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Effect of Bound Tariff and Applied Tariff on Handloom Products

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A tariff is a tax or duty imposed by one nation on the imported goods or services of another nation. Tariffs are a political tool that have been used throughout history to control the amount of imports that flow into a country and to determine which nations will be granted the most favorable trading conditions. High tariffs create protectionism, shielding a domestic industry's products against foreign competition. High tariffs usually reduce the importation of a given product because the high tariff leads to a high price for the customers of that product. There are two basic types of tariffs imposed by governments on imported goods. First is the Ad Valorem tax which is a percentage of the value of the item. The second is a Specific Tariff which is a tax levied based on a set fee per number of items or by weight. Tariffs are generally imposed for one of four reasons: to protect newly established domestic industries from foreign competition; to protect aging and inefficient domestic industries from foreign competition; to protect domestic producers from "dumping" by foreign companies or governments. Dumping occurs when a foreign company charges a price in the domestic market which is below its own cost or under the cost for which it sells the item in its own domestic market; to raise revenue. Many developing nations use tariffs as a way of raising revenue.

The WTO agreement includes commitments by countries to bind their tariff rates at an agreed-upon maximum rate for each import product category. The maximum tariff in a product category is called the bound tariff rate. The bound tariff rates differ across products and across countries: some countries agree to higher maximums; others agree to lower maximums. In general, less-developed countries have higher bound tariff rates than developed countries, reflecting their perception that they need greater protection from competition against the more highly developed industries in the developed markets.

Table 1.1

Product – Wise Tariff Rate of Germany			
HS-CODE	**Bound Tariff**	**Applied Tariff-1995**	**Applied Tariff-2009**
570110	8	9.15	8
570190	5.75	7.5	5.75
570220	4	4	4
570231	8	8.4	8
570232	8	8.4	8
570239	8	8.4	8
570241	8	8.4	8
570259	8	8.4	8
570291	8	8.4	8
570310	8	13.4	8
570500	8	8.4	8
630210	12	12	12
630221	12	12.5	12
630229	12	12.5	12
630231	12	12.5	12
630239	12	12.5	12
630240	12	12	12
630251	12	12.5	12
630259	12	12.5	12
630260	12	12.5	12

Source: WITS COMTRADE Database

Fig. 1.1

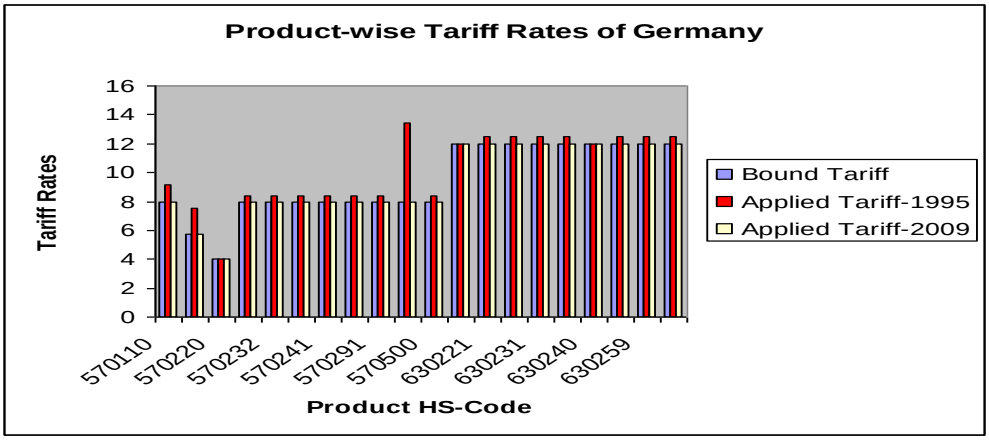

Fig 1.1 shows the tariff rates of Germany of handloom products and carpet and Floor Covering Products. This fig shows that in 1995 the applied tariff, on these products was almost equal to or greater than bound tariff. But in 2009, applied tariff on these products decreased and became almost equal to bound tariff.

Table 1.2

Product – Wise Tariff Rate of USA			
HS-CODE	**Bound Tariff**	**Applied Tariff-1995**	**Applied Tariff-2009**
570110	1.13	4.15	1.13
570190	0	5.1	0
570231	6	8.7	6
570232	7.5	8.85	7.5
570239	1.8	5	1.8
570241	0	8.1	0
570249	1.33	4.87	1.33
70259	4.75	6.3	4.75
570291	2.63	5.33	2.63
570299	4.75	6.3	5.43
570310	6	6.9	6
570390	3.8	7.2	3.8
570490	0	4.8	0
570500	1.65	3.1	1.65
630210	6	7.4	6
630221	10.5	15.18	10.5
630229	4.5	8.6	4.5
630231	10.82	15.2	10.82
630239	4.3	8.2	4.3

630240	6.6	9.9	6.6
630256	5.75	6.45	5.75
630259	8.8	9.9	4.63
630260	9.1	10.2	9.1

Source: WITS COMTRADE Database

Fig : 1.2

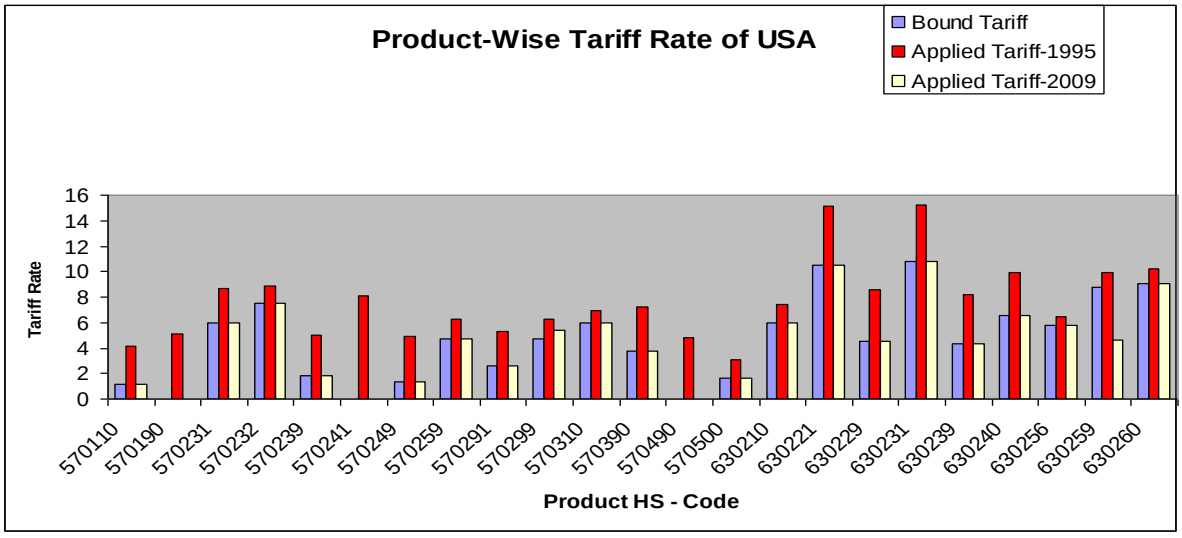

Fig 1.2 shows the tariff rates of the USA on handloom products and carpet and floor covering products. This fig shows that in 1995 the applied tariff ,on these products was greater than bound tariff. But in 2009 , applied tariff on these products decreased and became almost equal to or less than bound tariff.

Table 1.3

Product – Wise Tariff Rate of UK			
HS-CODE	**Bound Tariff**	**Applied Tariff-1995**	**Applied Tariff-2009**
570110	8	9.15	8
570190	5.75	7.5	5.75
570220	4	4	4
570231	8	8.4	8
570239	8	8.4	8
570241	8	8.4	8
570249	8	8.4	8
570259	8	8.4	8
570291	8	8.4	8
570310	8	13.4	8
570390	8	13.4	8
570490	6.7	6.7	6.7
570500	1.65	3.1	1.65
630239	4.3	8.2	4.3
630240	12	12	12
630251	12	12.5	12
630259	12	12.5	12
630260	12	12.5	12

Source: WITS COMTRADE Database

Fig :1.3

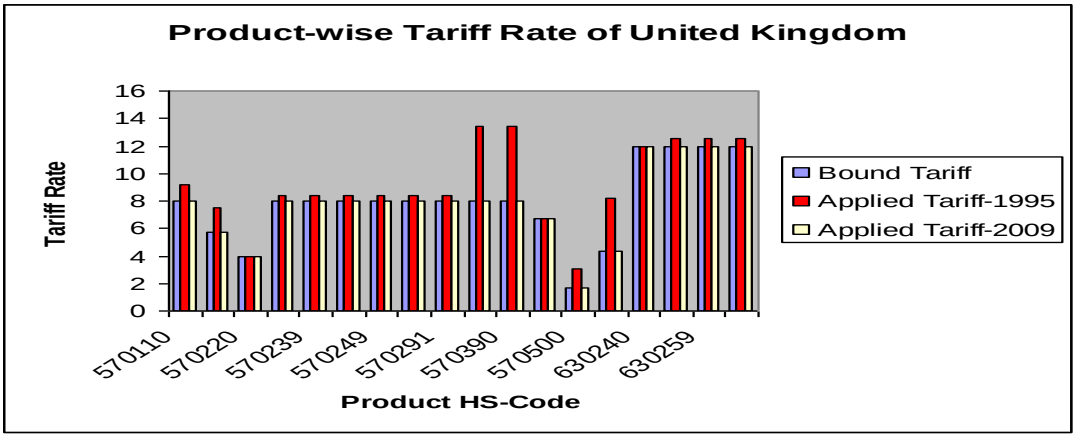

Fig 1.3 shows the tariff rates of the United Kingdom on handloom products and carpet and floor covering products. This fig shows that in 1995 the applied tariff ,on these products was almost equal or greater than bound tariff. But in 2009 , applied tariff on these products decreased and became almost equal to or less than bound tariff.

Table 1.4

Product – Wise Tariff Rate of Italy			
HS-CODE	**Bound Tariff**	**Applied Tariff-1995**	**Applied Tariff-2009**
570220	4	4	4
570232	8	8.4	8
570239	8	8.4	8
570259	8	8.4	8
570390	8	13.4	8
570500	8	8.4	8
630231	12	12.5	12
630239	12	12.5	12
630240	12	12	12
630251	12	12.5	12

Source: WITS COMTRADE Database

Fig:1.4

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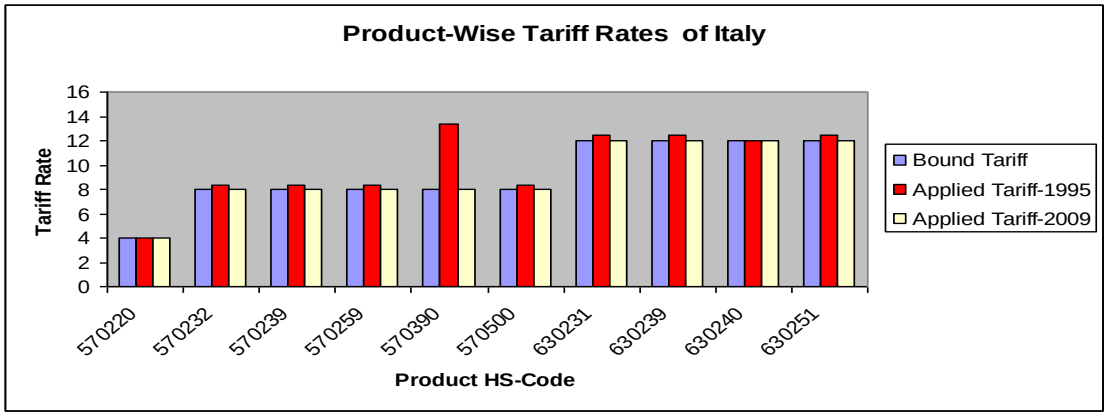

Fig 1.4 shows the tariff rates of Italy on handloom products and carpet and floor covering products. This fig shows that in 1995 the applied tariff ,on these products was greater than bound tariff. But in 2009 , applied tariff on these products decreased and became almost equal to or less than bound tariff.

Table 1.5

Product – Wise Tariff Rate of Netherlands			
HS-CODE	**Bound Tariff**	**Applied Tariff-1995**	**Applied Tariff-2009**
570220	4	4	4
570259	8	8.4	8
630210	12	12	12
630221	12	12.5	12

Source: WITS COMTRADE Database

Fig : 1.5

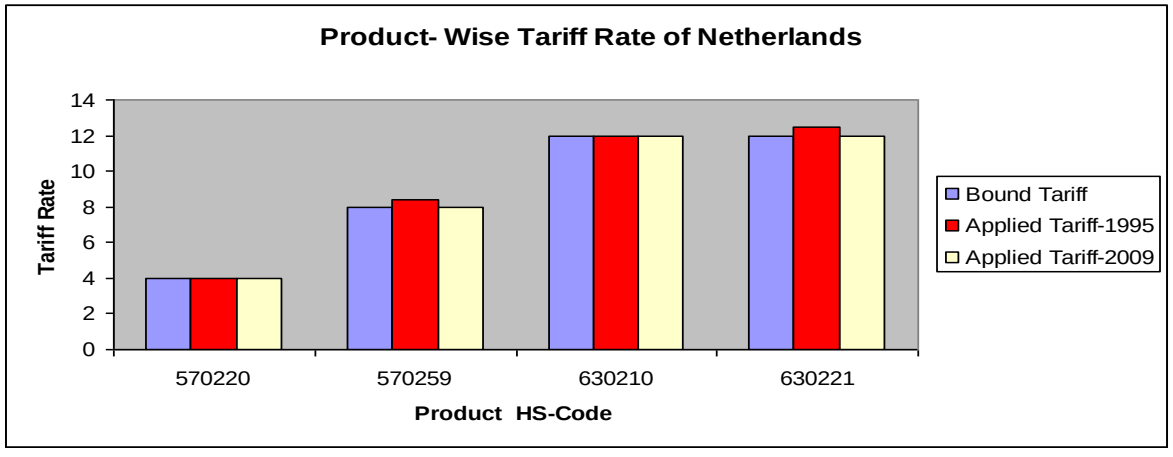

Fig 1.5 shows the tariff rates of Netherlands on handloom products and carpet and floor covering products. This fig shows that in 1995 the applied tariff ,on these products was greater than bound tariff. But in 2009 , applied tariff on these products decreased and became almost equal to or less than bound tariff.

Trade barriers (tariff and non-tariff) in destination countries have significant impact on India's exports because these measures impose additional cost on such exports. Theoretically, an estimate of impact of trade barriers

on India's exports requires knowledge of the extra cost (sometimes known as 'trade cost' or 'tax equivalence')[1]. It also depends upon market conditions in India, destination market, and the rest of the world.

Being nontransparent, NTMs are difficult to identify and analyse. Since NTMs cover all measures affecting trade other than tariffs, what then are NTBs. Are the two terms synonymous? In the literature, both the terms are used interchangeably, and the distinction is quite vague. The rationale for using the term "measure" instead of "barrier" is sometimes held on the ground that in some cases policies that stimulate the volume of trade rather than retard trade such as export subsidies cannot be held as a barrier.[2]

An estimate of impact of tariffs (in destination countries) on India's exports[3] can be derived by using supply and demand price flexibility in India and destination country, if sufficient data exists. It is very difficult, almost impossible, to estimate the impact of non-tariff measures on India's exports[4], since there is (i) no reliable estimate of extra cost or 'tax equivalence' due to these measures, and (ii) no systematic information is available on NTBs faced by India's exports. NTBs raise export price almost in a manner as a tariff does. Due to non-availability of (i) these price differences and (ii) supply and demand conditions, it is not feasible to estimate the impact of these barriers on India's exports.

In the same way, domestic policies and regulations may also result in a variety of hindrances to trade, depending upon their intent and behavioural responses that are induced. The growth of NTMs holds special significance to developing countries like India. These countries have been encountering difficulties in accessing developed country markets because of restrictive standards, burdensome regulations, and expensive compliance costs.

References :

1. See, Anderson, J.E. and E van Wincoop (2004), "Trade Costs", *Journal of Economic Literature*, and references quoted therein. Authors quote "A rough estimate of the tax equivalent of "representative" trade costs for industrialized countries is 170 percent. This number breaks down as follows: 21 percent transportation costs, 44 percent border-related trade barriers, and 55 percent retail and wholesale distribution costs (2.7=1.21*1.44*1.55)."
2. See Bora, Bijit (2003), "The Quantification and Impact of Non-Tariff Measures", paper presented at *OECD Global Forum on Trade: The Market Access Challenge in the Doha Development Agenda*, Paris 4-6 June 2003, and WTO document *TN/MA/SS*, 11 Sept. 2002.
3. See, among others, Vermani, A (1991), "Demand and Supply Factors in India's Trade", *Economic and Political Weekly*, Feb. 9, 1991: and Mehta, R. and P. Mathur (2004), "India's Export by Countries and Commodities: On the estimation of Forecasting Model using Panel Data", RIS – DP # 84/2004.
4. Mehta, R. (2000), *QR Removal and India's import,* RIS, make an attempt to estimate the impact of QR removal on India's

[1] See, Anderson, J.E. and E van Wincoop (2004), "Trade Costs", *Journal of Economic Literature*, and references quoted therein. Authors quote "A rough estimate of the tax equivalent of "representative" trade costs for industrialized countries is 170 percent. This number breaks down as follows: 21 percent transportation costs, 44 percent border-related trade barriers, and 55 percent retail and wholesale distribution costs (2.7=1.21*1.44*1.55)."

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[4] Mehta, R. (2000), *QR Removal and India's import,* RIS, make an attempt to estimate the impact of QR removal on India's import using econometric model; NTM (due to QR removal) is measured by an index commonly as "coverage ratio".