International Journal of Foreign Trade and International Business

E-ISSN: 2663-3159
P-ISSN: 2663-3140
IJFTIB 2019; 1(1): 09-12
Received: 08-11-2018
Accepted: 12-12-2018

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Introduction to trade barriers

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Abstract
Tariffs are the most important barriers of trade, and even one of the main purposes of WTO is to reduce tariffs. Before thinking about the legal structure which provides rules of tariffs, we must know about the meaning of tariffs, functions of tariffs and its elements. Tariff is a tax forced on foreign goods before entering into the country and non-tariff barriers are the measures pressed by the government in the favor of domestic products from foreign products. Non-tariff barriers are wider in range. These are made to reduce imports and providing benefits to domestic producers. To balance the economy of the country imposition of these barriers is necessary. Here we will discuss about types of barriers, objectives of trade barriers, and the reasons for government interventions.

Keywords: Trade barriers, legal structure, WTO, rules of tariffs

Introduction

Trade barrier is a restriction imposed by government for exchanging goods and services with other countries. These barriers can sometimes be called as “Protection” because their main purpose is protection of some specific industries or departments for any economy. It is imposed when any country feels that another country is using “dumping technique” for their products to sell them in the market by unfair means. Dumping means selling the goods with price lower than the cost and with the support of subsidies. The main barrier of trade is tariff, which means the tax which is imposed on imports. It raises the price of imported goods with that of domestic goods. Non-tariff barriers include subsidy, embargo, quota and various kinds of restrictions. The subsidy provided by Government for a specific industry, domestic in nature, is an example of trade barrier. These subsidies make some specific goods and products to get produced at domestic level at cheap rates than the cost of producing them in foreign markets which makes them available at lower domestic prices. Both tariffs and subsidies help in raising the price of foreign products than the domestic ones which contributes in reducing imports. Trade between both the developed and developing countries or the policies of trade for the countries are the matters to be considered. In GATT negotiations, it was suggested that this kind of trade would be given the main importance in any new round.

Trade barriers are induced by restrictions made by government on International trade. Most of these barriers are working on this principle i.e. to impose some cost on trade to increase the price or availability of the products which are going for trade. If 2 or more countries use trade barriers continuously, then it results to trade war. These barriers then converted into tariff barriers which mean to impose a financial constraint on the imports, and non-tariff barriers which mean using other means for imposing restrictions on imports and sometimes exports. Some Economists also agreed that trade barriers are harmful and can decrease the overall efficiency in economy which is explained in the theory of Comparative Advantage. According to this theory, free trade is involved which includes removal of all these barriers except the ones which are necessary for national security.

Tariff is a tax imposed on products which are imported or exported. When the goods are imported, these are called as import duties and at the time of export, these are called as export duties. It is a tax which is based on standard calculation of price or volume of the goods which are imported. It is also called as custom duty. As the goods can’t land before paying the tax, the tax becomes easier to collect and its cost is also less. These tariffs are imposed for 2 main reasons. First is protection of domestic industries and second one is collection of revenue. Tariff includes transit duty, import duty and export duty.

Types of Trade Barriers: Trade barriers are limitations on global trade which is forced by the government. These are made to force extra cost or limitation to the imports and exports for the protection of domestic industries. These costs result in increasing the price of products which are imported so that production of domestic goods and services can be increased and gives more competition. There are 3 kinds of barriers which are: Tariffs, Non-tariffs, and the quotas.

1. **Tariffs:** Tariffs are the tax forced by the Government on import of goods and services. These tariffs are also called as duties. Tariffs are imposed for raising the cost of products for the consumers to make them expensive than the local goods or services. Tariffs are also used for protection of local industries to compete with international producers. The countries which then affected by the tariffs, to protect their economy also impose tariffs to protect themselves from that particular country.
2. **Non-Tariffs:** These barriers restrict the trade in different manners other than imposing direct tariffs. It includes quality measures and requirements of content for the import of goods or subsidies to local producers. By establishing them, government becomes able to restrict the imports because only those products can be imported which meets some specific requirements. These requirements are set for the benefit of local producers. Government also grants some subsidies by providing financial help to the local producer to maintain their price of goods and services for facing the competition.
3. **Quotas:** Quotas are those restrictions which restricts the monetary value for some certain goods or services which needs to be imported within a specific period of time. It is done to eliminate the quantity of products which are competitive in local market which helps in increasing the demand of local goods and services. It is done for handling licenses issued by government which allow the company and its consumers for importing a specific amount of goods and services. Quotas help in limiting the quantity of products which are to be traded. The most limited type of quota is an EMBARGO, which means banning of the entire trade regarding the particular goods or services.

In short, trade barriers are those limitations which are imposed on international trade by the government. To protect the local producers, additional costs are imposed and limit on imports and exports is forced.

Trade Policies for Developed Countries: After the Second World War, developed countries reduce the tariffs in the framework of rounds of negotiations of trade. Negotiations mean settlement between various principles. Developing countries offer some tariff related adjustments in exchange of products with developed countries. Developing countries are benefitted from the reductions in tariffs. In early 1960's tariffs imposed on produced goods which are imported from developing countries have declined. At that time, these tariffs also presented a hike in higher levels of inventions against the developing countries. These policies had their impact on its ability of exporting primary products. Production of food in developing countries as compared to domestic goods of developed countries faced barriers and has to fight with the exports which are subsidized

Trade Policies for Developing Countries: In the post-war period, development strategy followed by the developing countries include substitute for imports in production sector. It is favorable for manufacturers and the domestic market and distinguished against primary exports and production at primary level. In order to maintain growth rate, these countries were relying continuously on imports instead of increasing the production in domestic industries. It leads to loss in the export market and decline in the efficiency, and the loans taken were not used properly. It than experienced reduction in growth of GNP rates and the burden of debt increased to a certain level. In some cases, industries also faced competition in global market by acquiring experience of changing the composition of product to transfer foreign demand.

Functions of Tariff: Tariff has its major contribution in the growth of countries whether they are developed or developing or under-developing. Tariffs help in increasing the domestic production and removal of barriers. Tariffs major contribution is to balance the exports and imports. Income coming from tariff is the major source of income for government. It protects the domestic countries from global competition. Some of the functions are:

- **Acts as a Source of Income:** Income from tariff is one of the main sources of income for government by collection of tax revenue. In previous years, income was the main reason for application of tariffs, so that the economic growth of the country can be made by the income earned from tax collected by imposing tariffs.
- **Protection of Domestic Industries:** With the help of imposition of tariffs, protection of domestic countries is made from the competitive market and countries. These are used as a tool for formation of policy for protection of domestic industries by doing import of goods and tariffs are used as a tool of protection of market from the foreign producers.
- **To improve Trade deformations:** Remedial tariffs are used as corrective measures for improving trade deformations made by foreign countries to harm domestic countries. For ex. Agreement of anti-dumping is used to force tariff duties on the companies which are exporting the goods which are banned certainly causing damage to the domestic companies of the country which is importing goods or services.
- **Remittance:** It is defined as the amount of money that an expatriate worker sends to his/her own country from the other country. It is also a source of income for the economy of developing countries as well as households of the country. This service also provides monetary benefits to various institutes for outreaching poor clients.

Objectives of Trade Barriers: There are a lot of reasons for imposing trade barriers while doing International trade. Most of the economists argue that free trade helps in improving efficiency in economy and offering the national consumers a wide variety of products and services at the most optimum price. It includes protecting national security, infant industries and protection of jobs. Some of the main objectives are:

- **Protection of domestic Industries:** The foremost objective of Trade Barriers is to protect the domestic industries from the foreign goods which are being delivered in the market in form of imports. By imposing barriers on trade of foreign goods, economy of a country can be improved.

- **Promotion of new Industries:** By the promotion of new industries and the activities of Research & Development to protect the domestic country, Trade barriers play an important role for providing home market.
- **Maintenance of favorable balance of Payment:** Trade Barriers play an important role in maintaining the favorable balance of Payment because it makes the balance between payments and receipts of the country and maintain the income for the country.
- **Conservation of Foreign Exchange Reserves:** Restriction of the imports from the foreign products and services in the domestic market can only be done by imposing trade barriers in the International trade so that foreign exchange reserves can be conserved.
- **Protection of National Economy:** For protecting the country's National economy from activities like dumping, which means, charging a price lower in the foreign market than its actual normal price; it is necessary to have surplus production.
- **Mobilization of Additional Revenues:** Mobilization of Additional revenue can be done by imposing of heavy duties on the imports. It also helps in reducing the noticeable consumption of imported goods within the country.
- **Counteracting Trade Barriers:** To restrain the trade barriers of other countries, it is necessary for the country to impose trade barriers in the domestic country, so that the interest of a particular country can be protected.
- **Encouragement to Domestic Industries:** For the encouragement of domestic production in the domestic market, imposition of trade barriers is necessary. It also helps in making the country strong and efficient and increasing growth.

These are the main objectives for the imposition of Trade barriers in the country, so that the domestic market and industry can be protected from the foreign goods and the foreign market, reduction in imports will lead to more production in the domestic market. These trade barriers will help in increasing the economy of the particular country.

Reasons for Intervention of Government: Government of the country also interferes in the matters of Imposing tariff, non-tariff; trade barriers. Reasons of government intervention can be both economic and Non-economic. Economic reasons can be increase in employment, protection of domestic industries etc. and non-economic can be to maintain important industries, to deal with other nations, or to save national identity etc. We will discuss these reasons in details below:

1. **Economic Reasons:** Those reasons which are related to economy and directly affect the monetary positions of a country are economic reasons. Some of the economic reasons of Government Interference are:

- **Increase in Employment:** By increase in employment, it means increase in the economy of the country. So the government also tries to make full employment so that the growth of country could be maximum. It can be done by limiting the imports. It will also affect other industries. Some other countries may react to it.
- **Protection of Domestic Industries:** Government protects the domestic industry from global competition by making large share in the domestic market, to make it ready for competition. It may take time to gain efficiency. The main benefit of protecting industries includes high degree of employment, less social costs and high tax revenues.
- **Promotion of Industrialization:** Higher the manufacturing, higher the per capita income of the country. It helps in restricting the imports which leads to development of industry. It also helps in increasing Foreign Direct Investment and national Building. By nation building, it means, building of Infrastructure, rural development and skills building.
- **Improving position of Comparison:** Government aims at complete economic welfare of the country with respect to the others. It can be done by balancing trade adjustments and gaining access to the global market and by controlling the prices. Here these trade restrictions act as the bargaining tool for the country.

2. **Non-economic Reasons:** Non-economic reasons of the country include those reasons which do not affect the economic conditions of the country directly. It includes protection of domestic industries. Some of the main non-economic reasons for government intervention are:

- **Maintenance of Important Industries:** It helps in protecting the domestic industries of a country. It includes important financial necessities and protection of rural population by providing products at affordable prices. It maintains the advantage of competitiveness of important industries.
- **To deal with other Countries:** It is used as a method to attain political objectives and protection of national defense. It includes trade of strategic goods like data encryption, technology, banking, arms & ammunitions etc.
- **To maintain Control:** Government provides help to encourage imports in the country from the countries which joins them in a political alliance in a stimulated way within the International boundaries to achieve political motives.
- **To preserve National Identity:** It is done for blending sense of individuality among the country and to sustain it so that the culture of a particular country can be protected. It also helps in defining boundaries for the International Trade.

Conclusion

Tariff is a tax imposed on products which are imported or exported. When the goods are imported, these are called as import duties and at the time of export, these are called as export duties. Trade Barriers are designed to restrict the imports in the country. It is beneficial because it protects domestic industries and market from the global competition. It also helps in increasing the economy of the country. It aims at increasing the production in domestic market which helps in providing surplus of income to the country. These barriers increase the domestic prices and protect the domestic producers and their expenses. Inspite of unfavorable national results, use of non-tariff barriers are increasing rapidly. It helps in restricting the imports which leads to development of industry. It also helps in increasing Foreign Direct Investment. Restriction of the imports from the foreign products and services in the domestic market can only be done by imposing trade barriers in the International trade so that foreign exchange reserves can be conserved.

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