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RESEARCH ARTICLE

TARIFF AND NON-TARIFF BARRIERS FOR REGULATING TRADE IN GOODS: AN OVERVIEW

*Dr. Shamsuddin

Assistant Professor, Amity University Rajasthan, Jaipur, India

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ABSTRACT

There are some tariff and non tariff barriers to regulate the trade in goods. The tariffs and trade barriers effects on businesses, consumers and the government in form of price of goods, competition among producers and revenue for government. In the short run, higher prices for goods can decrease use by individual consumers and by businesses. During this time period, businesses will profit and the government will perceive an increase in revenue from taxes. In the long term, businesses may perceive a turn down in efficiency due to a lack of competition, and may also perceive a reduction in profits due to the materialization of substitutes for their products. For the government, the long-term effect of subsidies is an increase in the demand for public services, since increased prices, especially in foodstuffs, leave less disposable income. Here in this article the basic concept of tariffs and non tariffs barriers in trade, it's various kinds and affect on price of goods of these barriers is gently explained.

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INTRODUCTION

International trade increases the number of goods that domestic consumers can choose from, decreases the cost of those goods through increased competition, and allows domestic industries to ship their products abroad. While all of these seem beneficial, free trade isn't widely accepted as completely beneficial to all parties.

Meaning of Tariff

Tariffs are the duties imposed on imported goods. Tariffs provide additional revenue for governments and domestic producers at the expense of consumers and foreign producers. They are one of several tools available to shape trade policy. It gives a price advantage to locally-produced goods over similar goods which are imported. In Uruguay Round of GATT, signatory countries make a commitment to cut tariffs and to attach their customs duty rates to levels which are difficult to raise. In Doha Agenda, the effort was continue for agriculture and non-agricultural market access. Tariffs are used to confine trade, as they boost the price of imported goods and services, making them more costly to consumers.

Corresponding author: Dr. Shamsuddin,
Associate Professor, Amity University Rajasthan, Jaipur, India.

It have two kinds i.e. specific tariff and ad-valorem tariff. A specific tariff is levied as a fixed fee based on the type of article for example Rs. 50000/- tariff on cars. An ad-valorem tariff is levied based on the value of the article, for example- 10% of the value of the item. In simple word it can be said that tariff is a tax which adds to the cost of imported goods and is one of several trade policies that a country can enact. It is beneficial for not only to domestic producers by adding additional tax on imported goods but also to government by generating revenues.

Causes of tariffs and trade barriers

Tariffs are often created to protect small industries and economies of developing countries. Some time it is also used by more advances countries with developed industries. There are some prime reasons for using tariffs on imported goods-

Protecting domestic employment

It is highly politicized levying of tariffs on imported goods. The risk of increased competition from imported goods can bully domestic industries. These domestic companies may fire workers or shift production abroad to cut costs, which means higher unemployment and a less happy voting public.

The unemployment argument often shifts to domestic industries complaining about cheap foreign labor, and how poor working conditions and lack of regulation allow foreign companies to produce goods more cheaply. In economics, however, countries will continue to produce goods until they no longer have a comparative advantage.

Protecting Consumers

Some time government levy a tariff on imported products when it feels that the imported goods may cause danger to population of the country. For example, South Korea may place a tariff on imported beef from the United States if the South Korea Government thinks that the goods could be contaminated with disease and which may cause danger to the population of the South Korea.

Infant Industries

The developing countries use tariffs on imported goods in domestic infant industries in which it wants to foster growth to protect them. Definitely it increases the prices of imported goods and creates a domestic market for nationally produced goods, while protecting those industries from being forced out by more competitive pricing. It decreases joblessness and allows developing countries to shift from agricultural products to finished goods. But this strategy is criticized as this protectionist strategy revolve around the cost of subsidizing the development of infant industries. When an industry is developed without competition, it could be produced lower quality goods, and the subsidies required to keep the state-backed which create addition burden over the state.

National Security

Tariff Barriers are also used by developed countries to protect the industries, those supporting national security, that are deemed strategically important for the nation. For the protection of the interest of a nation, defense industries are often viewed as crucial and very significant. For example, while both China and the United States are industrialized, both are very protective of defense-oriented companies.

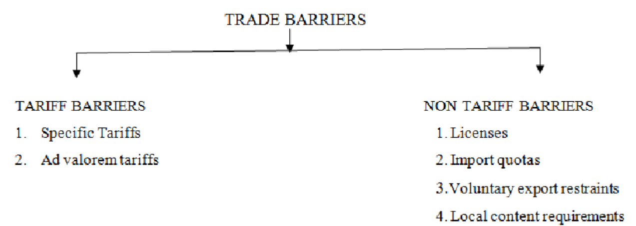
Retaliation

Some countries may also use tariffs as a revenge technique if they think that a trading partner has not played by the trading rules. For example, if France believes that the United States has allowed its wine producers to call its nationally produced luminous wines "Champagne" for too long, it may levy a tariff on imported "meat" from the United States. If the U.S. agrees to crack down on the improper labeling, France is likely to stop its retaliation. Retaliation can also be employed if a trading partner goes against the government's foreign policy objectives.

Kinds of Tariffs and Non Tariff Barriers

There are several types of tariffs and trade barriers that a government can use against the imported goods-

Specific Tariffs: A fixed fee levied on one unit of an imported good is referred to as a specific tariff. It vary according to the type of good imported.



For example, a country could levy a Rs150/- tariff on each pair of shoes imported, but levy a Rs 45000/- tariff on each car imported.

Ad Valorem Tariffs: When the tariffs are levied as according to the values of the imported goods it is called ad valorem tariffs. It is levied on a goods based on a percentage of that article's value. For example- India employed 15% ad valorem tariff on Japanese automobiles. The 15% is a price increase on the value of the automobile, so a Rs-10,00,000/- vehicle now costs Rs.11,50,000/- to Indian consumers. This price increase protects domestic producers from being undercut, but also keeps prices artificially high for Japanese car shoppers.

Licenses: It is a kind of non tariff barriers. 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 request of the importing country, and could be accompanied by a reciprocal voluntary export restraint. For example, Brazil could place a voluntary export restraint on the exportation of sugar to Canada, based on a demand by Canada. Canada could then place a voluntary export restraint 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.

How Do Tariffs Affect Prices?

Tariffs increase the prices of imported goods. Because of this, domestic producers are not forced to reduce their prices from increased competition, and domestic consumers are left paying higher prices as a result. Tariffs also reduce efficiencies by allowing companies that would not exist in a more competitive market to remain open.

Figure 1 illustrates the effects of world trade without the presence of a tariff. In the graph, DS means domestic supply and DD means domestic demand. The price of goods at home is found at price P, while the world price is found at P*. At a lower price, domestic consumers will consume Qw worth of goods, but because the home country can only produce up to Qd, it must import Qw-Qd worth of goods.

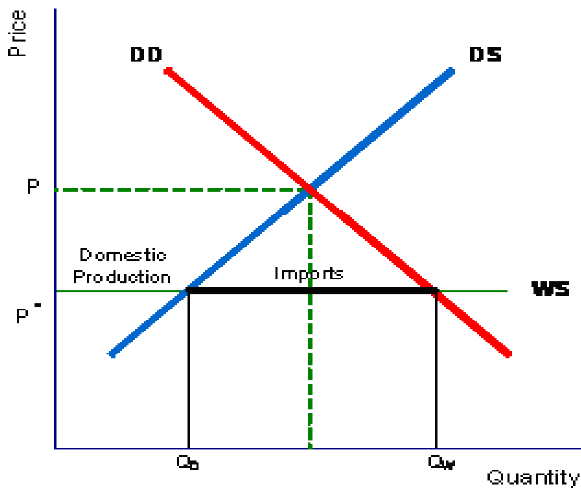


Figure 1. Price without the influence of a tariff

When a tariff or other price-increasing policy is put in place, the effect is to increase prices and limit the volume of imports.

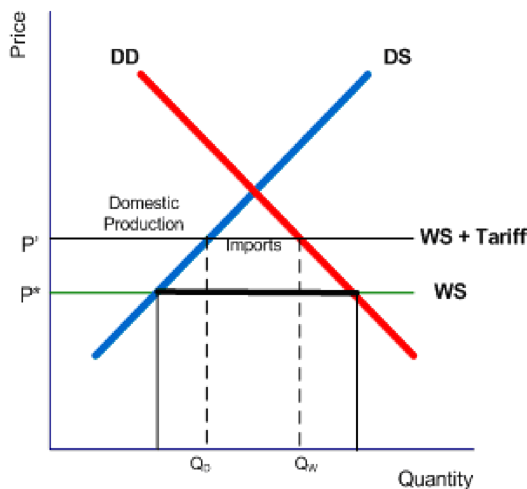


Figure 2. Price under the effects of a tariff

In Figure 2, price increases from the non-tariff P* to P'. Because price has increased, more domestic companies are willing to produce the good, so Qd moves right. This also shifts Qw left. The overall effect is a reduction in imports, increased domestic production and higher consumer prices.

Advantages of Tariffs to Government and Consumers

The benefits of tariffs are same for all countries as a tariff is a tax, the government will get the increased revenue as imports enter the domestic market. It reduce the competition therefore, domestic industries are also benefited from the reduction of competition, since import prices are artificially exaggerated. Unfortunately for consumers - both individual consumers and businesses- higher import prices mean higher prices for goods. If the price of steel is inflated due to tariffs, individual consumers pay more for products using steel, and businesses pay more for steel that they use to make goods. In short, tariffs and trade barriers tend to be pro-producer and anti-consumer.

Tariffs and Modern Trade

The role tariffs play in international trade has declined in modern times. One of the primary reasons for the decline is the introduction of international organizations designed to improve free trade, such as the World Trade Organization (WTO). Such organizations make it more difficult for a country to levy tariffs and taxes on imported goods, and can reduce the likelihood of retaliatory taxes. Because of this, countries have shifted to non-tariff barriers, such as quotas and export restraints. Organizations like the WTO attempt to reduce production and consumption distortions created by tariffs. These distortions are the result of domestic producers making goods due to inflated prices, and consumers purchasing fewer goods because prices have increased. [1]

Conclusion

Governments may impose tariffs to raise revenue or to protect domestic industries from foreign competition, since consumers will generally purchase foreign-produced goods when they are cheaper. While consumers are not legally prohibited from purchasing foreign-produced goods, tariffs make those goods more expensive, which gives consumers an incentive to buy domestically produced goods that seem competitively priced or less expensive by comparison. Tariffs can make domestic industries less efficient, since they aren't subject to global competition. Tariffs can also lead to trade wars as exporting countries reciprocate with their own tariffs on imported goods. Lastly we can say that governments use tariffs by such justifications for implementing tariffs i.e. to protect domestic jobs, to protect infant industries, to retaliate against a trading partner, to protect consumers etc. [2]

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