

9. TRADE POLICY - TRADE NEGOTIATIONS

9.1. TRADE POLICY

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER

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CHAPTER OVERVIEW

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SECTION 1: THEORY FOR CLASSROOM DISCUSSION

Q.No.1. Define the term trade policy and name its instruments.

(B) (SM)

TRADE POLICY: Trade policy encompasses all instruments that governments may use to promote or restrict imports and exports.

Trade policy also includes the approach taken by countries in trade negotiations.

INSTRUMENTS OF TRADE POLICY: The instruments of trade policy can be broadly classified into

- a) Price- related measures such as **Tariffs**
- b) Non-price measures or non-tariff measures (NTMs).

SIMILAR QUESTIONS:

1. Define trade policy.
A. Refer 1st side heading
2. What are the main types of trade policy instruments?
A. Refer above answer

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Q.No.2. Define Tariffs and explain the various forms of import tariffs.**(A) (SM)**

TARIFFS: It 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 also known as customs duties and are basically taxes or duties imposed on goods and services which are imported or exported.

FORMS OF IMPORT TARIFFS:

- 1) **Specific Tariff:** A specific tariff is an import duty that assigns a fixed monetary tax per physical unit of the good imported.

It is calculated on the basis of a unit of measure, such as weight, volume, etc., of the imported good.

E.g. A specific tariff of Rs. 1000/ may be charged on each imported bicycle.

Disadvantage of specific tariff:

Its protective value varies inversely with the price of the import.

E.g. If the price of the imported cycle is Rs. 5,000/, then the rate of tariff is 20%; if due to inflation, the price of bicycle rises to Rs. 10,000, the specific tariff is only 10% of the value of the import.

Since the calculation of these duties does not involve the value of merchandise, customs valuation is not applicable in this case.

- 2) **Ad valorem tariff:** (N18 - 3M)

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

b) *E.g. A 20% ad valorem tariff on an imported bicycle of price Rs.5, 000/*

c) Ad valorem tariffs are widely used the world over.

d) Ad valorem tariff undervalues the good's price on invoices and bills of lading and reduces the tax burden on home producer.

THERE ARE MANY OTHER VARIATIONS OF THE ABOVE TARIFFS, SUCH AS

- 1) **Mixed Tariffs:** (M19 - 2M)

a) Mixed tariffs are expressed either on the basis of an ad valorem rate or on the basis of specific duty depending on which generates the most income (or least income at times) for the nation.

b) For example, Duty on cotton may be 5% ad valorem or Rs. 3000/ per tonne, whichever is higher.

- 2) **Compound Tariff or a Compound Duty:**

a) It is a combination of an ad valorem and a specific tariff.

b) It is generally calculated by adding up a specific duty to an ad valorem duty.

c) For example: Duty on cheese at 5 per cent *ad valorem* plus 100 per kilogram.

- 3) **Technical/Other Tariff:** These are calculated on the basis of the specific contents of the imported goods i.e. the duties are payable by its components or related items.

For example: Rs.3000/ on each solar panel plus Rs. 50/ per kg on the battery.

- 4) **Tariff Rate Quotas (TRQs):**

a) TRQs combine two policy instruments: quotas and tariffs.

b) Imports entering under the specified quota portion are usually subject to a lower (sometimes zero), tariff rate. Imports above the quantitative threshold of the quota face a much higher tariff.

5) Most-Favored Nation Tariffs:

- a) MFN tariffs are what countries promise to impose on imports from other members of the WTO, unless the country is part of a preferential trade agreement (free trade area or customs union).
- b) In practice, MFN rates are the highest (most restrictive) that WTO members charge one another.
- c) Some countries impose higher tariffs on countries that are not part of the WTO.

6) **Applied Tariff:** An 'Applied tariff' is the duty that is actually charged on imports on a most-favoured nation (MFN) basis.

7) **Variable Tariff:** A duty typically fixed to bring the price of an imported commodity up to the domestic support price for the commodity.

8) **Preferential Tariff:** Generally, a lower tariff is charged (than their MFN rate) from goods imported from a country which is given preferential treatment. These agreements are reciprocal.

Examples:

- a) *Preferential duties in the EU region under which a good coming into one EU country to another is charged zero tariffs.*
- b) *North American Free Trade Agreement (NAFTA) among Canada, Mexico and the USA where the preferential tariff rate is zero on essentially all products.*
- c) *Under the Generalized System of Preferences (GSP) system which is currently prevailing, the wealthy countries grants 'unilateral preferential treatment' to select list of products from specified developing countries.*

9) Bound Tariff:

- a) A bound tariff is a tariff which a WTO member binds itself with a legal commitment not to raise it above a certain level.
- b) The bound rates are specific to individual products and represent the maximum level of import duty that can be levied on a product imported by that member.
- c) A member is always free to impose a tariff that is lower than the bound level.
- d) A bound tariff ensures transparency and predictability.

10) **Escalated Tariff:** Escalated Tariff structure refers to the system wherein the nominal tariff rates on imports of manufactured goods are higher than the nominal tariff rates on intermediate inputs and raw materials, i.e. the tariff on a product increases as that product moves through the value-added chain.

E.g. A 4% tariff on iron ore or iron ingots and 12% tariff on steel pipes.

This type of tariff is discriminatory as it protects manufacturing industries in importing countries and dampens the attempts of developing manufacturing industries of exporting countries.

This has special relevance to trade between developed countries and developing countries. Developing countries are thus forced to continue to be suppliers of raw materials without much value addition.

11) **Prohibitive tariff:** A prohibitive tariff is one that is set so high that no imports will enter.

12) **Import subsidies:** In some countries, import subsidies also exist. An import subsidy is a payment per unit or as a percent of value for the importation of a good (i.e., a negative import tariff).

13) Tariffs as Response to Trade Distortions:

(RTP M19)(MTP2 M 19-2M) (M18 – 2M)

- a) Sometimes countries engage in 'unfair foreign-trade practices which are trade distorting in nature and adverse to the interests of the domestic firms.
- b) The affected importing countries, upon confirmation of the distortion, responds through "trigger-price" mechanisms related to foreign dumping and export subsidies.
- c) Tariffs as Response to Trade Distortions are categorized into Anti-dumping Duties and Countervailing Duties.

SIMILAR QUESTIONS:

1. Define 'tariff'.
 - A. Refer Introduction
2. What is meant by 'specific tariff'?
 - A. Refer point (1) in Import tariff
3. Explain with example how 'ad valorem tariff' is levied? (N18 - 3M)
 - A. Refer point 2 in Import tariff
4. What is meant by 'Mixed tariffs'? (M19-2M)
 - A. Refer Mixed tariff point
5. Define 'bound tariff'.
 - A. Refer bound tariff point
6. How does 'escalated tariff structure' work and discriminated? (MTP-M20)
 - A. Refer 10th point
7. What is meant by trade distortion? (RTP M 19)
 - A. Refer point 13.

Q.No.3. Briefly explain about Anti-Dumping measures in terms of Tariffs as Response to Trade Distortions. (A) (RTP M18)(SM)

DUMPING: Dumping occurs when manufacturers sell goods in a foreign country below the sales price in their domestic market or below their full average cost of the product. This is unfair and constitutes a threat to domestic producer.

ANTI-DUMPING MEASURES:

- 1) When dumping is found, anti-dumping measures are taken by imposition of additional import duties so as to offset the foreign firm's unfair price advantage.
- 2) Anti-dumping measures consist of imposition of additional import duties to offset the effects of dumping. These measures are initiated as safeguards to offset the foreign firm's unfair price advantage.
- 3) This is justified only if the domestic industry is seriously injured by import competition, and protection is in the national interest.

For example: In January 2017, India imposed anti-dumping duties on colour-coated or pre-painted flat steel products imported into the country from China and European nations for a period not exceeding six months and for jute and jute products from Bangladesh and Nepal.

SIMILAR QUESTIONS:

1. Define Dumping.
 - A. Refer point a)
2. What is meant by an 'Anti-dumping' measure? (M18 - 2M)
 - A. Refer anti-dumping measures side heading
3. Define 'dumping'? What is meant by an 'Anti-dumping' measure? (RTP M18)
 - A. Refer above answer

Q.No.4. Briefly explain about Countervailing Duties as a part of Tariffs in Response to Trade Distortions. (A) (SM)

COUNTERVAILING DUTIES:

- 1) Countervailing duties are tariffs that aim to offset the artificially low prices charged by exporters who enjoy export subsidies and tax concessions offered by the governments in their home country.
- 2) In such cases, CVD is charged in an importing country to negate the advantage that exporters get from subsidies to ensure fair and market oriented pricing of imported products and thereby protecting domestic industries and firms.

For example, in 2016, in order to protect its domestic industry, India imposed 12.5% countervailing duty on Gold jewellery imports from ASEAN.

Q.No.5. Define Tariff. What are the effects of import Tariffs?

(A) (SM, M18 - 2M)

TARIFF: A tariff levied on an imported product affects both the country exporting a product and the country importing that product.

USE OF IMPORT TARIFFS AS A TRADE POLICY INSTRUMENT:

- 1) **Effects of Tariffs on international trade:** Tariff barriers create obstacles to trade, decrease the volume of imports and exports and therefore of international trade.
- 2) **Effects of Tariffs on exporting country:** The prospect of market access of the exporting country is worsened when an importing country imposes a tariff.
- 3) **Effects of Tariffs on domestic consumers:** By making imported goods more expensive, tariffs discourage domestic consumers from consuming imported foreign goods. Domestic consumers suffer a loss in consumer surplus.
- 4) **Effects of Tariffs on Producers in the importing country:** Producers in the importing country experience an increase in well-being as a result of imposition of tariff. The price increase of their product in the domestic market increases producer surplus in the industry.
- 5) **Effects of Tariffs on domestic industries:** Tariffs encourage consumption and production of the domestically produced import substitutes and thus protect domestic industries.
- 6) **Effects of Tariffs on production based on comparative advantage:** By disregarding comparative advantage tariffs discourage efficient production in the rest of the world and encourage inefficient production in the home country.
- 7) **Role of Tariffs in government revenues:** Tariffs increase government revenues of the importing country by the value of the total tariff it charges.

Conclusion: Trade liberalization in recent decades, either through government policy measures or through negotiated reduction through the WTO or regional and bilateral free trade agreements, has diminished the importance of tariff as a tool of protection.

Currently, trade policy is focusing increasingly on not so easily observable forms of trade barriers usually called nontariff measures (NTMs).

SIMILAR QUESTION:

1. Evaluate the use of tariffs as a trade policy instrument.
 - A. Refer above answer
2. How do import tariffs influence international trade?
 - A. Refer point 1
3. What are the effects of import tariff on the exporting countries?
 - A. Refer point 2
4. What are the effects of import tariff on the importing countries?
 - A. Refer point 4
5. Explain how a tariff levied on an imported product affects both the country exporting a product and the country importing that product. (RTP – M20)
 - A. Refer above answer
6. Define tariff and what are its effects on the importing and exporting countries? (MTP-M20)
 - A. Refer above answer

Q.No.6. Define NON-TARIFF MEASURES (NTMS). Outline the categories of NTMs?

(B) (SM)

NON-TARIFF MEASURES (NTMS): According to UNCTAD, 2010 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.

According to WTO agreements, the use of NTMs is allowed under certain circumstances.

E.g. *Technical Barriers to Trade (TBT) Agreement and the Sanitary and Phytosanitary Measures (SPS) Agreement, both negotiated during the Uruguay Round.*

DEPENDING ON THEIR SCOPE AND/OR DESIGN NTMS ARE CATEGORIZED AS:

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

These are further distinguished as:

- a) Hard measures (e.g. Price and quantity control measures),
 - b) Threat measures (e.g. Anti-dumping and safeguards) and
 - c) Trade-related finance and investment measures.
- 3) **The categorization of technical and non-technical measures distinguishes between:**
 - a) Import-related measures which relate to measures imposed by the importing country.
 - b) Export-related measures which relate to measures imposed by the exporting country itself.
 - c) The procedural obstacles (PO) which are practical problems in administration, transportation, delays in testing, certification etc. that may make it difficult for businesses to adhere to a given regulation.

SIMILAR QUESTIONS:

1. Describe 'Non-Tariff measures (NTM)' in terms of trade policy.
- A. Refer Introduction
2. What are the consequences that results in categorization of technical and non-technical measures?
- A. Refer 3rd side heading.

Q.No.7. Explain the Technical Measures of Non-tariff measures (NTMs) as a part of trade instruments. (A) (SM)

TECHNICAL MEASURES: Technical measures refer to product-specific properties such as characteristics of the product, technical specifications and production processes. These measures are intended for ensuring product quality, food safety, environmental protection, national security and protection of animal and plant health.

FOLLOWING ARE THE PRACTICED MEASURES SUCH AS:

- 1) **Sanitary and Phytosanitary (SPS) Measures:** SPS measures are applied to protect human, animal or plant life from risks arising from additives, pests, contaminants, toxins or disease-causing organisms and to protect biodiversity.

These includes

- a) Ban or prohibition of import of certain goods **E.g.** Prohibition of import of poultry from countries affected by avian flu.
 - b) All measures governing quality and hygienic requirements **E.g.** Residue limits for pesticides in foods.
 - c) Production processes and associated compliance assessments **E.g.** Meat and poultry processing standards to reduce pathogens.
- 2) **Technical Barriers To Trade (TBT):**
 - a) TBT which cover both food and non-food traded products refer to mandatory 'Standards and Technical Regulations'.
 - b) 'Standards and Technical Regulations' define the specific characteristics that a product should have, such as its size, shape, design, labeling / marking / packaging, functionality or performance and production methods, excluding measures covered by the SPS Agreement.

- c) The specific procedures used to check whether a product is really conforming to these requirements (conformity assessment procedures e.g. testing, inspection and certification) are also covered in TBT.
- d) This involves compulsory quality, quantity and price control of goods before shipment from the exporting country.
- e) Just as SPS, TBT measures are standards-based measures that countries use to protect their consumers and preserve natural resources.
- f) TBT measures can also be used effectively as obstacles to imports or to discriminate against imports and protect domestic products.

Examples of TBT are food laws, quality standards, industrial standards, organic certification, eco-labeling, marketing and label requirements.

SIMILAR QUESTIONS:

1. Outline the two technical measures of Non-Tariff Measures adopted by various countries.
 - A. Refer above answer
2. Explain briefly about Sanitary and Phytosanitary measures as a part of non-tariff measures.
 - A. Refer 2nd point
3. Describe the term technical barriers to trade (TBT) and their effects on trade
 - A. Refer 2nd point

Q.No.8. Explain the Non-Technical Measures as a part of Non-tariff measures (NTMs) (B) (SM)

NON-TECHNICAL MEASURES: These include different types of trade protective measures to neutralize the possible adverse effects of imports in the market of the importing country.

FOLLOWING ARE THE MOST COMMONLY PRACTICED MEASURES IN RESPECT OF IMPORTS:

1) **Import Quotas:**

- a) An 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 time period, usually one year.
- b) An import quota interferes with the market prices indirectly.
- c) An import quota at all times raises the domestic price of the imported good.

2) **Price Control Measures:**

- a) When the prices of imported goods are lower, then price control measures are taken to control or influence the prices of imported goods in order to support the domestic price of certain products.
- b) These are also known as 'para-tariff measures' and include measures, that increase the cost of imports in a similar manner, i.e. by a fixed percentage or by a fixed amount.

E.g. A minimum import price established for sulphur.

3) **Non-automatic Licensing and Prohibitions:**

- a) 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.
- b) These measures may take the form of non-automatic licensing, or through complete prohibitions.

For example, textiles may be allowed only on a discretionary license by the importing country. India prohibits import/export of arms and related material from/to Iraq. Also, India prohibits many items (mostly of animal origin) falling under 60 EXIM codes.

4) **Financial Measures:**

- a) The objective of financial measures is to increase import costs by regulating the access to and cost of foreign exchange for imports and to define the terms of payment.
- b) It includes measures such as advance payment requirements and foreign exchange controls denying the use of foreign exchange for certain types of imports or for goods imported from certain countries.

For example, an importer may be required to pay a certain percentage of the value of goods imported three months before the arrival of goods or foreign exchange may not be permitted for import of newsprint.

5) **Measures Affecting Competition:**

- a) These measures are aimed at granting exclusive or special preferences or privileges to one or a few limited group of economic operators.
- b) It may include government imposed special import channels or enterprises, and compulsory use of national services.

For example, a statutory marketing board may be granted exclusive rights to import wheat: or a State Trading Corporation may be given monopoly right to distribute palm oil.

6) **Government Procurement Policies:**

- a) Government procurement policies may interfere with trade if they involve mandates that the whole of a specified percentage of government purchases should be from domestic firms rather than foreign firms, despite higher prices than similar foreign suppliers.
- b) In accepting public tenders, a government may give preference to the local tenders rather than foreign tenders.

7) **Trade-Related Investment Measures:**

- a) These measures include rules on local content requirements that mandate a specified fraction of a final good should be produced domestically.
- b) Requirement to use certain minimum levels of locally made components, (25 percent of components of automobiles to be sourced domestically)
- c) Restricting the level of imported components, Limiting the purchase or use of imported products to an amount related to the quantity or value of local products that it exports. (A firm may import only up to 75 % of its export earnings of the previous year)

8) **Distribution Restrictions:**

- a) Distribution restrictions are limitations imposed on the distribution of goods in the importing country involving additional license or certification requirements.
- b) These may relate to geographical restrictions or restrictions as to the type of agents who may resell.

For example, a restriction that imported fruits may be sold only through outlets having refrigeration facilities.

9) **Restriction on Post-Sales Services:**

- a) Producers may be restricted from providing after- sales services for exported goods in the importing country.
- b) Such services may be reserved to local service companies of the importing country.

10) **Administrative Procedures:** The administrative procedures which are mandatory for import of foreign goods will increase transaction costs and discourage imports. The domestic import-competing industries gain by such non-tariff measures.

Examples include specifying particular procedures and formalities, requiring licenses, administrative delay, red-tape and corruption in customs clearing frustrating the potential importers, procedural obstacles linked to prove compliance etc.

11) **Rules of origin:**

- a) Rules of origin are the criteria needed by governments of importing countries to determine the national source of a product.
- b) Important procedural obstacles occur in the home countries for making available certifications regarding origin of goods, especially when different components of the product originate in different countries.

12) **Safeguard Measures:** These are initiated by countries to restrict imports of a product temporarily if its domestic industry is injured or threatened with serious injury caused by a surge in imports.

(MTP2 N18 – 2M, MTP1 N18 – 2M)

13) **Embargos:** This is the most extreme form of trade barrier.

- a) An embargo is a total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period.
- b) This may be done due to political reasons or for other reasons such as health, religious sentiments.

SIMILAR QUESTION:

1. Explain the following terms with reference to Non-Technical Measures: a) Import Quota; b) TRIMs; c) Rules of origin d) Embargos
- A. Refer the concerned side headings. (RTP M18)
2. Explain the concept of 'local content requirements' in the context of trade policy.
- A. Refer point 7 (RTP M19)
3. What is local content requirement? How will it affect trade? (MTP-M20)
- A. Refer point 7
4. What is meant by import quotas?
- A. Refer above answer

Q.No.9. Explain about an Import Quota and its different types.

(B) (SM)

IMPORT QUOTA: An 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 time period, usually one year.

TYPES OF IMPORT QUOTAS:

1) **Binding Quota:** A binding quota is a quota that is typically set below the free trade level of imports and is usually enforced by issuing licenses. It includes:

- a) **Absolute Quotas or Quotas of permanent nature:** These limits the quantity of imports to a specified level during a specified period of time and the imports can take place any time of the year. No condition is attached to the country of origin of the product.

For example: 1000 tonnes of fish import of which can take place any time of the year from any country.

It also refers that when a country allocation is specified, a fixed volume or value of the product must originate in one or more countries.

Example: A quota of 1000 tonnes of fish that can be imported any time of the year, but where 750 tonnes must originate in country A and 250 tonnes in country B.

- b) **Tariff-rate quota:**

TRQs combine two policy instruments: quotas and tariffs. Imports entering under the specified quota portion are usually subject to a lower (sometimes zero), tariff rate. Imports above the quantitative threshold of the quota face a much higher tariff.

- c) In addition, there are seasonal quotas and temporary quotas.

(Seasonal quotas: Seasonal quotas are permanent quotas where the importation must take place during a given period of the year. Temporary quotas: Temporary quotas are quotas that are applied on a temporary basis, whether or not they are also seasonal in nature.)

2) **Non-Binding Quota:** A non-binding quota is a quota that is set at or above the free trade level of imports, thus having little effect on trade.

QUOTA RENT: With a quota, the government receives no revenue. The profits received by the holders of such import licenses are known as 'quota rents'. The license holders are able to buy imports and resell them at a higher price in the domestic market and they will be able to earn a 'rent' on their operations over and above the profit they would have made in a free market. (While tariffs directly interfere with prices that can be charged for an imported good in the domestic market, import quota interferes with the market prices indirectly. Obviously, an import quota at all times raises the domestic price of the imported good.)

SIMILAR QUESTIONS:

1. Define: a) Binding quota b) Non-Binding quota c) Absolute quota d) Tariff Rate quota

- A. Refer the concerned side headings.
2. Define Quota Rent
- A. Refer the last side heading.

Q.No.10. What happens if an import quota is set below free trade level?

(A) (SM)

An 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 time period, usually one year.

CONSEQUENCES WHEN A QUOTA IS SET BELOW FREE TRADE LEVEL: It is nothing but Binding Quota

- 1) The amount of imports will be reduced.
- 2) A reduction in imports will lower the supply of the good in the domestic market and raise the domestic price.
- 3) Consumers of the product in the importing country will be worse-off because the increase in the domestic price of both imported goods and the domestic substitutes reduces consumer surplus in the market.
- 4) Producers in the importing country are better-off as a result of the quota. The increase in the price of their product increases producer surplus in the industry.
- 5) The price increase also induces an increase in output of existing firms (the addition of new firms), an increase in employment, and an increase in profit.

SIMILAR QUESTION:

1. How do binding quotas affect domestic industries and consumers?
- A. Refer above answer

Q.No.11. Explain briefly about the export-related measures imposed by the exporting country itself.

(B) (SM)

EXPORT-RELATED MEASURES: Export-related measures are the measures imposed by the exporting country in the following ways:

1) **Ban on exports:**

- a) Export-related measures refer to all measures applied by the government of the exporting country including both technical and non-technical measures.

For example, during periods of shortages, export of agricultural products such as onion, wheat etc. may be prohibited to make them available for domestic consumption.

- b) By reducing international supply, export restrictions have been shown to increase international prices.

2) **Export Taxes:**

- a) An export tax is a tax collected on exported goods and may be either specific or ad valorem.
- b) The effect of an export tax is to raise the price of the good and to decrease exports.
- c) Since an export tax reduces exports and increases domestic supply, it also reduces domestic prices and leads to higher domestic consumption.

3) **Export Subsidies and Incentives:**

- a) The exporting countries have developed compensatory measures of different types for exporters like export subsidies, duty drawback, duty-free access to imported intermediates etc.
- b) Governments usually provide financial contribution to domestic producers in the form of grants, loans, equity infusions etc. or give some form of income or price support. These are considered as trade policy tools.

4) Voluntary Export Restraints (VERs):

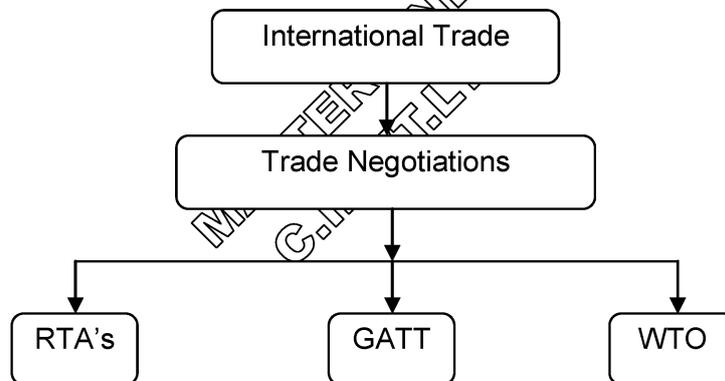
- a) VERs refers to a type of informal quota administered by an exporting country voluntarily restraining the quantity of goods that can be exported out of that country during a specified period of time.
- b) Such restraints originate primarily from political considerations and are imposed based on negotiations of the importer with the exporter.
- c) The inducement for the exporter to agree to a VER is mostly to appease the importing country and to avoid the effects of possible retaliatory trade restraints that may be imposed by the importer.
- d) VERs may arise when the import-competing industries seek protection from a surge of imports from particular exporting countries.
- e) VERs cause domestic prices to rise and cause loss of domestic consumer surplus.

SIMILAR QUESTIONS:

- 1. What is meant by 'Voluntary Export Restraints'? (MTP2 N18 – 2M)
- A. Refer 4th point
- 2. Explain the concept of 'Voluntary Export Restraints'. What are the circumstances under which exporters commit to voluntary export restraints?
- A. Refer 4th point

9.2. TRADE NEGOTIATIONS

Q.No.12. Name the areas in which trade negotiations are incorporated to execute the international trade. (C)



Q.No.13. Name the recent years negotiations among different nations in the international arena. (C) (SM)

The recent years have seen intense bilateral and multilateral negotiations among different nations in the international arena.

Q.No.14.To what extent India is negotiating trade agreements in the international arena? (C) (SM)

India has already become part of 19 such concluded agreements and is currently negotiating more than two dozens of such proposals.

Q.No.15. Name the recent events in the trade front make trade negotiations a highly relevant topic in Economics. (C) (SM)

- 1) Britain planning an exit from the European Union
- 2) The US deliberations on the impact of NAFTA

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Q.No.16. Define International trade negotiations. What are its features?

(A) (SM)

INTERNATIONAL TRADE NEGOTIATIONS: International trade negotiations are aimed at formulation of international trade rules, are complex interactive processes engaged in by countries having competing objectives.

FEATURES OF INTERNATIONAL TRADE NEGOTIATIONS:

- 1) Trade negotiations are not just face to face discussions; they are multilevel or network games and involve intricate and time consuming processes.
- 2) They usually involve many parties who have conflicting interests and objectives.
- 3) The stakeholders in a trade negotiation are national governments, interest groups, lobbying groups, pressure groups and Non-Governmental Organizations (NGO). They exert their influence on the process.
- 4) Anyone can guess the positions taken by each of the negotiating parties would represent their underlying agenda of interests.

For example, in trade negotiations, when one of the parties seems to be bargaining for market access through reduction in tariffs, the other (s) may be clamoring on the issue of possible grant of protection to domestic industries.

Q.No.17. Define Regional Trade Agreements (RTAs). Explain the taxonomy of Regional Trade Agreements (RTAs).

(A) (SM)

REGIONAL TRADE AGREEMENTS (RTAs): RTAs are defined as groupings of countries, (not necessarily belonging to the same geographical region) which are formed with the objective of reducing barriers to trade between member countries.

TAXONOMY OF REGIONAL TRADE AGREEMENTS (RTAs): Trade negotiations result in different types of agreements namely;

- 1) **Unilateral Trade Agreements:** Under Unilateral Trade Agreements an importing country offers trade incentives in order to encourage the exporting country to engage in international economic activities that will improve the exporting country's economy.

E.g. Generalized System of Preferences

- 2) **Bilateral Agreements:** These are agreements which set rules of trade between two countries, two blocs or a bloc and a country. These may be limited to certain goods and services or certain types of market entry barriers.

E.g. EU-South Africa Free Trade Agreement; ASEAN-India Free Trade Area

- 3) **Regional Preferential Trade Agreements:** These agreements are made among a group of countries to reduce trade barriers on a reciprocal and preferential basis for only the members of the group.

E.g. Global System of Trade Preferences among Developing Countries (GSTP)

- a) **Trading Bloc:** Trading Bloc has a group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries. *E.g. Arab League (AL), European Free Trade Association (EFTA).*

- b) **Free-Trade Area:** Free-trade area is a group of countries that eliminate all tariff barriers on trade with each other and retains independence in determining their tariffs with nonmembers. *E.g. NAFTA.*

- c) **Customs Union:** A customs union is a group of countries that eliminate all tariffs on trade among themselves but maintain a common external tariff on trade with countries outside the union (thus technically violating MFN). *E.g. EC, MERCOSUR.*

d) Common Market:

- i) A Common Market extends a customs union by providing for the free flow of factors of production (labour and capital) in addition to the free flow of outputs.
- ii) The member countries attempt to harmonize some institutional arrangements and commercial and financial laws and regulations among themselves. There are also common barriers against non-members. *E.g. EU, ASEAN.*

- e) **Economic and Monetary Union:** In an Economic and Monetary Union, members share a common currency and macroeconomic policies.

E.g. The European Union countries implement and adopt a single currency.

CONCLUSION: There has been significant growth in international trade since the end of the Second World War, mostly due to multilateral trade system which is both a political process and a set of political institutions.

SIMILAR QUESTIONS:

1. Define the term Regional Trade Agreements (RTAs). (MTP-N19)
- A. Refer definition
2. Distinguish between different types of regional trade agreements. How are they different from the WTO agreements?
- A. Refer above answer
3. Describe the different types of agreements that take place during the negotiations of trade? (RTP N20)
- A. Refer above answer

Q.No.18. Why do the GATT lost its relevance by 1980?

(A) (SM, M18 - 2M; RTP-M20)

GATT provided the rules for much of world trade for 47 years, from 1948 to 1994; but it was only a multilateral instrument governing international trade or a provisional agreement along with the two full-fledged "Bretton Woods" institutions, the World Bank and the International Monetary Fund.

THE GATT LOST ITS RELEVANCE BY 1980S BECAUSE:

- 1) It was obsolete to the fast evolving contemporary complex world trade scenario characterized by emerging globalisation.
- 2) International investments had expanded substantially.
- 3) Intellectual property rights and trade in services were not covered by GATT
- 4) World merchandise trade increased by leaps and bounds and was beyond its scope
- 5) The ambiguities in the multilateral system could be heavily exploited
- 6) Efforts at liberalizing agricultural trade were not successful
- 7) There were inadequacies in institutional structure and dispute settlement system
- 8) It was not a treaty and therefore terms of GATT were binding in only so far as they are not incoherent with a nation's domestic rules.

Q.No.19. What are the objectives of the WORLD TRADE ORGANIZATION (WTO)? (A) (SM, M18 - 3M)

The most important outcome of the Uruguay Round agreement was the replacement of the GATT secretariat with the WTO in Geneva with authority not only in trade in industrial products but also in agricultural products and services.

WORLD TRADE ORGANIZATION (WTO): WTO is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

PRINCIPAL OBJECTIVE OF THE WTO: To facilitate the flow of international trade smoothly, freely, fairly and predictably.

OBJECTIVES OF THE WTO: In the preamble of the Agreement creating the WTO, include

- 1) Raising standards of living
- 2) Ensuring full employment
- 3) A large and steadily growing volume of real income and effective demand
- 4) Expanding the production of and trade in goods and services

Q.No.20. How the WTO executes its functions?

(A) (SM, RTP M18)

WTO: WTO is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

THE WTO EXECUTES ITS FUNCTIONS BY:

- Acting as a forum for trade negotiations among member governments,
- Administering trade agreements
- Reviewing national trade policies
- Assisting developing countries in trade policy issues, through technical assistance and training programmes and cooperating with other international organizations.

SIMILAR QUESTION:

1. What are the major functions of the WTO?

(MTP-M20)

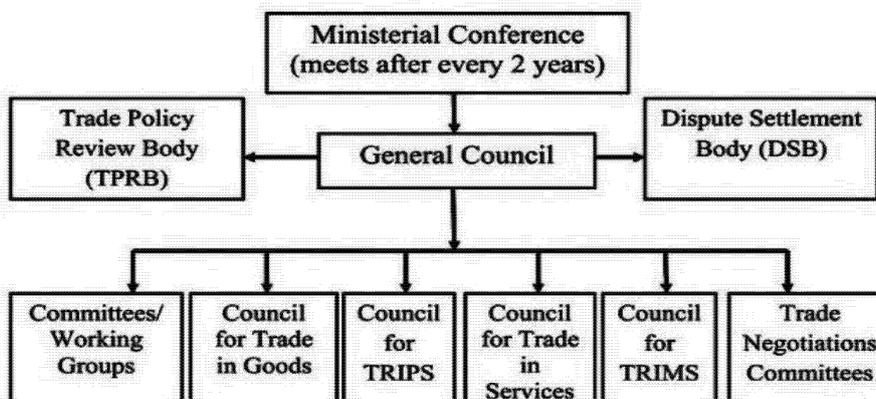
A. Refer above answer

Q.No.21. Describe the structure of the WTO

(A)

The Structure of the WTO: The WTO activities are supported by a Secretariat located in Geneva, headed by a Director General. It has a three-tier system of decision making.

Structure of the WTO



- Ministerial Conference:** It is the WTO's top level decision-making body which can take decisions on all matters under any of the multilateral trade agreements. It meets at least once every two years.
- The General Council:** It meets several times a year at the Geneva headquarters. It also meets as the Trade Policy Review Body and the Dispute Settlement Body.
- The Goods Council, Services Council and Intellectual Property (TRIPS) Council report to the General Council. These councils are responsible for overseeing the implementation of the WTO agreements in their respective areas of specialization.

Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as the environment, development, membership applications and regional trade agreements.

SIMILAR QUESTION:

1. "World Trade Organisation (WTO) has a three-tier system of decision making." Explain

(N18 - 2M)

A. Refer Structure of WTO side heading

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Q.No.22. Explain the membership of WTO.

(B) (SM) (FOR STUDENT SELF-STUDY)

The WTO accounts for about 95% of world trade. It currently has 164 members, of which 117 are developing countries or separate customs territories. Another 25 nations are negotiating membership.

The WTO's agreements have been ratified in all members' parliaments.

Q.No.23. What are the Guiding Principles of World Trade Organization (WTO)?

(A) (SM)

WTO: Refer the definition of WTO in Question No: 20

THE GUIDING PRINCIPLES OF WORLD TRADE ORGANIZATION (WTO):

1) **Trade without discrimination:** It follows the principle on Most Favoured Nation. **(RTP N18)**

- a) Under the WTO agreements, countries cannot normally discriminate between their trading partners.
- b) If a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all other WTO members.
- c) Under strict conditions, various permitted exceptions are allowed.

***E.g.1.** countries may enter into free trade agreements and trading may be done within the group discriminating against goods from outside.*

***E.g.2.** A country can raise barriers against products that are considered to be traded unfairly from specific countries.*

***E.g.3.** Countries may give special market access to developing countries*

NOTE: Originally formulated as Article 1 of GATT, this principle states that any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be extended immediately and unconditionally to the like product originating or destined for the territories of all other contracting parties.

2) **The National Treatment Principle (NTP):** NTP is complementary to the MFN principle.

- a) A country should not discriminate between its own and foreign products, services or nationals.
- b) **For example**, once imported apples reach Indian market, they cannot be discriminated against and should be treated at par in respect of marketing opportunities, product visibility or any other aspect with locally produced apples.

NOTE: GATT Article III requires that with respect to internal taxes, internal laws, etc. applied to imports, treatment not less favourable than that which is accorded to like domestic products must be accorded to all other members.

3) **Freer trade:**

- a) Lowering trade barriers for opening up markets is one of the most obvious means of encouraging trade.
- b) To cover non-tariff barriers on goods, services and intellectual property the WTO agreements permit countries to bring in changes through "progressive liberalization".
- c) Developing countries are generally given longer time to conform to their obligations.

4) **Predictability:**

- a) Investments will be encouraged only if the business environment is stable and predictable.
- b) The foreign companies, investors and governments should be confident that the trade barriers will not be raised arbitrarily.
- c) This is achieved through 'binding' tariff rates, discouraging the use of quotas and other measures used to set limits on quantities of imports, establishing market-opening commitments and other measures to ensure transparency.
- d) A country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade.

- 5) **Principle of general prohibition of quantitative restrictions:** As quantitative restrictions have a greater protective effect than tariff measures and are more likely to distort the free flow of trade, they are prohibited. (MTP2 M18 – 2M)
- 6) **Greater competitiveness:**
- This is to be achieved by discouraging “unfair” practices such as export subsidies, dumping etc.
 - The rules try to establish what is fair or unfair, and how governments can take action, especially by charging additional import duties intended to compensate for injury caused by unfair trade.
- 7) **Tariffs as legitimate measures for the protection of domestic industries:**
- The imposition of tariffs should be the only method of protection and tariff rates for individual items should be gradually reduced through negotiations ‘on a reciprocal and mutually advantageous’ basis.
 - Member countries bind themselves to maximum rates and the imposition of tariffs beyond such maximum rates (bound rates) or the unilateral raises in bound rates are banned.
- 8) **Transparency in Decision Making:**
- The WTO insists that any decisions by members in the sphere of trade or in respect of matters affecting trade should be transparent and verifiable.
 - Such changes in matters of trade or of trade related rules have to be invariability and without delay be notified to all the trading partners.
 - In case of any opposition to such changes, they should be appropriately addressed and any loss occurring to the affected members should be suitably compensated for.
- 9) **Progressive Liberalization:** Controversial issues left unsettled during the Uruguay Round (labour standards, non-agricultural market access, etc.) are to be liberalized during consecutive rounds of discussion.
- 10) **Market Access:**
- The WTO aims to increase world trade by enhancing market access by converting all non - tariff barriers into tariffs which are subject to country specific limits.
 - In major multilateral agreements like the Agreement on Agriculture (AOA), specific targets have been specified for ensuring market access.
- 11) **Special privileges to less developed countries:**
- The majority of WTO members are developing countries and countries in transition to market economies.
 - The WTO deliberations favour less developed countries by giving them greater flexibility, special privileges and permission to phase out the transition period.
 - These countries are granted transition periods to make adjustments to the not so familiar and intricate WTO provisions.
- 12) **Protection of Health & Environment:**
- The WTO’s agreements support measures to protect not only the environment but also human, animal as well as plant health.
 - These measures should be non-discriminatory and that members should not employ environmental protection measures as a means of disguising protectionist policies.
- 13) **A transparent, effective and verifiable dispute settlement mechanism:**
- Any dispute arising out of violation of trade rules leading to infringement of rights under the agreements or misunderstanding arising as regards the interpretation of rules are to be settled through consultation.
 - In case of failures, the dispute can be referred to the WTO and can pursue a carefully mapped out, stage-by-stage procedure that includes the possibility of a judgment by a panel of experts, and the opportunity to appeal the ruling on legal grounds.
 - The decisions of the dispute settlement body are final and binding.

SIMILAR QUESTION:

1. Describe the guiding principles of the WTO.
 - A. Support your answer as per weightage of the question.
2. What is meant by 'National Treatment Principle'?
 - A. Refer 2nd point
3. How does the WTO agreement ensure market access? (N19-2M)
 - A. Refer 10th point

Q.No.24. What are the major provisions of the WTO agreements?	(A) (SM)
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WTO: Refer the definition of WTO in Question No: 20

WTO AGREEMENTS:

- 1) The WTO agreements cover goods, services and intellectual property and the permitted exceptions. These agreements are WTO's trade rules.
- 2) The WTO is often described as "rules-based", a system based on rules. (The rules are actually agreements that the governments negotiated).
- 3) The WTO agreements are voluminous and multifaceted.
- 4) The 'Legal Texts' consist of a list of about 60 agreements, annexes, decisions and understandings covering a wide range of activities.

THE MAJOR PROVISIONS OF THE WTO AGREEMENTS:

- 1) **Agreement on Agriculture:** It aims at strengthening GATT disciplines and improving agricultural trade. It includes specific and binding commitments made by WTO Member governments in the three areas of market access, domestic support and export subsidies. (RTP N18)
- 2) **Agreement on the Application of Sanitary and Phytosanitary (SPS):** SPS Measures establishes multilateral frameworks for the planning, adoption and implementation of SPS measures. To prevent such measures from being used for arbitrary or unjustifiable discrimination or for camouflaged restraint on international trade and to minimize their adverse effects on trade.
- 3) **Agreement on Textiles and Clothing:**
 - a) It replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974 which entailed import protection policies.
 - b) ATC provides that textile trade should be deregulated by gradually integrating it into GATT disciplines over a 10-year transition period.
- 4) **Agreement on Technical Barriers to Trade (TBT):**
 - a) TBT aims to prevent standards and conformity assessment systems from becoming unnecessary trade barriers by securing their transparency and harmonization with international standards.
 - b) Often excessive standards or misuse of standards in respect of manufactured goods, and safety/environment regulations act as trade barriers.
- 5) **Agreement on Trade-Related Investment Measures (TRIMs):**

TRIMs expand disciplines governing investment measures in relation to cross-border investments by stipulating that countries receiving foreign investments shall not impose investment measures.

(Investment measures such as requirements, conditions and restrictions inconsistent with the provisions of the principle of national treatment and general elimination of quantitative restrictions)
- 6) **Anti-Dumping Agreement:** It seeks to tighten and codify disciplines for calculating dumping margins and conducting dumping investigations, etc. in order to prevent anti-dumping measures from being abused or misused to protect domestic industries.

7) Customs Valuation Agreement:

- a) It specifies rules for more consistent and reliable customs valuation.
- b) It aims to harmonize customs valuation systems on an international basis by eliminating arbitrary valuation systems.

8) Agreement on Pre-shipment Inspection (PSI):

- a) PSI intends to secure transparency of pre-shipment inspection wherein a company designated by the importing country conducts inspection (in terms of quality, volume, price, tariff classification, customs valuation, etc.) of merchandise in the territory of the exporting country on behalf of the importing country's custom office and issues certificates.
- b) The agreement also provides for a mechanism for the solution of disputes between PSI agencies and exporters.

9) Agreement on Rules of Origin:

- a) It provides for the harmonization of rules of origin for application to all non-preferential commercial policy instruments.
- b) It also provides for dispute settlement procedures and creates the rules of origin committee.

10) Agreement on Import Licensing Procedures: It relates to simplification of administrative procedures and to ensure their fair operation so that import licensing procedures of different countries may not act as trade barriers.**11) Agreement on Subsidies and Countervailing Measures:** It aims to clarify definitions of subsidies, strengthen disciplines by subsidy type and to strengthen and clarify procedures for adopting countervailing tariffs.**12) Agreement on Safeguards:** It clarify disciplines for requirements and procedures for imposing safeguards and also on emergency measures to restrict imports in the event of a sudden surge in imports.**13) General Agreement on Trade in Services (GATS):** GATS provide the general obligations regarding trade in services, such as most-favored-nation treatment and transparency.**14) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS):**

- a) This agreement stipulates most-favored-nation treatment and national treatment for intellectual properties, such as copyright, trademarks, geographical indications, industrial designs, patents, IC layout designs and undisclosed information.
- b) In addition, it requires member countries to maintain high levels of intellectual property protection and to administer a system of enforcement of such rights.
- c) It also stipulates procedures for the settlement of disputes related to the agreement.

15) Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU):

- a) DSU provides the common rules and procedures for the settlement of disputes related to the WTO agreements.
- b) It aims to strengthen dispute settlement procedures by prohibiting unilateral measures, establishing dispute settlement panels whose reports are automatically adopted, setting time frames for dispute settlement, establishing the Appellate Body etc.

16) Trade Policy Review Mechanism (TPRM): TPRM provides the procedures for the trade policy review mechanism to conduct periodical reviews of members' trade policies and practices conducted by the Trade Policy Review Body (TPRB).**17) Plurilateral Trade Agreements:**

- a) **Agreement on Trade in Civil Aircraft:** Negotiations were ongoing alongside the Uruguay Round to revise the Civil Aircraft Agreement (an agreement from the Tokyo Round) and to strengthen disciplines on subsidies.

However, no agreement has yet been reached and the agreement reached under the Tokyo Round continues.

b) Agreement on Government Procurement:

- i) This agreement requires national treatment and non-discriminatory treatment in the area of government procurement and calls for fair and transparent procurement procedures.
- ii) The agreement covers the procurement of services (in addition to goods) and the procurement by sub-central government entities and government-related agencies (in addition to central government).

CONCLUSION: *All the above mentioned agreements are not static; they are renegotiated from time to time and new agreements evolve from negotiations. Many are now being negotiated under the Doha Development Agenda, launched by WTO trade ministers in Doha, Qatar, in November 2001.*

SIMILAR QUESTIONS:

1. Give an overview of the WTO agreements
 - A. Support your answer as per weightage of the question.
2. What is the major aim of the agreement on the 'Application of Sanitary and Phytosanitary (SPS) Measures'?
 - A. Refer 2nd point
3. What purpose does the Agreement on Technical Barriers to Trade (TBT) serve?
 - A. Refer 4th point
4. What does the Agreement on Trade-Related Investment Measures (TRIMs) stipulate? (RTP N20)
 - A. Refer 5th point
5. What do you understand by agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)?
 - A. Refer 14th point
6. Describe the functioning of the dispute settlement mechanism?
 - A. Refer 15th point

Q.No.25. Write about the DOHA ROUND of WTO. (B) (SM)

THE DOHA ROUND: The Doha Round, formally the Doha Development Agenda, which is the ninth round since the Second World War was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001.

The round seeks to accomplish major modifications of the international trading system through lower trade barriers and revised trade rules.

The negotiations include 20 areas of trade, including agriculture, services trade, market access for non-agricultural products, and certain intellectual property issues.

The most controversial topic in the yet to conclude Doha Agenda has been agriculture trade.

NOTE: Despite the fact that the WTO replaced GATT as an international organization, the General Agreement still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations.

Q.No.26. What are the major issues of WTO? (B) (SM)

In recent years, apprehensions have been raised in respect of the WTO and its ability to maintain and extend a system of liberal world trade.

THE MAJOR ISSUES OF WTO ARE:

- 1) The progress of multilateral negotiations on trade liberalization is very slow and the requirement of consensus among all members acts as a constraint and creates rigidity in the system. As a result, countries find regionalism a plausible alternative.
- 2) The contemporary trade barriers are more complex and difficult to negotiate in a multilateral forum. Logically, these issues are found easier to discuss on bilateral or regional level.
- 3) The complex network of regional agreements introduces uncertainties and murkiness in the global trade system.

- 4) While multilateral efforts have effectively reduced tariffs on industrial goods, the achievement in liberalizing trade in agriculture, textiles, and apparel, and in many other areas of international commerce has been negligible.
- 5) The latest negotiations, such as the Doha Development Round, have run into problems, and their success is doubtful.
- 6) Most developing countries are dissatisfied with the WTO because, in practice, most of the promises of the Uruguay Round agreement to expand global trade has not materialized.
- 7) The developing countries have raised a number of concerns.

SIMILAR QUESTIONS:

1. Many apprehensions have been raised in respect of the WTO and its ability to maintain and extend a system of liberal world trade. Comment. (RTP-M20)
- A. Refer above answer

Q.No.27. What are the major concerns raised by the developing countries as per functioning of WTO? (A) (SM)

THE DEVELOPING COUNTRIES HAVE RAISED A NUMBER OF CONCERNS SUCH AS:

- 1) They contend that the real expansion of trade in the three key areas of agriculture, textiles and services has been dismal.
- 2) Protectionism and lack of willingness among developed countries to provide market access on a multilateral basis has driven many developing countries to seek regional alternatives.
- 3) They raised a number of issues in the Doha Agenda in respect of the difficulties in implementing the present agreements.
- 4) The North-South divide apparent in the WTO ministerial meets has fuelled the apprehension of developing countries about the prospect of trade expansion under the WTO regime.
- 5) Developing countries complain that they face exceptionally high tariffs on selected products in many markets and this obstructs their vital exports.
Examples are tariff peaks on textiles, clothing, and fish and fish products.
- 6) Another major issue concerns 'tariff escalation' where an importing country protects its processing or manufacturing industry by setting lower duties on imports of raw materials and components, and higher duties on finished products.
- 7) There is also possible erosion of preferences i.e. the special tariff concessions granted by developed countries on imports from certain developing countries have become less meaningful because of the narrowing of differences between the normal and preferential rates.
- 8) The least-developed countries find themselves disproportionately disadvantaged and vulnerable with regard to adjustments due to lack of human as well as physical capital, poor infrastructure, inadequate institutions, political instabilities etc.

SIMILAR QUESTIONS:

1. List out the major concerns in respect of functioning of the WTO.
- A. Refer above answer
2. Do you agree with the statement that the WTO disproportionately benefits developed nations and impoverished developing nations?
- A. Refer above answer

Q.No.28. Summarize the agreements in the final act of the Uruguay Round. (B) (SM)

A SUMMARY OF AGREEMENTS IN THE FINAL ACT OF THE URUGUAY ROUND ARE AS FOLLOWS:

- 1) Agreement Establishing the WTO
- 2) General Agreement on Tariffs and Trade 1994

- 3) Uruguay Round Protocol GATT 1994
- 4) Agreement on Agriculture
- 5) Agreement on Sanitary and Phytosanitary Measures
- 6) Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries
- 7) Agreement on Textiles and Clothing (terminated on 1 January 2005)
- 8) Agreement on Technical Barriers to Trade
- 9) Agreement on Trade-Related Investment Measures
- 10) Agreement on Implementation of Article VI (Anti-dumping)
- 11) Agreement on Implementation of Article VII (Customs Valuation)
- 12) Agreement on Preshipment Inspection
- 13) Agreement on Rules of Origin
- 14) Agreement on Import Licensing Procedures
- 15) Agreement on Subsidies and Countervailing Measures
- 16) Agreement on Safeguards
- 17) General Agreement on Trade in Services
- 18) Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods
- 19) Understanding on Rules and Procedures Governing the Settlement of Disputes
- 20) Decision of Achieving Greater Coherence in Global Economic Policy-Making.

SECTION 2: QUESTIONS FOR ACADEMIC INTEREST FOR STUDENT SELF STUDY

Q.No.1. list out few developments in international trade arena.

(SM)

- 1) On January 27, 2017 The European Commission, after a detailed investigation which confirmed dumping, decided to impose anti-dumping measures on two steel products (stainless steel tube and pipe butt-welding fittings) originating in China and Taiwan.
- 2) In April, 2017 India accuses that by deciding to test up to 50 per cent of India's shrimp consignments for antibiotic residues, European Union is using SPS (Sanitary and Phytosanitary) restrictions in the case of seafood, and also on fruits and vegetables) in an exaggerated way and that its specifications sometimes exceed the norms prescribed in the Codex Alimentarius standards of the FAO.
- 3) In April, 2017, India decided to have a domestic purchase preference policy applicable for five years for PSU oil companies. Targets of local contents (LC) also are stipulated for certain oil and gas business activities.
- 4) In view of the avian influenza threat, India has in recent years curbed the import of frozen chicken legs from the US. The WTO upheld the objections raised by the US to India's move, that the curbs are beyond international norms and therefore amounted to non-tariff barrier.

Q.No.2. Define Tariffs and its various forms.

(C) (SM)

TARIFFS: It 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 also known as customs duties and are basically taxes or duties imposed on goods and services which are imported or exported.

They are the most visible and universally used trade measures that determine market access for goods.

Import duties being pervasive than export duties, tariffs are often identified with import duties.

Tariffs are aimed at altering the relative prices of goods and services imported, so as to contract the domestic demand and thus regulate the volume of their imports. Tariffs leave the world market price of the goods unaffected; while raising their prices in the domestic market. The main goals of tariffs are to raise revenue for the government, and more importantly to protect the domestic import-competing industries.

Q.No.3. Briefly explain the URUGUAY ROUND AND THE ESTABLISHMENT OF WTO. (SM)

The need for a formal international organization which is more powerful and comprehensive was felt by many countries by late 1980s. Having settled the most ambitious negotiating agenda that covered virtually every outstanding trade policy issue, the Uruguay Round brought about the biggest reform of the world's trading system. Members established 15 groups to work on limiting restrictions in the areas of tariffs, non-tariff barriers, tropical products, natural resource products, textiles and clothing, agriculture, safeguards against sudden 'surges' in imports, subsidies and countervailing duties, trade related intellectual property restrictions, trade related investment restrictions, services and four other areas dealing with GATT itself, such as, the GATT system, dispute settlement procedures and implementation of the NTB Codes of the Tokyo Round, especially on anti-dumping. The Round started in Punta del Este in Uruguay in September 1986 and was scheduled to be completed by December 1990. However, due to many differences and especially due to heated controversies over agriculture, no consensus was arrived at. Finally, in December 1993, the Uruguay Round, the eighth and the most ambitious and largest ever round of multilateral trade negotiations in which 123 countries participated, was completed after seven years of elaborate negotiations. The agreement was signed by most countries on April 15, 1994, and took effect on July 1, 1995. It also marked the birth of the World Trade Organization (WTO) which is a single institutional framework encompassing the GATT, as modified by the Uruguay Round.

Q.No.4. Explain briefly about Bound Tariff. (or) What is meant by 'Bound tariff'? (A) (SM) [N19 - 2M]

BOUND TARIFF:

- 1) A bound tariff is a tariff which a WTO member binds itself with a legal commitment not to raise it above a certain level.
- 2) The bound rates are specific to individual products and represent the maximum level of import duty that can be levied on a product imported by that member.
- 3) A member is always free to impose a tariff that is lower than the bound level.
- 4) By binding a tariff, often during negotiations, the members agree to limit their right to set tariff levels beyond a certain level.
- 5) Once bound, a tariff rate becomes permanent and a member can only increase its level after negotiating with its trading partners and compensating them for possible losses of trade.
- 6) A bound tariff ensures transparency and predictability.

Q.No.5. "In the international trade, Multilateral trade system is both a political process and a set of political institutions." Comment on it. (C) (SM)

- 1) Multilateral trade system is a political process because it is based on negotiations and bargaining among sovereign governments based on which they arrive at rules governing trade between or among themselves.
- 2) The political institutions that facilitate trade negotiations, and support international trade cooperation by providing the rules of the game have been the former General Agreements on Tariffs and Trade (GATT) and the World Trade Organization (WTO).

Q.No.6. What is the basis for WTO's present operations? (C) (SM)

The bulk of the WTO's present operations come from the 1986-94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT).

Despite the fact that the WTO replaced GATT as an international organization, the General Agreement still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations.

Q.No.7. Explain about Most-favoured nation (MFN). (C) (SM, RTP M18, MTP1 N18 - 2M)

MOST-FAVOURLED NATION (MFN): Originally formulated as Article 1 of GATT, this principle states that any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be extended immediately and unconditionally to the like product originating or destined for the territories of all other contracting parties.

Q.No.8. Explain about GATT Article III. (C) (SM)

GATT Article III requires that with respect to internal taxes, internal laws, etc. applied to imports, treatment not less favourable than that which is accorded to like domestic products must be accorded to all other members.

Q.No.9. Explain the term GATS. (C) (SM)

GENERAL AGREEMENT ON TRADE & SERVICES (GATS):

GATS provide the general obligations regarding trade in services, such as most- favored-nation treatment and transparency.

In addition, it enumerates service sectors and stipulates that in the service sectors for which it has made commitments, a member country cannot maintain or introduce market access restriction measures and discriminatory measures that are severer than those that were committed during the negotiations.

Q.No.10. Explain the term TRIPS. (C) (MTP1 N18 – 2M)(SM)

TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS): Trade aspects of intellectual properties, such as copyright, trademarks, geographical indications, industrial designs, patents, IC layout designs and undisclosed information.

SECTION 3: DIFFERENCES FOR STUDENT SELF STUDY

Q.No.1. Distinguish between 'Non-tariff measures' and 'Non-tariff barriers' (C) (RTP N18)

BASIS OF COMPARISON	NON-TARIFF MEASURES (NTM)	NON-TARIFF BARRIERS
Meaning	NTMs are <u>policy measures</u> , other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both	NTBs are a subset of NTMs that have a 'protectionist or discriminatory intent' and implies a negative impact on trade.
Examples	SPS & TBT (Technical measures); Hard measures and Threat measures (Non-technical measures).	Compulsory standards, stringent technical regulations requiring alterations in production processes, testing regimes which require complex procedures and product approvals requiring inspection of individual premises.

Q.No.2. Explain the differences between GATT and WTO.

(B) (SM)

BASIS FOR COMPARISON	GATT	WTO
Meaning	GATT can be described as a set of rules, multilateral trade agreement that came into force, to encourage international trade and remove cross-country trade barriers.	WTO is an international organization that came into existence to oversee and liberalize trade between countries.
Institution	It does not have any institutional existence, but have a small secretariat.	It has permanent institution along with a secretariat.
Participant nations	Contracting parties	Members
Commitments	Provisional	Full and Permanent
Application	The rules of GATT are only for trade in goods.	The rules of WTO includes services and aspects of intellectual property along with the goods.
Agreement	Their agreements are originally multilateral, but plurilateral agreements are added to it later.	Its agreements are purely multilateral.
Domestic Legislation	Allowed to continue	Not allowed to continue
Dispute Settlement System	Slow and ineffective	Fast and effective

SECTION 4: TEST YOUR KNOWLEDGE

- How does the applied tariff differ from bound tariff on a WTO member?
- Define custom duties? What are their main goals? (RTP N 19)
- What is meant by dumping?
- Compare the terms tariffs and non-tariffs.
- Compare non-tariff measures (NTMs) with non-tariff barriers (NTBs).
- What is the purpose of trade policy?
- Outline the main goals of tariffs?
- What is the purpose of binding a tariff?
- Why are countervailing duties imposed?
- Assume that 15% specific tariff is levied by the government on every sunglass which is imported into India, and if 2000 sunglasses are imported and price of each sunglass is Rs.1000/- , then find out the amount of total tariff revenue collected by the government? (MTP-N19) (Ans: Rs.300/-)
- What is the purpose of SPS measures?
- Is prohibition of import of poultry from countries affected by avian flu, meat and poultry processing standards to reduce pathogens, residue limits for pesticides in foods etc. an example of Sanitary and Phytosanitary (SPS) measure? How? (RTP N19)
- Food Laws, Quality Standards and Industrial Standards are examples of which type of non-tariff measures? Give Comments. (RTP N19)
- What do you understand by the term 'import quota'?
- Outline the meaning of 'Trigger-price mechanism'.
- Distinguish between anti-dumping duties and countervailing duties. What purpose do they serve?
- What is the major advantage of Regional Trade Agreements (RTAs)?

- 18) What is meant by 'free trade area'? (RTP N18, MTP1 N18 - 2M)
- 19) What is the key feature of Monetary Union?
- 20) What are the peculiarities of the GATT?
- 21) What are the major functions of the WTO?
- 22) What do you understand by the term 'Most-favoured-nation' (MFN)?
- 23) What is the objective behind limiting protection by tariffs only? How does it promote international trade?
- 24) Differentiate Trade- Related Investment Measures (TRIMS) and Trade-Related Aspects of Intellectual Property Rights (TRIPS). (MTP N20)

- 25)
- a) What do you think the implications on trade will be if India pays an export subsidy of Rs. 400/- on every pair of cotton trousers exported by it to Germany
- b) Suppose Germany charged an equivalent countervailing duty on every pair of cotton trousers imported from India. Do you think world welfare will be affected?

26) **CASE SCENARIO:** India aims to become a global leader in solar energy and for achieving this; the Jawaharlal Nehru National Solar Mission (JNNSM) was launched in 2010. To persuade and to promote producers to participate in the national solar programme, the government planned long-term power purchase agreements with solar power producers, thus effectively guaranteeing the sale of the energy produced as well as the price that solar power producers could obtain. However, there was a stipulation that the producers should use domestically sourced inputs, namely solar cells and modules. India lost the case in DSB and WTO has ruled against the stipulation of local content requirements by government of India. (SM)

Answer the following questions

- a) How does the 'local content requirements' clause violate the WTO agreements?
- b) Do you think Indian domestic solar power industry will be affected when India scraps the local-sourcing regulation as per the ruling of WTO?

27) (SM, MTP M18 - 3M)

- a) Which of the three exporters engage in anticompetitive act in the international market while pricing its export of good X to country D?
- b) What would be the effect of such pricing on the domestic producers of good X? Advise remedy available for country D?

Goods X	Country A (in \$)	Country B (in \$)	Country C (in \$)
Average Cost	30.5	29.4	30.9
Price per Unit for domestic Sales	31.2	31.1	30.9
Price charged in country D	31.9	30.6	30.6

SECTION 5: ADDITIONAL INFORMATION FOR STUDENTS SELF STUDY

- 1) **UNCTAD:** United Nations Conference on Trade and Development (194 member States)
- 2) **OECD:** Organisation for Economic Co-operation and Development (34 member countries): Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.
- 3) **LIST OF EUROPEAN UNION COUNTRIES (28):**
 Austria, Italy, Belgium, Latvia, Bulgaria, Lithuania, Croatia, Luxembourg, Cyprus, Malta, Czech Republic, Netherlands, Denmark, Poland, Estonia, Portugal, Finland, Romania, France, Slovakia, Germany, Slovenia, Greece, Spain, Hungary, Sweden, Ireland and United Kingdom

4) LIST OF OPEC COUNTRIES (15):

Algeria. Angola. Congo. Ecuador. Equatorial Guinea. Gabon. Iran. Iraq. Kuwait. Libya. Nigeria. Qatar. Saudi Arabia. United Arab Emirates and Venezuela.

5) EXAMPLES OF FREE TRADE AREAS:

- a) **EFTA:** European Free Trade Association consists of Norway, Iceland, Switzerland and Liechtenstein
- b) **NAFTA:** United States, Mexico and Canada (being renegotiated)
- c) **SAFTA:** South Asian Free Trade Area comprising Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka
- d) **IFTA:** Some of the Existing agreements are: Bangkok agreement, India Sri Lanka FTA, India Thailand FTA, India Mauritius PTA etc.
- e) **ASEAN:** Myanmar, Vietnam, Laos, Thailand, Cambodia, Philippines, Malaysia, Singapore, Indonesia, Brunei Darussalam
- f) **MERCOSUR:** It is now a full customs union and a trading bloc. It is an economic and political bloc comprising Argentina, Brazil, Paraguay, and Uruguay.
- g) **Pacific Alliance:** Chile, Colombia, Mexico and Peru
- h) **Arab League:** The 22 members of the Arab League as of 2018 were Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates and Yemen.

6) GATT AND WTO TRADE ROUNDS

Name	Start	Duration	Countries	Subjects covered	Achievements
Geneva, (Switzerland)	April, 1947	7 months	23	Tariffs	Signing of GATT, 45,000 tariff concessions affecting \$10 billion of trade
Annecy, (France)	April, 1949	5 months	34	Tariffs	Countries exchanged some 5,000 tariff concessions
Torquay, (England)	September, 1950	8 months	34	Tariffs	Countries exchanged some 8,700 tariff concessions, cutting the 1948 tariff levels by 25%
Geneva, (Switzerland)	January, 1956	5 months	22	Tariffs, admission of Japan	\$2.5 billion in tariff reductions
Dillon, (Geneva, Switzerland)	September, 1960	11 months	45	Tariffs	Tariff concessions worth \$4.9 billion of world trade
Kennedy, (Geneva, Switzerland)	May, 1964	37 months	48	Tariffs, Anti-dumping	Tariff concessions worth \$40 billion of world trade
Tokyo, (Japan)	September, 1973	74 months	102	Tariffs, non-tariff measures, "framework" agreements	Tariff reductions worth more than \$300 billion achieved
Uruguay	September, 1986	87 months	123	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc.	The round led to the creation of WTO, and extended the range of trade negotiations, leading to major reductions in tariffs (about 40%) and agricultural subsidies, an agreement to allow full access for textiles and clothing from developing countries, and an

					extension of intellectual property rights.
Doha, (Quatar)	November, 2001	?	159	Tariffs, non-tariff measures, agriculture, labor standards, environment, competition, investment, transparency, patents etc.	The round has not yet concluded. Bali Package signed on the 7th December 2013.

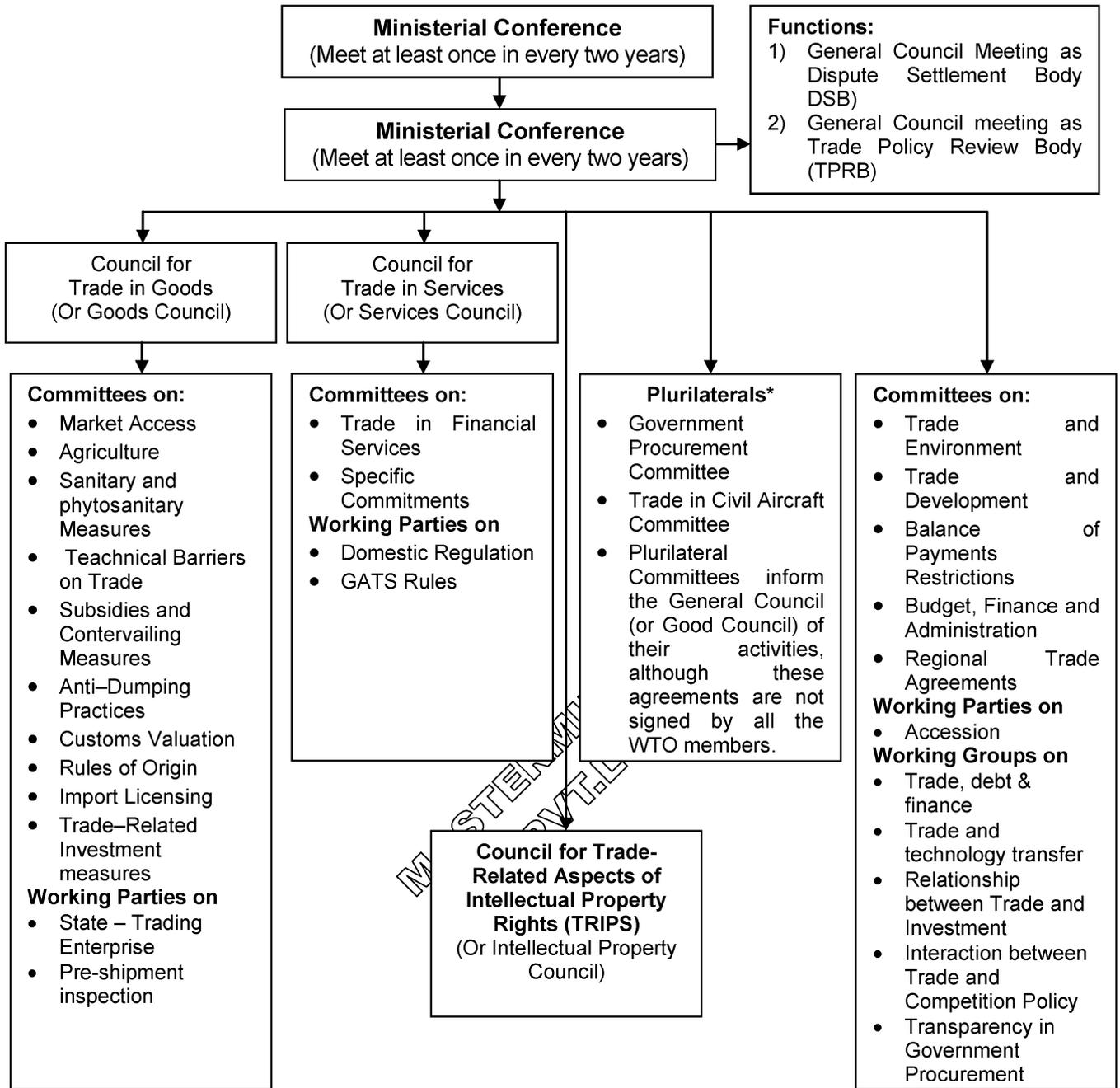
LIST OF EXIM CODES

Exim Code	Item Description	Policy
050710.10	Ivory	Prohibited
100190.20	Wheat (not seed) for human consumption	State Trading
152110.01	Edible wax for waxing Fresh fruits and vegetables	Free
251511.00	Marble and travertine Crude or roughly trimmed	Restricted
261210.00	Uranium ores and Concentrates	Free
380810.13	Calcium Cyanide	Free
85291009.20	Antenna for communication jamming equipment static / mobile /non portable	Restricted

NEGATIVE LIST OF EXPORTS

Title	Types of Goods
Prohibited Goods	Wild life, exotic birds, wild flora, beef, human skeletons, tallow, fat, oils of animal origin etc., wood and wood products etc.,
Exports Permitted subject to licensing	Cattle, Camel, Coconut and copra, chloroquin phosphate, fur of domestic animals, hides and skins, industrial leathers, uranium, plutonium etc., radium ores etc., milk, pulses, rice bran, raw silk, military stores etc., seeds, vegetable oils, sea weeds, silk worms etc.
Exports permitted subject to quantitative ceilings	Natural rubber, handicrafts made of peacock tail feathers, iodised salt, wheat straw, brown sea weeds, sunflower seeds etc.
Exports permitted through Canalising Agencies	Petroleum Products, Mineral ores and concentrates, mica waste, niger seeds, onions, powder milk etc.
Items which may be exported without a license but subject to terms and conditions specified in the Handbook of Procedures	Arms and ammunition, Basmati rice, De-oiled groundnut cake, grains and flour of wheat, rice etc., handicrafts made of sandalwood, raw cotton, sesame seeds, textiles subject to quotas, acetic anhydride, cotton waste, silk goods etc.

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