

INTERNATIONAL TRADE BARRIERS

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ABSTRACT

International trade occurs when a firm exports goods and services to a consumer in another country. The need for international trade arises due to uneven distribution of natural resources, climatic conditions, growth rate, technology and professional management. This type of trade increases the number of goods that domestic consumers can choose from, decreases the cost of goods through increased competition, and allows domestic industries to ship their products abroad. While all of these effects seem beneficial, free trade isn't widely accepted across globe.

This paper highlights the simple framework regarding barriers to trade and instruments used to restrict the free trade. Also, paper provides the arguments in favour of protectionism policies and their impacts on economy. The last section analyses the role of World Trade Organisation in promoting the free trade.

KEY WORDS: International trade, free trade, barriers, World Trade Organisation

INTRODUCTION:

Economist generally agree that trade barriers are detrimental and decrease the overall economic efficiency. They favour free trade for overall benefit of the countries. However, in practice , even those countries promoting free trade heavily subsidize their certain industries such as steel, agriculture etc. Trade barriers are the government interventions in the international trade. The actions taken and the behavior adopted by governments in fulfilling their objectives and safeguarding their national economic interests can be termed as the trade policy adopted by those countries .Generally, government interferes with the objective of promoting exports of goods and services. They do so by restricting imports and promoting domestic production. This policy of government raises the cost of trade and thereby provide advantage to domestic industries. With the trade barriers, domestic firms enjoys higher sales, less competition, and more profits while domestic consumers may experience with higher domestic prices due to restricted imports of products.

LITERATURE REVIEW:

Erdal Yalcin, Gabriel Felbermayr, Luisa Kinzius (2017) in their paper titled “**Hidden Protectionism: Non-Tariff Barriers and Implications for International Trade**” concluded that protectionism has been on the rise not in form of tariffs but with trade policy instruments which are less harmonized within the WTO .A major focus is put on illustrating what type of non-tariff barriers have been implemented by policymakers to reduce import competition. They stated that the usage of non-tariff barriers increased steadily relative to trade defense measures. It turns out that the implementation of non-tariff barriers is highly correlated with the income level of an economy. High income countries appear to use non-tariff barriers more often than lower middle income countries. The underlying analysis illustrates that non-tariff barriers may be responsible for about 16%of the observed global trade slowdown.

Sarkar, Patrick(2015) in their paper titled “**India’s trade barriers: an analysis with reference to tariffs and customs procedures**” suggested that India imposes a lot of duty restrictions and undue regulations on her imports which is affecting her trade with the rest of the world. To some extent, it also deprives India of her foreign market access for exports. Not only that, imposition of high tariffs also posing as burden for the importers and major stakeholders such as domestic consumers, traders and manufacturers

Alberto Osnago, Roberta Piermartini and Nadia Rocha (2015) in their paper titled “**Trade policy uncertainty as barrier to trade**” concluded that trade policy uncertainty has a negative impact both on

the probability to export and on export volumes for a wide set of importers and exporters. Hence it acts as a barrier to trade.

David-wayas, Onyinye m (2014) in their paper titled “**Empirical Analysis of Trade Barriers and Economic Growth in Nigeria**” quoted that “tariff has provided the Nigerian government with its second-largest source of revenue after oil exports”. Trade barriers in form of export duty and import duty has resulted in a positive economic growth. They concluded that the policy makers should pursue vigorously trade policy that accommodates all trade barrier.

Claustre Bajona , Josh Ederington (2012) in their paper titled **Domestic Policies, Hidden Protection and the GATT/WTO** quoted that “As tariff barriers have fallen worldwide, regulation of domestic policy has become increasingly important in international trade agreements”. They concluded that the observability of domestic policy is crucial as many of the main rules that govern the efficient treatment of domestic policy in a world of perfect information do not extend to a situation of asymmetric information

Jing Ma, Yuduo Lu (2011) in their paper titled “**Free Trade or Protection: A Literature Review on Trade Barriers**” concluded that despite free trade is commonly accepted as the main tendency of international trade development but still trade protectionism are supported by certain groups. They discussed the several aspects of trade barriers which includes natural barriers like language and custom barriers, tariff barriers and non-tariff barriers. According to the authors, tariff barriers are less and less important due to several-round hard negotiations on GATT and the following WTO as well. However, non-tariff barriers (which are often ignored) have increasingly become the instrument of choice for protection. WTO has been making every effort to promote international trade and solve trade disputes

John C. Beghin (2010) in his paper titled “**A Meta-Analysis of Estimates of the Impact of Technical Barriers to Trade**” quoted that the trade effects of technical measures in agriculture and food industries are less likely to be positive. Trade flows in agriculture and food industries tend to be more impeded by technical measures than do trade flows in other sectors. Further he identified the systematic impeding effect of SPS regulations on agricultural exports sourced from developing countries and going to high-income countries

The study of existing literature highlighted a research gap between the existing and the present study. Being a contemporary issue, there is no precise literature exist which can highlight and explain how political realities shape the international trading system.

OBJECTIVES:

- To assess the methods used by government to restrict international trade.
- To discuss the arguments in favour of protectionism policies.
- To highlight the impact of protectionism on economy as a whole.
- To describe the role of World Trade organization in promoting free trade.

DATA COLLECTION & RESEARCH METHODOLOGY

Research methodology is a way to systematically study and solve the research problems. The secondary sources is used for the proposed research .Exiting literature is studied carefully to understand and analyse the research problem .Different books, journals, newspapers and relevant websites are consulted in order to make the study an effective one. The study attempts to examine the international trade barriers

INSTRUMENTS FOR TRADE BARRIERS

The various instruments for trade restrictions includes:

- **Tariffs:** Tariffs are basically taxes added on imported products' prices. With tariffs the price of the product will increase and its aim is to decrease the demand of that product in the domestic market. Tariffs are used most commonly as a trade barrier, because it not only increases the demand on local produces products, but it also brings a tax revenue to the government treasury
- **Import Quotas:** Under this trade barrier, a restriction is put on the quantities products or services being imported. Quota may fixed either in terms of quantity or in terms of value. It can be established simply based on first come first serve basis and once the total allowed quantity reached, imports of that products won't be allowed. The restriction is usually imposed by issuing import licenses to a group of individuals or firms
- **Subsidies:** A subsidy is a government incentive or financial aid extended to a domestic producer. It may take many forms, including cash grants, low interest loans, tax breaks and government equity participation in domestic firms. The goal is to target those local producers who could become self-sufficient in the efficient production of the desired goods and services in the near future.
- **Voluntary Export Restraints (VERs):** A voluntary export restraint is a quota on trade imposed by the exporting country, typically at the request of the importing country. VERs are often created to avoid imposition of mandatory restrictions by the importing country. Agreeing to VER is seen as a way to make the best of bad situation by appeasing protectionist pressure in a country.
- **Local Content Requirement** Local content requirements are policies imposed by governments that require firms to use domestically manufactured goods or domestically supplied services in order to operate in an economy. The basic objective is to increase the manufacturing base in the domestic economy.
- **Administrative trade policies:** It consist of bureaucratic rules, laws, and regulations designed to create serious difficulties for an importer of goods or commodities into a particular nation. They have restrictive impact on international trade. Administrative policies can also involve levying customs, applying health regulations and other regulations and difficult-to-obtain import licenses for foreign producers.
- **Antidumping Policies:** Antidumping Policies are designed to punish foreign firms who sell their product much below their production costs in order to gain a substantial share of that nation's market. To protect domestic producers from unfair foreign competition government uses antidumping policies. It also include regulations restricting the sale of goods, products, or commodities below its fair market value.

ARGUMENTS FOR PROTECTIONISM:

The issue of free trade versus protection has been in dispute for a long period of time. Government favours interventions due to following reasons:

Protecting Jobs and Industries:

It is necessary to protect jobs and industries from an unfair foreign competition. Firms and workers can be threatened by the imports from other countries. Hence, restrictions in the form of tariff, quotas and other barriers safeguard them. Protection can increase the level of employment. Due to tariff, imports of the country may reduce and also import-competing industries may flourish. In addition protectionism may result in development of import substituting industries. The strategy of import-substituting industrialization promotes domestic industry at the expense of foreign industries. Thus, employment under protectionism will have positive impact. Also, barriers will promote investment in domestic industries and thus giving multiplier impact on employment

National Security:

Under this argument, it is necessary to protect certain industries because they are important for national security. Countries impose trade restrictions on products viewed as vital to national defense and security, like military technology and computers. Trade barriers can facilitate domestic productive capability in security related products, such as computers, weaponry, and certain transportation equipment.

Retailiation:

Some argue that government should use the threat to intervene in the trade policy as a bargaining tool to help open foreign market and forced trading partners to play by the rule of game if it works such a politically motivated rational for government intervention main liberalized trade and bring with it resulting economic gains. It is a risky strategy a country that is being pressured may not back down may respond to the imposition of positive tariffs by releasing trade barriers of its own

Foreign policy objective:

Governments sometime use trade policy to support their foreign policy objectives. A government main grant preferential trade terms to a country it wants to build strong relation with. Trade policy is also used to pressure on penis States that do not abide by international law or norms

Infant industry argument:

According to this argument ,many developing countries have a potential comparative advantage in manufacturing, but new manufacturing industry cannot initially complete with establish industries in developing countries to allow manufacturing to get a toehold ,the argument is that government should temporary support new industries (with tariff import quotas and subsidies)until they have grown strong enough to meet international competition

Strategic Trade Advantage Argument:

It is argued that tariffs and other import barriers produce a strategic advantage in manufacturing some new products having potential for generating some net profit. There are some **massive companies** who restrict the entry of **new companies due to** the economies of **large** scale production. Therefore it is suggested that by appropriate actions, a government can help raise national income if it can somehow ensure that the firm or firms to gain first mover advantage in such an industry are domestic rather than foreign enterprises. Thus, according to strategic trade policy argument, a government should use subsidies to promising firms that are active in newly emerging industries. It might pay the government to intervene in industry if it helps domestic firms overcome the barriers to entry created by the following forms that have already the first mover advantage

Balance of Payments Argument:

Tariffs are sometimes employed to deal with a balance of payments problem. A deficit within the balance of payments (BOP) can be cured by limiting imports. However, imports will decline due to rise in import tariff provided that other countries don't react by imposing similar barriers on exports. Import restrictions through tariff may not be the right choice if the balance of payments crisis becomes chronic. Thus, it is generally said that tariff is a second best policy.

Diversification of Industries Argument:

Every country desires to be independent as far as possible, in all the commodities, so that it might not have to face a number of difficulties at a time of war or emergency. The country must, therefore, must strive for the balanced growth of all industries. This is feasible only when there is diversification of industries and resources. A country cannot be self-sufficient by developing only a few industries in the country and be dependent for its demands on foreign countries. It is dangerous for the stability and independence of the country. Self-sufficiency cannot be attained without following the policy of protection.

IMPACT OF TRADE BARRIERS

Impact on Employment: .Due to barriers in trade, domestic economy will produce the goods and services it requires to meet its demand which in turn will result in more investment and will provide

more employment. Thus, the barriers will create a positive impact on employment and will result in more revenue for the workers. This will result in strengthening the domestic economy.

Impact on Domestic Firms: Protectionism makes domestic firms less competitive in the export market, as import barriers raise domestic prices through higher costs for mediocre inputs. Due to this, export products also become costlier resulting in decrease in market share against the international competition. On the other hand, protectionism allows the new firms to work and develop at an acceptable rate, because they will not be pressured by foreign, more experienced firms. The new firms can grow until they themselves are big enough to compete in international markets, encouraging positive features for the domestic economy in the future.

Impact on Consumers: Consumers pay more with protectionism. Protectionism policies results in reduced competition due which domestic firms are able to raise price without raising the quality of their products. When a firm has no competition then the consumer is left without choices. Trade protectionism harms consumers by giving them little or no access to advance foreign products and non-domestic that offer unique products are subject to low market share

Impact on Balance of Payment: Tariff has favorable effect on the balance of payments position of the imposing country. It results in import restriction and boosts the export of the country. Thus, through tariffs and other barriers, a deficit in the balance of payment can be corrected

Impact on Economic Growth: Trade barriers affect economic growth in developing countries, which are unable to export goods because of high tariffs, thus limiting their ability to prosper and expand their operations. Barriers results in more harm than the benefits caused by them.

INTERNATIONAL TRADE PROMOTION BY WORLD TRADE ORGANISATION:

The World Trade Organization (WTO) is the only global organization dealing with trade rules between nations. The WTO agreements negotiated and signed by the majority of the world's trading nations and ratified by their parliaments are at its core. Over the last 60 years, the WTO, established in 1995, and its predecessor organization GATT have helped to create a strong and prosperous international trading system, contributing to unprecedented global economic growth. The objective is to help goods and services producers, exporters and importers conduct their business. Consumers and producers know they can enjoy safe supplies and more of the finished products, components, raw materials and services they use. Producers and exporters know that they will remain open to foreign markets. The result is a prosperous, peaceful and accountable economic world as well. Almost all WTO decisions are taken by consensus between all Member States and ratified by the members' parliaments. Trade friction is channeled into the dispute resolution process of the WTO where the focus is on interpreting agreements and commitments and on how to ensure that the trade policies of the countries comply with them. This reduces the risk of political or military disputes. The WTO system also breaks down other barriers between people and nations by reducing trade barriers. The WTO agreements, negotiated and signed by a large majority of the world's trading nations and ratified by their parliaments are at the heart of the system — known as the multilateral trading system. These agreements are the legal basis for international trade. They are essentially contracts that guarantee important trade rights for member states. They also bind governments to keep their trade policies within agreed limits for the benefit of everyone. Agreements have been negotiated and signed by governments. But their aim is to help goods and services producers, exporters and importers conduct their business.

- WTO facilitates implementation, administration and smooth operations of trade agreements between the countries.
- It provides a forum for the trade negotiations between its member countries.
- Settlements of disputes between the member countries through the established rules and regulations.
- It cooperates with the IMF(International Monetary Fund) and World Bank in terms of making cohesiveness in making global economic policies.

The WTO has been set up to play a very important role in world economics by establishing trade disputes through rules, regulations and consensus-based mechanisms to prevent trade-related wars between powerful countries. By resolving trade-related disputes, the WTO has the potential to maintain global peace and bilateral relations between its Member States after negotiations, consultations and mediations.

CONCLUSION:

The continuous use of trade barriers may result in trade war which is harmful for all the countries. However, reforms since World War II have significantly reduced government-imposed trade restrictions and many governments have realized the value free trade policies. But still there is a significant difference among policies of different countries. Duties are much higher in specific segment (such as agriculture) and amidst certain countries (such as less developed countries) than in others. Also, the impact of trade barriers differ from country to country. Generally most affected are least developed countries, whose exports are based on low-skill and labor-intensive products

To further promote free trade, World Trade Organization (which is a successor of GATT) was established and it works as a referee for international trade. Agreements framed since the establishment of GATT aims to promote equal opportunities and facilitate further liberalization in nearly all areas of trade. WTO works on the principle of most favoured nation, free trade and predictable government policies, fair competition and beneficial for less developed countries .It has also improved trade relations among countries by expanding the agreements related to trade and investment in service sectors, and intellectual property. As a result of WTO, trade policies have become more transparent, stable and more open.

However, the institution still faces big challenges with regard to opening global trade further and reducing the discriminatory trade policies. A focus on larger good for the society can help to establish fairer and economically more sensible trading system

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