International Trade

**Tariff:**

A tariff is a tax imposed by a government on goods and services imported from other countries that serves to increase the price and make imports less desirable, or at least less competitive, versus domestic goods and services. Tariffs are generally introduced as a means of restricting trade from particular countries or reducing the importation of specific types of goods and services.

Tariff barriers increase the price of imported goods in comparison to domestic goods.

For example, to discourage the purchase of Italian leather handbags, the U.S. government could introduce a tariff of 50% that drives the purchase price of those bags so high that domestic alternatives are much more affordable. The government’s hope is that the added cost will make imported goods much less desirable.

There are three types of tariff are used.

**1. Specific tariffs:** Specific tariffs are levied as fixed charge for each unit of goods imported. Tk. 10 per unit of goods imported.

**2. Advalorem tariffs:** Advalorem tariffs are levied as a percentage of the value of goods imported. 10% of the value of goods. If value of goods TK. 1000, the advalorem tariff would be Tk. 100.

**3. Compound tariffs:** Compound tariffs are assessed as both a specific tariff and an advalorem tariff on the same product.

**Rationale of imposing tariffs/ Causes of Imposing tariffs**

**Raising Revenue**: Tariffs **help in raising revenues** for the domestic governments especially in case of developing countries

**Protection of domestic industry:** Tariff **protects domestic producers** from foreign competition

**Restricting quantity of Imports:** This is **because it increases the price of foreign goods** by restricting the quantity of imports coming into the country

Suppose the price of sugar in domestic market is Tk. 60 per kg while the price of imported sugar is Tk. 50 per kg, In absence of import tariffs, imported sugar would be cheaper. Consumers would be more inclined to buy the imported sugar.

**Types of Trade Barriers**

**Tariff Barrier:** Refers to any government regulation, policy, procedure to impose tariff that have impact of minimizing imports or export. Types of tariff barriers are

* + **Export tariff:** Tax collected by exporting countries are called export tariffs
  + **Import tariff:** Tax collected by importing countries are called import tariffs
  + **Transit tariff:** A *transit* duty, or *transit* tax, is a tax levied on commodities passing through a customs area en route to another country.

**Non Tariff Barriers:** "**Non-Tariff Measures** (**NTMs**)" are *trade barriers* that restrict *imports* or *exports* of goods or services through mechanisms other than the simple imposition of tariff.

Different types of non-tariff barriers are

* **Licenses**
* **Quotas**
* **Embargoes**
* **Standards**
* **Administrative and bureaucratic delays at the border**
* **Import deposits**
* **Localization requirement**
* **Voluntary export restrains (VERs)**
* **Subsidies**
* **Anti Dumping**
* ***Unjustified* Sanitary and Phyto-sanitary (SPS) conditions**

**Licenses**

* + **The most common instruments of direct regulation** of imports (and sometimes export) are licenses. Almost all industrialized countries apply these non-tariff methods.
  + The license system requires that a state (through specially authorized office**) issues permits for foreign trade transactions of import and export commodities included** in the lists of licensed merchandises.
  + The main types of licenses are general license that permits unrestricted importation or exportation of goods included in the lists for a **certain period of time**; and **one-time license** for a certain product importer (exporter) to import (or export). One-time license indicates a quantity of goods, its cost, its country of origin (or destination), and in some cases also customs point through which import (or export) of goods should be carried out.

**Quotas**

* An export quota is a limit on the amount of goods that can be exported from a country.
* Licensing of foreign trade is closely related to quantitative restrictions – quotas – on imports and exports of certain goods. A quota is a limitation in value or in physical terms, imposed on import and export of certain goods for a certain period of time.
* This type of trade barrier **normally leads to increased costs and limited selection of goods for consumers and higher import prices for companies**. Import quotas can be unilateral, levied by the country without negotiations with exporting country; or bilateral or multilateral, when they are imposed after negotiations and agreements.

**Embargoes**

* Embargoes are outright prohibition of trade in certain commodities. As well as quotas, embargoes may be imposed on imports or exports of particular goods in respect of certain goods supplied to or from specific countries, or in respect of all goods shipped to certain countries.
* Although an embargo may be imposed for *Phytosanitary* reasons, more often the reasons are political. Embargoes are generally considered legal barriers to trade, not to be confused with *blockades,* which are often considered to be acts of *war.*

**Standards**

* Standards take a special place among non-tariff barriers. Countries usually impose standards on classification, labelling and testing of products to ensure that domestic products meet domestic standards, but also to restrict sales of products of foreign manufacture unless they meet or exceed these same standards.
* These standards are sometimes entered to protect the safety and health of local populations and the natural environment.

**Administrative and bureaucratic delays at the border**

* Among the methods of non-tariff regulation should be mentioned administrative and bureaucratic delays at the border, which increase uncertainty and the cost of maintaining inventory. For example, even though Turkey is in the [European Customs Union](https://en.wikipedia.org/wiki/European_Customs_Union), transport of Turkish goods to the [European Union](https://en.wikipedia.org/wiki/European_Union) is subject to extensive administrative overheads that Turkey estimates cost it three billion euros a year.[

**Import deposits**

* Import deposits is a form of deposit, which the importer must pay the bank for a definite period of time (non-interest bearing deposit) in an amount equal to all or part of the cost of imported goods.

**Localization requirement**

* An importing country may require the prospective exporter to include a degree of local participation in the product or service.
* The World Trade Organization (WTO) has not reached a conclusion on the legitimacy of these measures.

**Voluntary export restrains (VERs)**

* VERs are bilateral agreements instituted to restrain the rapid growth of export of specific products.
* Essentially, the government of X asks the government of country Y to reduce it’s companies’ exports to country X voluntarily to help the importing country X to protect its domestic industry.

Example, In 1981 Japanese auto producers restrain their export to the USA.

**Subsidies:**

Government may offer subsidies for the domestic firms so that they may remain strong in local market.

**Anti-Dumping:**

* **Dumping:** Selling goods at foreign market at below their rational market price, or below their cost of production (COP), By doing so, companies unload their excess production to foreign market with the subsidies of the local government is called dumping.
* Dumping is an unfair trade practice and it causes injuries for domestic industry of importing countries, Anti – dumping are the policies applied by the government of importing countries to protect its local industries from a unfair trade practice.

**Dumping Margin:** Difference between the normal value and export price, If normal value is US$ 110 per kg and export price is US$ 100, dumping margin is US$ 10, i.e, 10% of the export price. Upto 2% of dumping margin would not be considered as dumping.

**Phyto-sanitary**

Phytosanitary measures are taken to protect against risks linked to food safety, animal health and plant protection or prevent or limit damage within the territory of a country, establishment and spread of pests from a foreign country.