

Scale of Production (\uparrow) COST (\downarrow)

(b) **Network effect (Bandwagon Effect)**

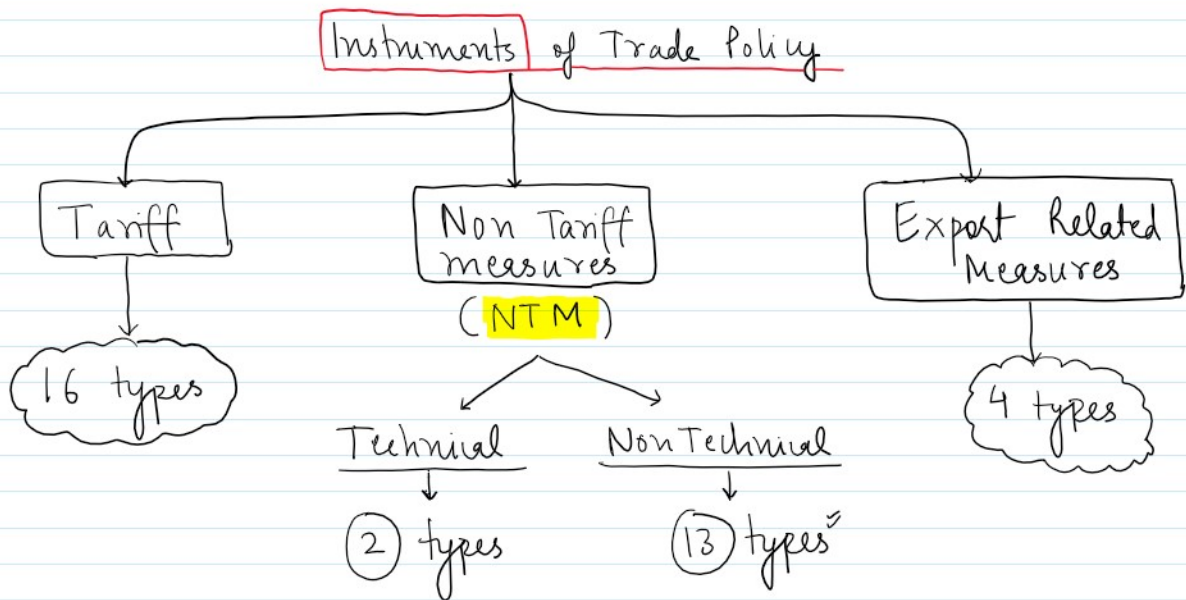
(eg WhatsApp or Microsoft Windows)

- The way one person's value for a good or service is **affected** by value of that good or service to others.

The value of product or service is enhanced as the number of individuals using it increases.

x ————— x ————— x ————— x ————— x

Unit 2

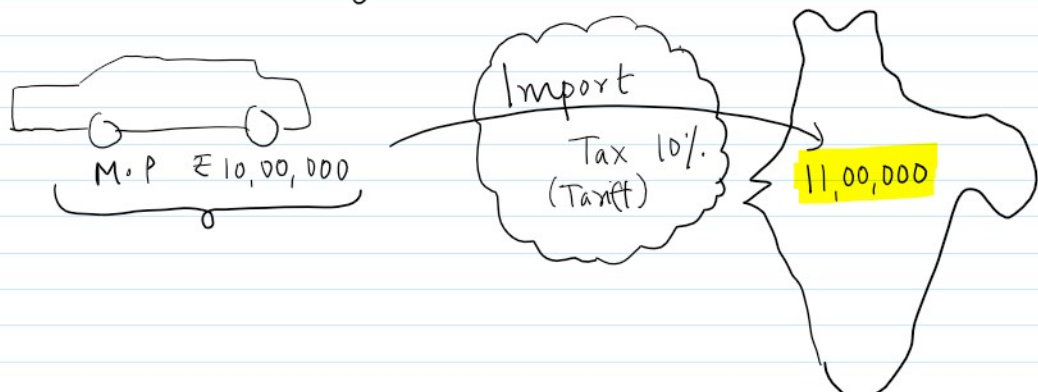


I TARIFF

→ Tariff is known as **custom duties** imposed on goods and services which are imported or exported.

→ In this unit, tariff would refer to **import duties**

* Tariff leaves the **world market price** of the goods unaffected, while raising their prices in the domestic market

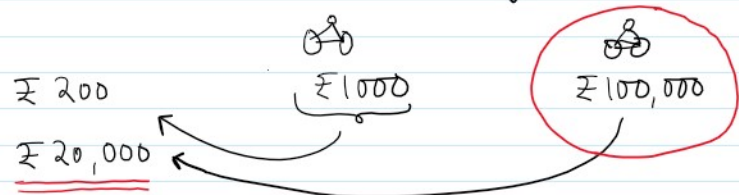


① Specific Tariff - fixed amount of money per physical unit

eg - £1000 per bicycle.

②* Ad Valorem tariff - fixed % of the value of commodity

eg - 20% on value of bicycle



* Generally it leads to deliberate undervaluation.



③ Mixed Tariff - tariff is expressed either on the basis of quantity or on the basis of value



eg - Tariff on Cheese at 5% ad valorem or £100 per Kg ; whichever is HIGHER

* Compound Tariff / Duty - combination of both advalorem and specific tariff

eg. Tariff on Cheese 5% ad valorem + £100 per Kg

④ Technical / Other Tariff

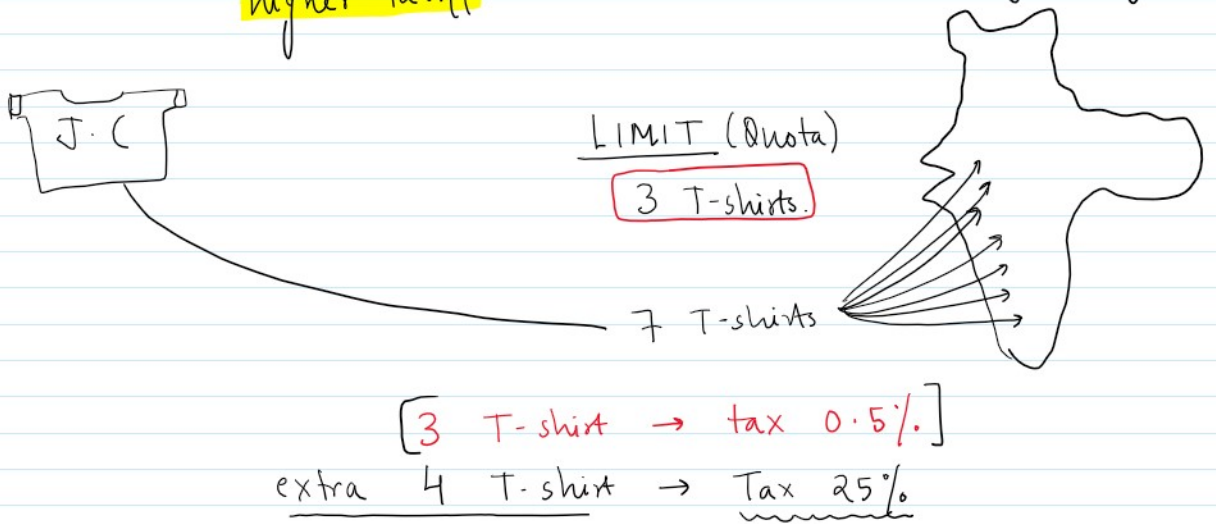
- calculated on basis of "specific contents" of imported goods

- calculated on basis of **specific contents** of imported goods

eg :- £ 3000 on solar panel and £ 50 per Kg on the battery installed.

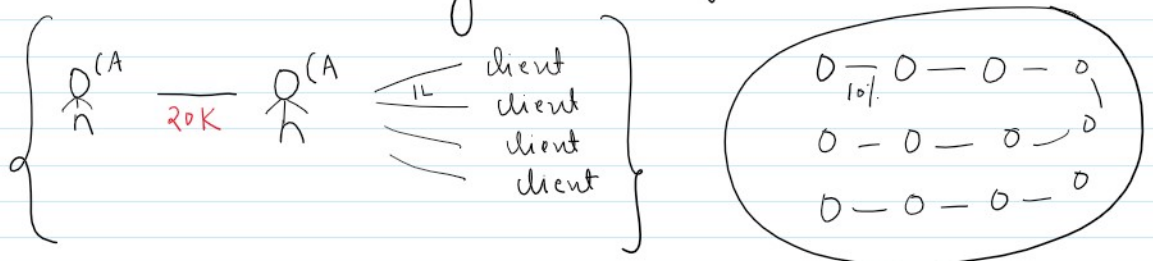
⑤* Tariff Rate Quotas (TRQ)

- 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**.



⑥ Most favoured Nation Tariffs (MFN)

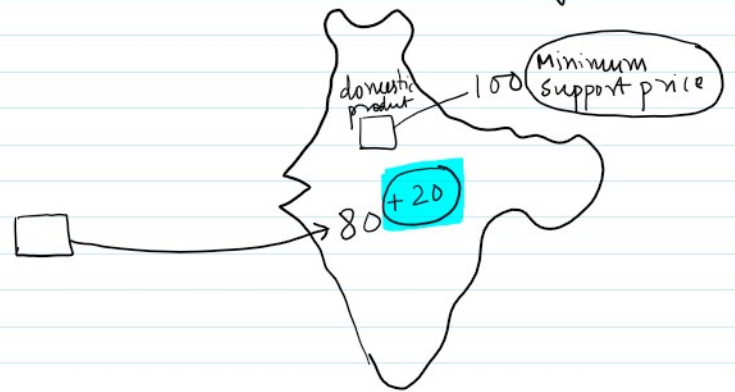
- refers to import tariffs which countries promise to impose on imports from **other members of WTO**
- MFN rates are the highest that WTO members charge each other.



⑦ Variable Tariff

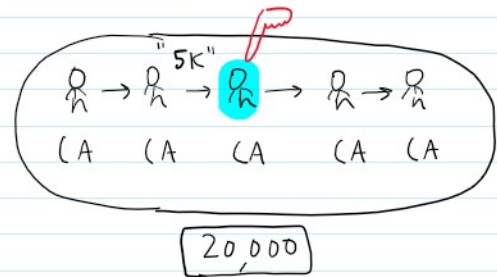
- duty typically fixed to bring the **price** of an imported commodity **up** to level of

- duty typically fixed to bring the price of an imported commodity up to level of the domestic support price of the country



⑧ Preferential tariff

- Nearly all countries are part of at least one preferential trade agreement under which they promise to give other country's product lower tariff than MFN rate

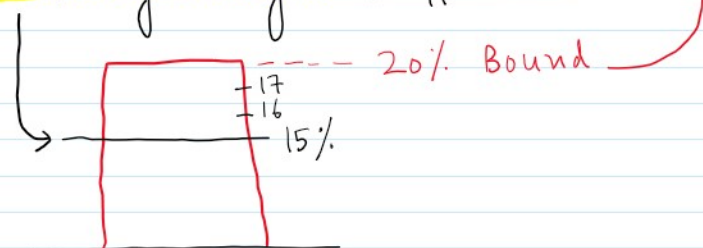


⑨ Bound Tariff

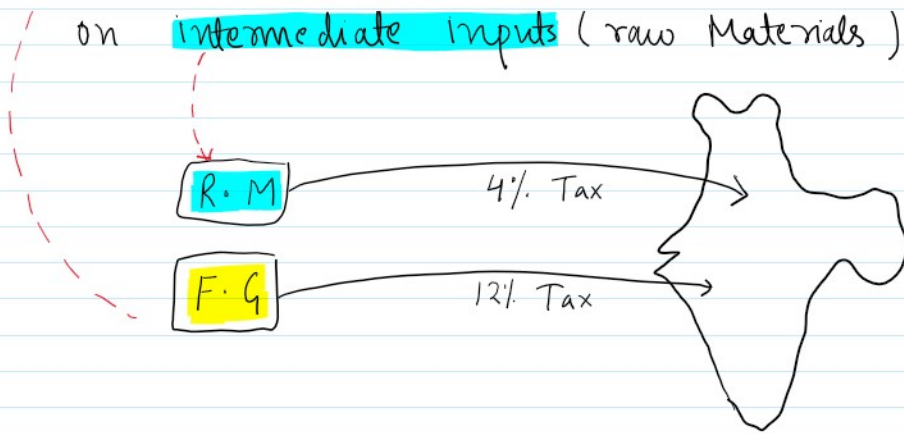
- Under this WTO member binds itself with a legal commitment not to raise tariff rate above a certain level

⑩ Applied Tariff

- It is the actually charged tariff on MFN basis



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)



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

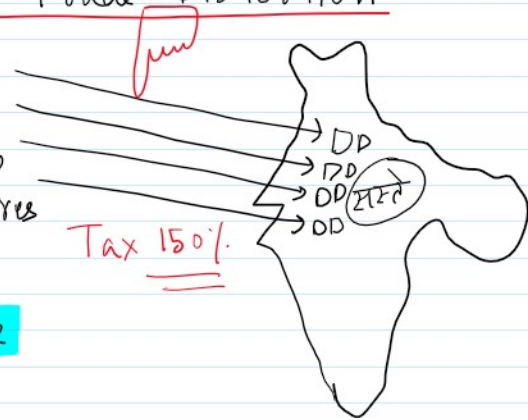


(13) Import Subsidies - An import subsidy is simply a **"payment"** per unit or as % of value on goods imported.

(14) Tariff as **Response** to "Trade Distortion"

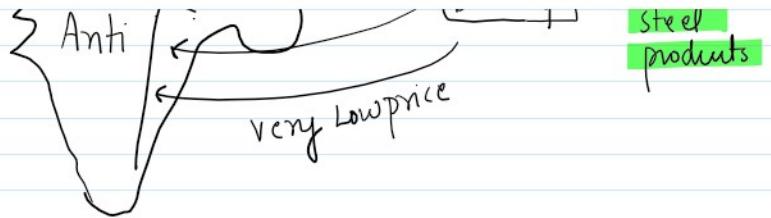
The affected importing countries, upon confirmation of distortion, **respond quickly** by measures in form of tariff response.

(Also known as **Trigger-Price Mechanism**)

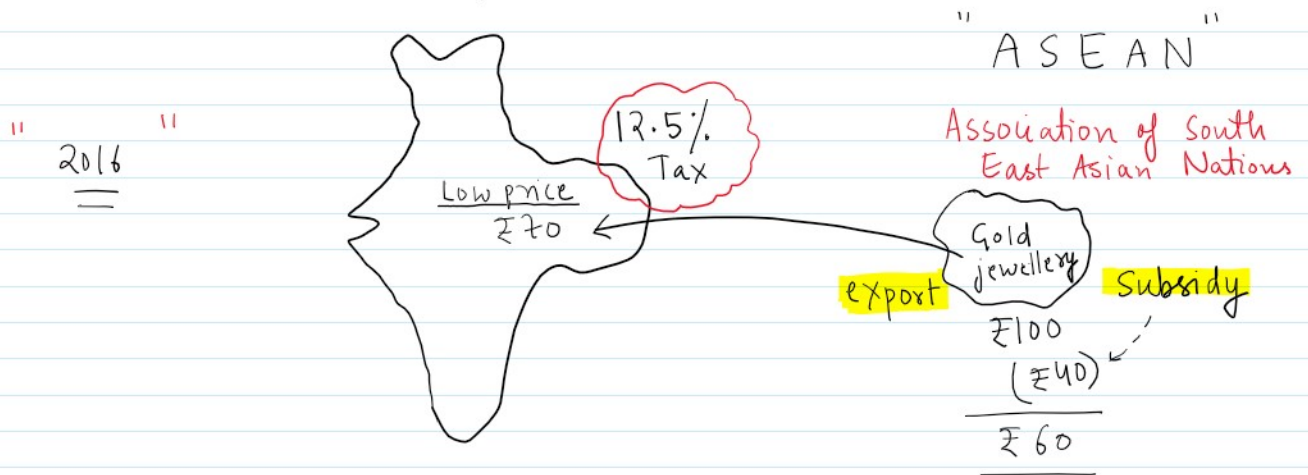


(15) Anti-Dumping Duty - It is a **protectionist** tariff that domestic government imposes on foreign imports that it believes are **priced below fair market value**



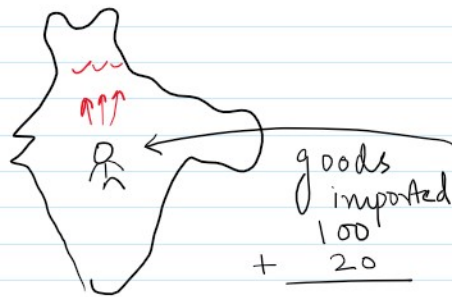


16) Countervailing duties - Tariffs that aim to offset the artificially low prices charged by exporters who enjoys export subsidies



* Effects of Tariff

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

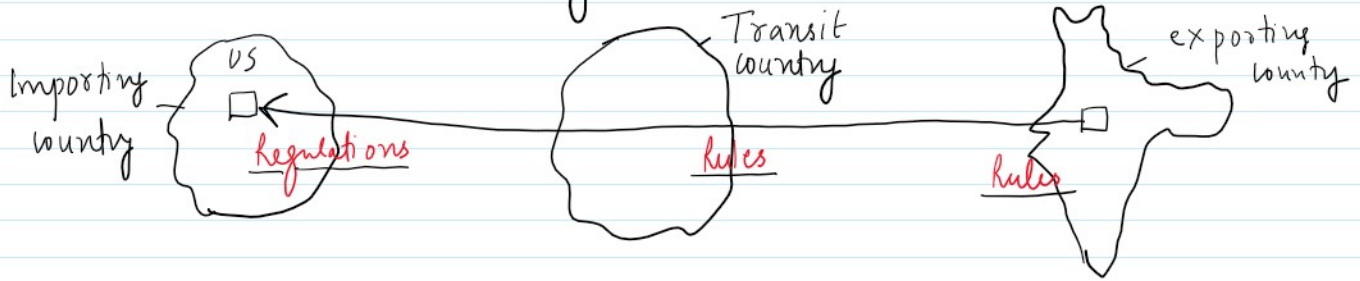


→ Tariff also increases government revenue

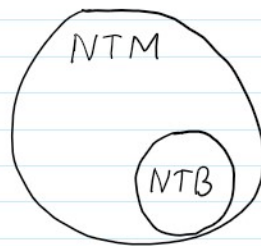
III Non Tariff Measures (NTM)

Non Tariff Measures (NTM)

→ NTMs consists 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 \neq NTB]



NTB is subset of NTM

→ Two types :-

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**

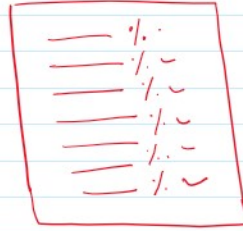
eg :- Prohibition of Poultry from countries affected by flu

(b) Technical Barriers to Trade (TBT)

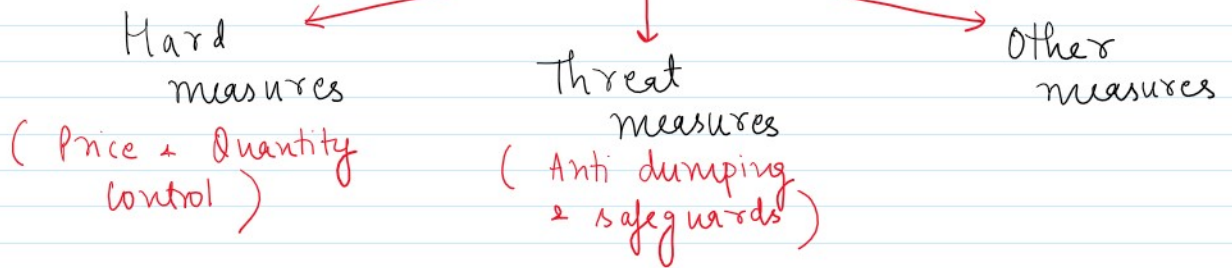
- It covers both food and non-food traded products refer to **"mandatory Standards and Technical Regulations"** that define the **specific characteristics** that product should have

eg :- Food Laws, labelling

eg :- Food Laws, Labelling



② **Non Technical Measures** - It relates to trade requirements like shipping requirements, custom formalities, trade rules, taxation policies etc

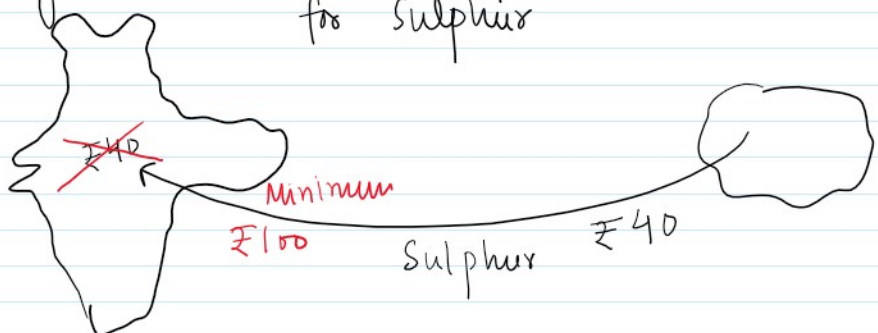


(i) **Import Quotas**

- 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)

(ii) **Price control measures** - **Steps taken** to control or influence the prices of imported goods in order to support the domestic prices of certain products

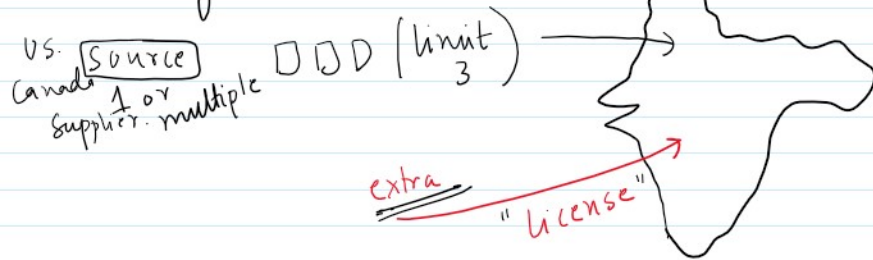
eg :- **Minimum import price** established for Sulphur



(iii) **Non-automatic licensing & prohibitions**

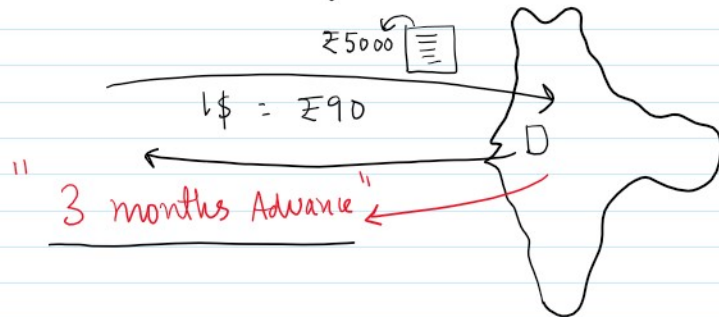
(iii) **Non-automatic licensing & prohibitions**

- These measures are normally aimed at limiting 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.



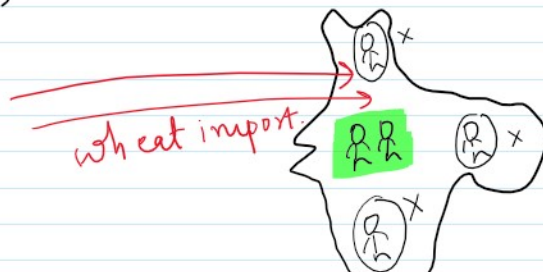
(iv) **Financial Measures**

- 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 payments.



(v) **Measures affecting competition**

- These measures are aimed at granting exclusive or special preferences / privileges to one or few limited group of economic operators





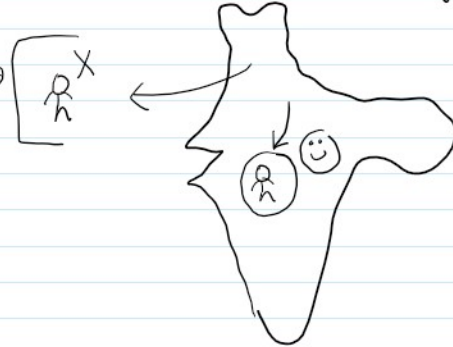
(vi)

Government Procurement Policies

सरकार

खरीदना

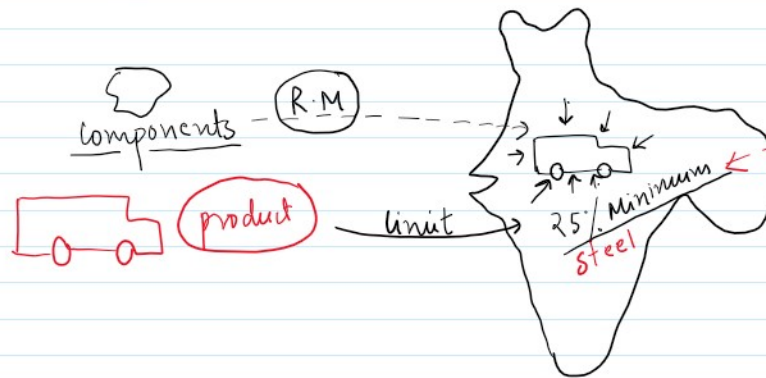
→ Government may give preference to the local tenders rather than foreign tenders



(vii)

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



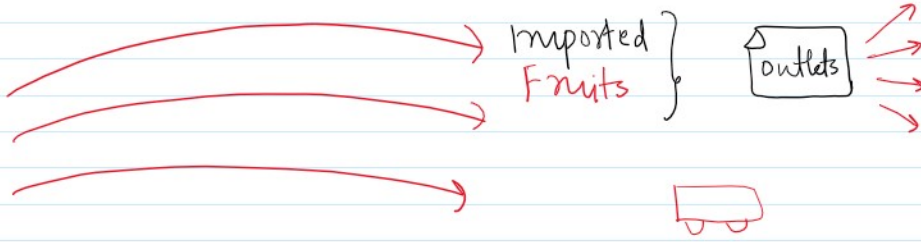
(viii)

Distribution Restrictions

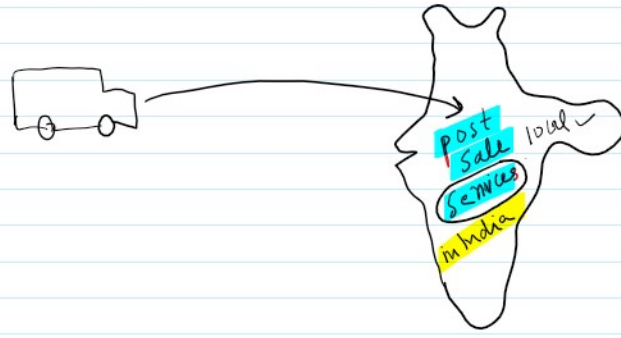
- These are limitations imposed on distribution of goods in the importing country involving additional license or certification requirement

eg: - Restriction that imported fruits may be sold only through outlets having refrigeration facilities.

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



(ix) **Restriction on Post-Sales Services**



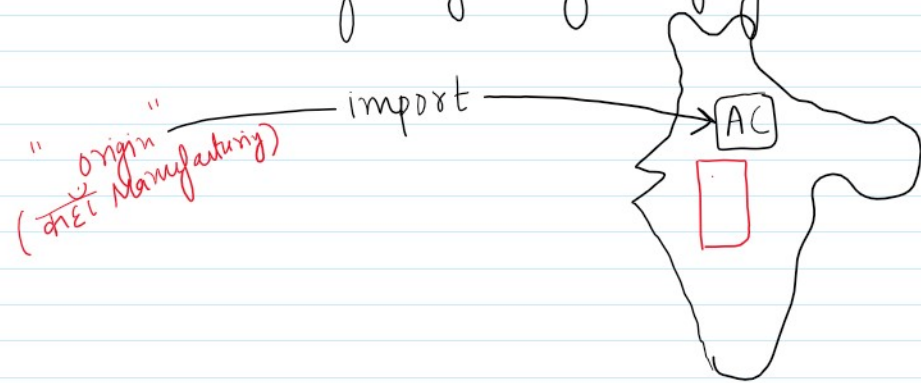
- Services may be reserved to local service companies of the importing country.

(x) **Administrative procedures**

- Any kind of particular procedure and formalities

(xi) **Rules of Origin**

- Important procedural **obstacle** occur in the home country for making available **certifications** regarding origin of goods.



(xii) **Safeguard Measures**

- **Restrict** imports of a product "temporarily".

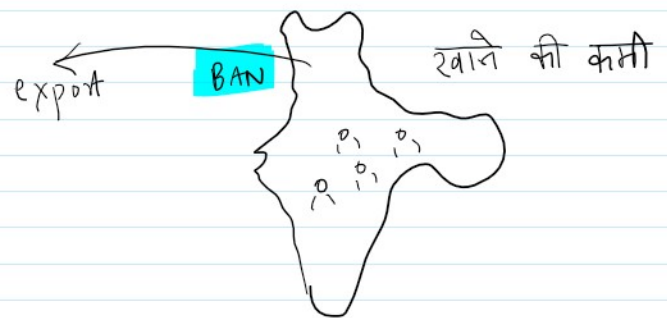
(xiii) **Embargos**

- It is a **total ban** imposed by

(xiii) **Embargos** - It is a **total ban** imposed by government on import / export of particular product for indefinite period.

III. **EXPORT Related Measures**

(i) **Ban on exports** - During the period of **shortage**, export of agricultural products may be prohibited to make them available for domestic consumption



(ii) **Export taxes**

- Export tax is a tax collected on exported goods and may be specific or ad valorem

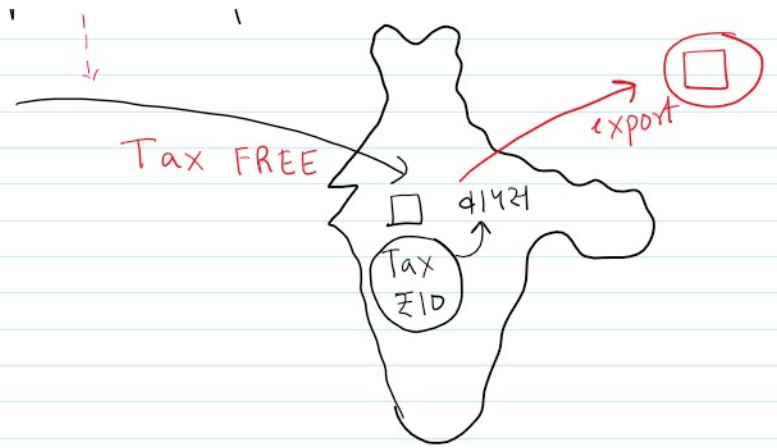
fixed %

fixed amount

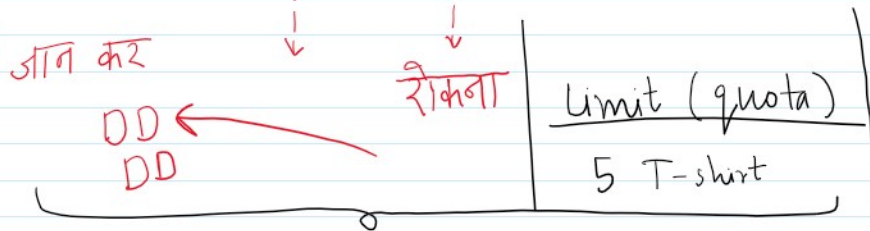
(iii) **Export Subsidies + Incentives**

→ like **duty drawback**, **duty free** access to imported components etc





(iv) **Voluntary Export Restraints** - VER is a 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 **Mauntius** on **1 April 2021**
- 18 Feb 2022 : Comprehensive economic partnership Agreement (**CEPA**) with UAE
- Economic Cooperation & Trade Agreement (**ECTA**) with **Australia** on 2nd April 2022

x ————— x ————— x ————— x ————— x

Unit 3

