

## 9. TRADE POLICY - TRADE NEGOTIATIONS

### ANSWERS FOR TEST YOUR KNOWLEDGE QUESTIONS

#### QUESTION NO. 1

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

**Bound tariff:** A bound tariff is a tariff which a WTO member binds itself with a legal commitment not to raise above a certain level.

**Applied tariff differ from Bound tariff on a WTO member as follows:** A WTO member can have an applied tariff for a product that differs from the bound tariff for that product as long as the applied level is not higher than the bound level.

#### QUESTION NO. 2

**Dumping:** Dumping occurs when manufacturers sell goods in a foreign country below the sales prices in their domestic market or below their full average cost of the product. Dumping may be persistent, seasonal, or cyclical.

#### QUESTION NO. 3

Tariffs constitute the visible barriers to trade and have the effect of increasing the prices of imported merchandise. By contrast, the non-tariff measures which have come into greater prominence than the conventional tariff barriers, constitute the hidden or 'invisible' measures that interfere with free trade.

#### QUESTION NO. 4

- Non-tariff measures comprise all types of measures which alter the conditions of international trade, including policies and regulations that restrict trade and those that facilitate it.
- It should be kept in mind that NTMs are not the same as non-tariff barriers (NTBs).
- Non-tariff barriers are simply discriminatory non-tariff measures imposed by governments to favour domestic over foreign suppliers, while nontariff measures encompass a broader set of measures.

#### QUESTION NO. 5

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

#### QUESTION NO. 6

The main goals of tariffs are to raise revenue for the government and more importantly to protect the domestic import-competing industries.

#### QUESTION NO. 7

By binding a tariff, often during negotiations, the members agree to limit their right to set tariff levels beyond a certain level. This involves transparency and predictability of trade.

#### QUESTION NO. 8

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

#### QUESTION NO. 9

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.

#### QUESTION NO. 10

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.

**QUESTION NO. 11**

Trigger-price mechanisms are quick responses of affected importing countries upon confirmation of trade distortion to offset the distortion. E.g. Antidumping duties, Countervailing duties etc.

**QUESTION NO. 12****Anti-dumping measures:**

- 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.
- 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.
- 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.

**Countervailing Duties:**

- 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.
- 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.

**QUESTION NO. 13**

Regional Trade Agreements (RTAs) are groupings of countries, which are formed with the objective of reducing barriers to trade between member countries.; not necessarily belonging to the same geographical region. They reduce trade barriers on a regional and preferential basis for only the members of the group.

**QUESTION NO. 14**

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. **Example:** NAFTA

**QUESTION NO. 15**

In a Monetary Union, members share a common currency and macroeconomic policies. For example, the euro zone countries implement and adopt a single currency in common i.e. Euros

**QUESTION NO. 16**

General Agreement on Tariffs and Trade (GATT) (1948 to 1994) provided the rules for much of world trade; it was only 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.

**QUESTION NO. 17**

**WTO:** WTO is the only global international organization dealing with the rules of trade between nations. The goal is to help producers of goods and services, exporters, and importers conduct their business.

The principal objective of the WTO is to facilitate the flow of international trade smoothly, freely, fairly and predictably.

**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.

**QUESTION NO. 18**

**Most-Favored Nation Tariffs:** 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 (such as a free trade area or customs union). This means that, in practice, MFN rates are the highest (most restrictive) that WTO members charge one another. Some countries impose higher tariffs on countries that are not part of the WTO.

**QUESTION NO. 19**

- a) Unfair and artificially created price advantage to trousers exporters of India - price does not reflect costs- German trousers industry lose competitiveness and market share as trousers from India are lower priced - Loss of world welfare. German industry can ask for protection by introducing countervailing duties.
- b) An equivalent countervailing duty will push the prices of Indian trousers and afford protection to domestic trousers industry. World welfare will be the same as before India introduced export subsidy.

**QUESTION NO. 20**

- a) Local-sourcing regulation is considered as a protection measure inconsistent with India's international obligations under WTO agreement. Discrimination on the basis of the national 'origin' of the cells and modules is a violation of its trade commitment for 'national treatment obligation' under WTO. If the objective is cost reduction and efficiency, then the solar power producers should be free to choose energy-generation equipments and components on the basis of price and quality, irrespective of whether they are manufactured locally or not. By mandatorily requiring solar power producers to buy locally, the government has, it is argued, tried to distort competition. This imposes extra cost, and may possibly be passed on to the final consumers. Therefore, the interests of the consumers will not be protected.
- b) The market forces would prevail in respect of solar energy production - The import competing domestic industry of solar panels and modules may face stiff competition from imported items, especially those from China. Indian solar industry is in its infancy. Possibility of subsidized imports and dumping from different countries. India can evoke anti-dumping duties, countervailing duties and safe guards as provided for in WTO agreements. Need for innovation, cost reduction and quality improvement of Indian solar industry to compete with global manufacturers. Since clean energy is a merit good, government may produce and supply it directly - economies of large scale production can be reaped leading to cost and price reduction.

**QUESTION NO. 21**

- a) Dumping by Country B and Country C. B because it sells at a lower price than that in domestic market; Country C because it is selling at a price which is less than the average cost of production.
- b) Adverse effects on domestic industry as they will lose competitiveness in their markets due to unfair practice of dumping. Country D may prove damage to domestic industries and charge anti-dumping duties on goods imported from Country B and Country C so as to raise the price and make it at par with similar goods produced by domestic firms.

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