Trade Barriers

Meaning of Trade Barriers

Trade barriers are government policies which place restrictions on international trade. Trade barriers can either make trade more difficult and expensive (tariff barriers) or prevent trade completely (e.g. trade embargo)

Examples of Trade Barriers

- **Tariff Barriers**. These are taxes on certain imports. They raise the price of imported goods making imports less competitive.

- **Non-Tariff Barriers**. These involve rules and regulations which make trade more difficult. For example, if foreign companies have to adhere to complex manufacturing laws it can be difficult to trade.

1. Tariff Barriers

Tariff is a customs duty or a tax on products that move across borders. The most important of tariff barriers is the customs duty imposed by the importing country. A tax may also be imposed by the exporting country on its exports. However, governments rarely impose tariff on exports, because, countries want to sell as much as possible to other countries.

The main important tariff barriers are as follows:

(1) Specific Duty: Specific duty is based on the physical characteristics of goods. When a fixed sum of money, keeping in view the weight or measurement of a commodity, is levied as tariff, it is known as specific duty.

For instance, a fixed sum of import duty may be levied on the import of every barrel of oil, irrespective of quality and value. It discourages cheap imports. Specific duties are easy to administer as they do not involve the problem of determining the value of imported goods. However, a specific duty cannot be levied on certain articles like works of art. For instance, a painting cannot be taxed on the basis of its weight and size.

(2) Ad valorem Duty: These duties are imposed "according to value." When a fixed percent of value of a commodity is added as a tariff it is known as ad valorem duty. It ignores the consideration of weight, size or volume of commodity.

The imposition of ad valorem duty is more justified in case of those goods whose values cannot be determined on the basis of their physical and chemical characteristics, such as costly works of art, rare manuscripts, etc. In practice, this type of duty is mostly levied on majority of items.

(3) Combined or Compound Duty: It is a combination of the specific duty and ad valorem duty on a single product. For instance, there can be a combined duty when 10% of value (ad valorem) and Re 1/- on every meter of cloth is charged as duty. Thus, in this case, both duties are charged together.

(4) Sliding Scale Duty: The import duties which vary with the prices of commodities are called sliding scale duties. Historically, these duties are confined to agricultural products, as their prices frequently vary, mostly due to natural factors. These are also called as seasonal duties.

(5) Countervailing Duty: It is imposed on certain imports where products are subsidised by exporting governments. As a result of government subsidy, imports become more cheaper than domestic goods. To nullify the effect of subsidy, this duty is imposed in addition to normal duties.

(6) Revenue Tariff: A tariff which is designed to provide revenue to the home government is called revenue tariff. Generally, a tariff is imposed with a view of earning revenue by imposing duty on consumer goods, particularly, on luxury goods whose demand from the rich is inelastic.

(7) Anti-dumping Duty: At times, exporters attempt to capture foreign markets by selling goods at rock-bottom prices, such practice is called dumping. As a result of dumping, domestic industries find it difficult to compete with imported goods. To offset anti-dumping effects, duties are levied in addition to normal duties.

(8) Protective Tariff: In order to protect domestic industries from stiff competition of imported goods, protective tariff is levied on imports. Normally, a very high duty is imposed, so as to either discourage imports or to make the imports more expensive as that of domestic products.

Note: Tariffs can be also levied on the basis of international relations. This includes single column duty, double column duty and triple column duty.

2. Non-Tariff Barriers

A non tariff barrier is any barrier other than a tariff that raises an obstacle to free flow of goods in overseas markets. Non-tariff barriers, do not affect the price of the imported goods, but only the quantity of imports. Some of the important non-tariff barriers are as follows:

Licenses

A license is granted to a business by the government and allows the business to import a certain type of good into the country. For example, there could be a restriction on imported cheese, and licenses would be granted to certain companies allowing them to act as importers. This creates a restriction on competition and increases prices faced by consumers.

Import Quotas

An import quota is a restriction placed on the amount of a particular good that can be imported. This sort of barrier is often associated with the issuance of licenses. For example, a country may place a quota on the volume of imported citrus fruit that is allowed.

Voluntary Export Restraints (VER)

This type of trade barrier is "voluntary" in that it is created by the exporting country rather than the importing one. A voluntary export restraint is usually levied at the behest of the importing country and could be accompanied by a reciprocal VER. For example, Brazil could place a VER on the exportation of sugar to Canada, based on a request by Canada. Canada could then place a VER on the exportation of coal to Brazil. This increases the price of both coal and sugar but protects the domestic industries.

Local Content Requirement

Instead of placing a quota on the number of goods that can be imported, the government can require that a certain percentage of a good be made domestically. The restriction can be a percentage of the good itself or a percentage of the value of the good. For example, a restriction on the import of computers might say that 25% of the pieces used to make the computer are made domestically, or can say that 15% of the value of the good must come from domestically produced components.

Product Standards

Most developed countries impose product standards for imported items. If the imported items do not conform to established standards, the imports are not allowed. For instance, the pharmaceutical products must conform to pharmacopoeia standards.

Product Labeling

Certain nations insist on specific labeling of the products. For instance, the European Union insists on product labeling in major languages spoken in EU. Such formalities create problems for exporters.

Packaging Requirements

Certain nations insist on particular type of packaging materials. For instance, EU insists on recyclable packing materials, otherwise, the imported goods may be rejected.

Consular Formalities

A number of importing countries demand that the shipping documents should include consular invoice certified by their consulate stationed in the exporting country.

State Trading

In some countries like India, certain items are imported or exported only through canalising agencies like MMTC. Individual importers or exporters are not allowed to import or export canalised items directly on their own.

Preferential Arrangements

Some nations form trading groups for preferential arrangements in respect of trade amongst themselves. Imports from member countries are given preferences, whereas, those from other countries are subject to various tariffs and other regulations.

Foreign Exchange Regulations

The importer has to ensure that adequate foreign exchange is available for import of goods by obtaining a clearance from exchange control authorities prior to the concluding of contract with the supplier.

Other Non-Tariff Barriers

There are a number of other non – tariff barriers such as health and safety regulations, technical formalities, environmental regulations, embargoes, etc.

Pros of Tariffs

1. Although globalized free trade promises benefits for all, the truth is that the benefits are actually spread very unevenly with some individuals making a fortune but many losing out. Tariffs and protectionist policies can help to close the gap in income inequality.

2. Tariffs and quotas mean that jobs in first world countries can be protected from cheaper labor costs in poorer countries such as Mexico and India, where workers also have worse working and safety conditions. Generally speaking, protectionism creates more jobs and higher wages at home. Free trade outsources jobs abroad and lowers wages.

3. Newer industries can be guarded from competition in their formative stages, allowing them to grow.

4. Protectionism can bring people together and create social coherency and a sense of patriotism. Local people working together take more pride in what they are doing, rather than feeling like a cog in some big multinational machine.

5. Free trade can create enormous national deficits. Protectionism can rein them in.

6. For a variety of reasons including national security, there are a number industries that should always be owned domestically and never be foreign-owned or outsourced, examples might be industries involved in military defense, water supply, hospitals, prisons, car manufacturing.

7. Although free trade may have made cheaper foreign goods more available, there is no advantage for many people as their wages have stagnated or even dropped since the 1980's.

8. Free trade can lead to a nation's technology heading overseas to take advantage of lower labor costs. As well as this leads to the domestic market becoming increasingly dependent on foreign suppliers, it can also mean a decline in domestic labor skills.

9. Tariffs increase revenue for the government imposing them.

10. Tariffs can correct an imbalance in production price. For instance when one country subsidizes its motor industry and another does not, a tariff can be used to correct the imbalance.

Cons of Tariffs

1. Global competition keeps the price of many goods down. Removing that competition results in inflation. Even if wages increase, they are outstripped by the price rises.

2. Free trade allows access to a much wider range of services and goods, creating more consumer choice, because a lot of goods are not supplied or made by the domestic market. Tariffs and protectionism limit customer choice. This can include customers may have to make do with inferior products, and certain foods being only available at certain times of year.

3. Many of the gains of protectionism tend to be short-lived and counter-productive. If you introduce or raise import tariffs on an another country's goods, then it is normally only a matter of time before they retaliate and raise tariffs on your exports. Many jobs will be lost that rely on exports. If you close your border to other countries' products, they will close theirs.

4. Jobs that rely on the internet will also disappear, as the barriers to the free movement of capital and labor go up.

5. Job outsourcing is a direct result of failure to invest in education and skills in many cases. The US, for instance, has shortages in high-tech, engineering, and science workers, because it fails to educate enough of its own people.

6. Companies that are protected from outside competition may flourish in the short term, but in the longer term they will tend to become less efficient. Innovation and quality will decline over time, as there is less incentive to improve without competition.

7. Foreign importers may cut costs to allow for tariffs and lower the quality of their products.

8. Free trade advocates have argued, with some justification, that countries with inter-meshed economies are less likely to go to war with one another. Protectionism, on the other hand, can stir up tensions between nations.

9. Periods of protectionism have a historical habit of ending in economic slump, most notably the Great Depression of the 1930's.

10. The effects of tariffs can be much wider than in just the specific industry targeted. For instance, a tariff on steel production will push up the prices of all the products and processes that use steel, as well as in the steel industry itself.