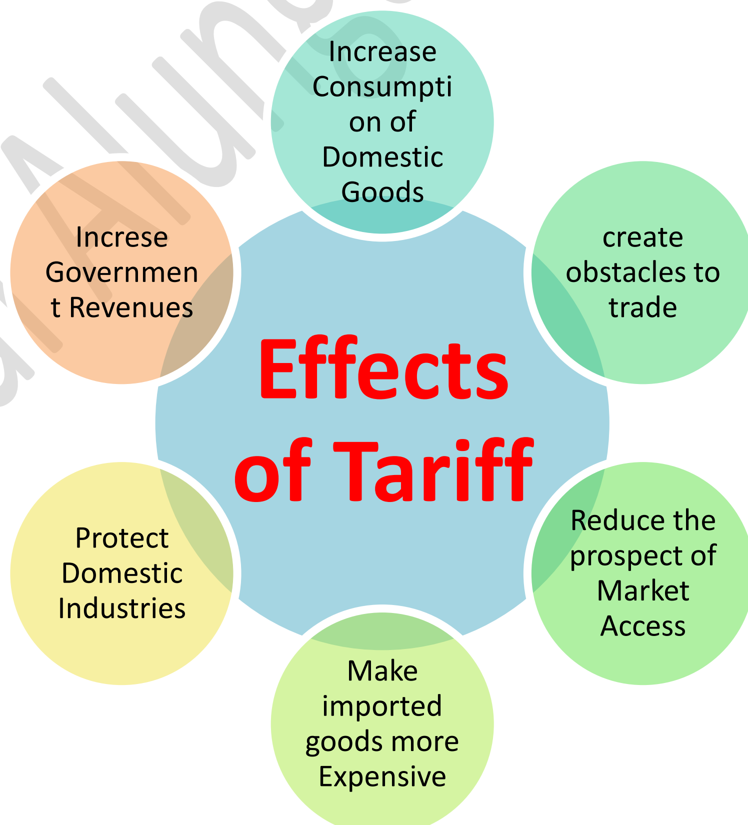
❖ Anti-dumping Duties

Dumping occurs when manufacturers sell goods in a foreign country below the sales prices in their domestic market or below their full average cost of the product. It hurts domestic producers

Anti-dumping measures are additional import duties so as to offset the foreign firm's unfair price advantage.

❖ Countervailing Duties

Countervailing duties are tariffs to offset the artificially low prices charged by exporters who enjoy export subsidies and tax concessions offered by the governments in their home country.



❖ Non-Tariff Measures

Non-tariff measures (NTMs) are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both

Category of Non-Tariff Measures

1. Technical Measures

- Sanitary and Phytosanitary (SPS) measures : applied to protect human, animal or plant life from risks arising form addition, pests, contaninants, toxins or disease causing organisms.
- Technical Barriers to Trade specifying details such as size, shape, design, labeling/marking etc.

2. Non-Technical Measures

- Non-technical measures relate to trade requirements; for example; shipping requirements, custom formalities, trade rules, taxation policies, etc.
- Import Quotas: Restrictions on physical amount of imported goods.
- Price Control Measures : Imposing taxes on charges.
- Non Automatic Licensing and Prohibitions: limiting or prohibiting certain types of import.
- Financial Measures : Regulating access to and cost of foreign exchange.
- Measures Affecting Competition : Granting exclusive or special preferences to one or a few limited group of economic operations.
- Government Procurement Policies : Govt. may lay down policies w.r.t procurements.
- Trade-Related Investment Measures : May include rules on local content requirements of production.
- Distribution Restrictions.
- Restriction on Post-sales Services.
- Administrative Procedures.
- Rules of Origin : To determine the national source of a product.
- Safeguard Measures : Initiated by countries to restrict imports of a product temporarily if its domestic industry is injured.
- Embargos : Total ban on import or export of some commodities to a particular country or region for some or indefinites period.

❖ Export Related Measures

- **Ban of Export** : Exports of certain itmes may be banned during shortages.
- **Export Taxes** : An export tax is a tax collected on exported goods and may be either specific or ad valorem and an export subsidy includes financial contribution to domestic producers in the form of grants, loans, equity infusions also usually provide etc. or give some form of income or price support. Both distort trade
- **Export subsidies and Incentives**: Given by government to boost exports
- **Voluntary Export-Restraints** : Voluntary Export Restraints (VERs) refer to a type of informal quota administered by an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time, imposed based on negotiations to appease the importing country and to avoid the effects of possible trade restraints