International Trade Barriers

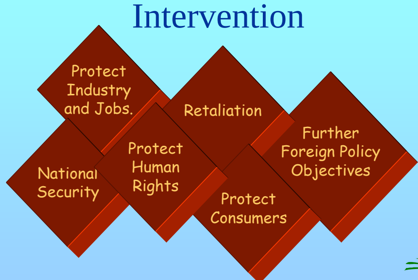
? All countries seek to influence trade

? Economic, social, & political objectives

? Often conflicting objectives

? Pressure groups (industry associations, unions, envt. groups)

Political Arguments for Intervention



Rationale for Govt. Intervention

? National Security
  - defense industries

? Strategic Trade Policy -
  - if first mover advantages are important then govts. can help firms achieve it
  - governments can help firms in overcoming barriers to entry into industries where foreign firms have an initial advantage

Political arguments for intervention

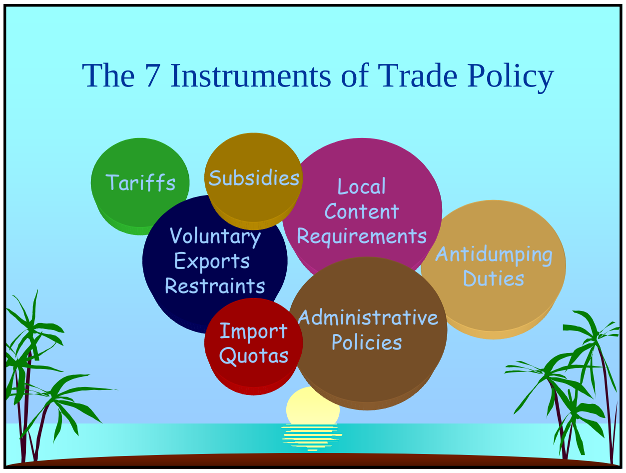
- Protecting consumers
  - Genetically engineered seeds and crops
  - Hormone treated beef
- Furthering foreign policy objectives
  - Helms-Burton Act.
  - D'Amato Act
- Protecting human rights
  - MFN

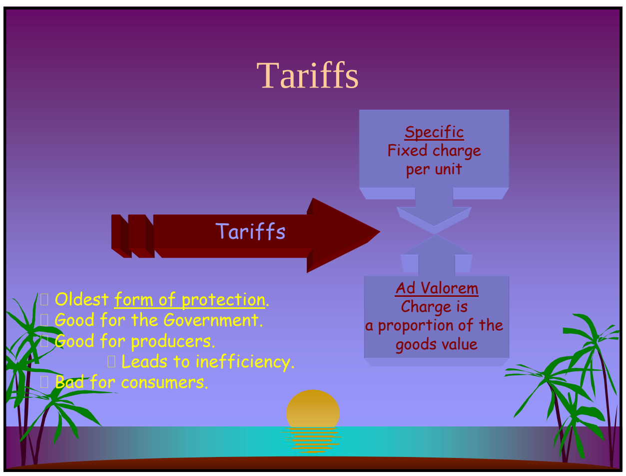
Economic Arguments for Intervention

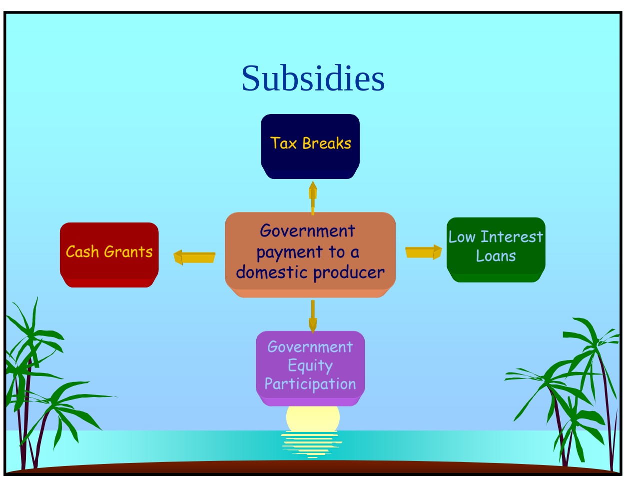
- Infant industry is the oldest economic argument for government intervention, dating to 1792 and Alexander Hamilton.
- Protect developing country's new industry from developed countries better established industries. Recognized by GATT.
- Strategic trade policy can help a firm gain 'first mover' advantages or overcome barriers created by a different (foreign) first mover.

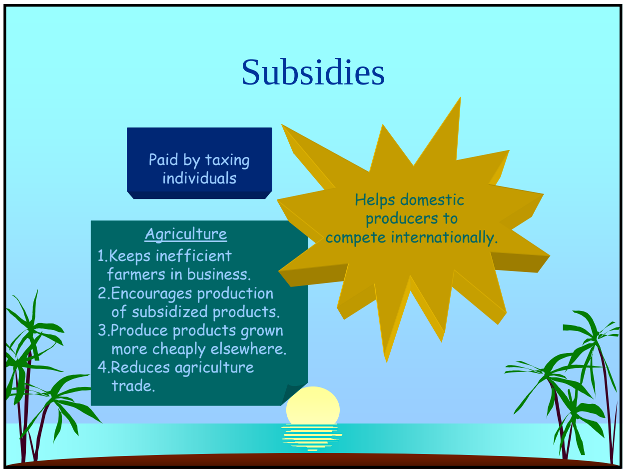
Rationale for Govt. Intervention

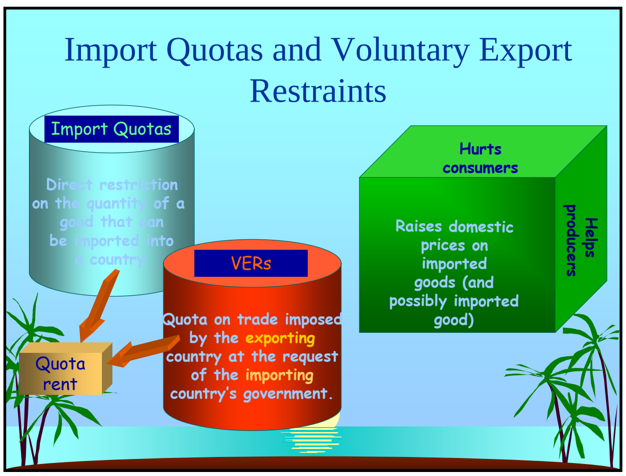
- Unemployment
  - strong political effect
  - retaliation in other countries
  - cost of restrictions (higher prices)
- Infant Industry Agrument
  - local industry need protection early to achieve economies of scale until they become competitive
  - consumers and taxpayers pay


The 7 Instruments of Trade Policy
Tariffs
Subsidies
Local Content Requirements
Voluntary Exports Restraints
Antidumping Duties
Import Quotas
Administrative Policies


Tariffs
Specific
Fixed charge per unit
Tariffs
Ad Valorem
Charge is a proportion of the goods value
Oldest form of protection.
Good for the Government.
Good for producers.
Leads to inefficiency.
Bad for consumers.


Subsidies
Tax Breaks
Cash Grants
Government payment to a domestic producer
Low Interest Loans
Government Equity Participation





Instruments of trade policy -Quota

- Benefits producers by limiting import competition
  - Japan – limited exports to 1.85 mm vehicles/year
  - Cost to consumers - $1B/year between '81 - 85.
  - Money went to Japanese producers in the form of higher prices
  - Encourages strategic action by firms in order to circumvent quota

Local Content Requirements

A specific fraction of a good must be domestically produced.

Physical amount

Value

Widely used by developing countries to develop their manufacturing base.

Used by developed countries to protect local jobs and industry from foreign competition.

Instruments of trade policy- local content

- Requires some specific fraction of a good to be produced domestically
  - Percent of component parts
  - Percent of the value of the good
- Initially used by developing countries to help shift from assembly to production of goods.
- Developed countries (US) beginning to implement.
- For component parts manufacturer, LCR acts the same as an import quota
- Benefits producers, not consumers

Administrative Policies

- Bureaucratic rules designed to make it difficult for imports to enter a country.
- Japanese ‘masters’ in imposing rules.
  - Tulip bulbs.
  - Federal Express.

FedEx

Forms of Trade Controls

? Tariffs
- tax on goods entering a country
- source of revenue for govts.
- ad valorem (percentage) or per unit basis

? Subsidy (Non-Tariff Barrier - NTB)
- govt. payment to a domestic producer
- cash grants, tax breaks, low interest loans
- help firms compete against foreign imports
- help firms gain export markets

Forms of Trade Controls - NTBs

? Quotas
- restrictions by quantity
- Voluntary Export Restraints (VER)

? Local content requirements
- aid formation of local industries
- prevent foreign producers from setting up 'screwdriver' plants

? Standards
- specifications
- administrative delays
- service restrictions

Controlling Unfair Trade Practices

? Countervailing Duty
- ad valorem taxes imposed by govt. of importing country

? Antidumping regulations
- appeal to the govt. agencies for help

? Super 301
- publicly list countries accused for most flagrant unfair trade practices
- very controversial