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Protectionism & Barriers to Trade

- **Trade disputes** between countries happen because one or more parties either believes that trade is being conducted unfairly, on an uneven playing field, or because they believe that there is one or more economic or strategic justifications for import controls.
- Protectionism represents any attempt to impose **restrictions on trade** in goods and services. The aim is to cushion domestic businesses and industries from overseas competition and prevent the outcome resulting from the inter-play of free market forces of supply and demand.

Dumping

Dumping is an international price discrimination in which an exporter firm sells a portion of its output in a foreign market at a very low price and the remaining output at a high price in the home market .

- **Objectives of Dumping:**
- **1. To Find a Place in the Foreign Market:**
- **2. To Sell Surplus Commodity:**
- **3. Expansion of Industry:**

Types of **Trade Barriers**

Trade barriers can be broadly divided into the following two categories:

1. TARIFF BARRIERS

- Tariff barriers refer to duties and taxes imposed by the govt on the goods imported from abroad.
- Tariff barriers restrict imports indirectly.

2. NON TARIFF BARRIERS

- Non tariff barriers are various quantitative and exchange control restrictions imposed in order to restrict imports.
- Non tariff barriers restrict imports directly.

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Type of Tariff barriers

1. Import Duties.
2. Export Duties.
3. Transit Duties.
4. Countervailing Duties.
5. Anti-Dumping Duties.

TYPE OF NON TARIFF BARRIERS

1. Import Quotas
2. Voluntary export restraints(VERs)
3. Export subsidy
4. Countervailing duty
5. Govt procurement
6. Customs valuation and classification
7. Import licensing procedures
8. Local content regulations
9. Technical barriers

1:Quota

- A quota is a physical quantity limit or maximum amount of a good that can be legally imported over a specific period of time. An import quota implies a fixed quantity or value of a commodity that has been allowed to be imported in the country during a given period of time.
- In practice, quotas may be fixed either in terms of the physical volume or monetary value of imports or a combination of the two.

TYPES OF IMPORT QUOTAS

1.Tariff quota:

- under this system, a given quantity of a good is permitted to enter duty free or upon payment of relatively low duty. But imports in excess of that quantity are charged a relatively high rate of duty.

2.UNILATERAL QUOTA: It is imposed without prior negotiation with foreign governments.

3.BILATERAL QUOTA: In this system, quotas are set through negotiation between the importing country and the exporting country.

4.MIXING QUOTA: It is a type of regulation which requires producers to utilize a certain proportion of domestic raw materials along with imported parts to produce finished goods domestically.

5.IMPORT LICENSING: Under this, prospective importers are required to obtain a licence from the proper authorities for importing any quantity within the specified quotas.

VOLUNTARY EXPORT RESTRAINTS(VERs)

- A VER is an agreement by an exporter country's exporters or govt with an importing country to limit their exports to it. It is entered into by the importing country when its domestic industry is suffering from large imports.

VERs have been adopted by countries because the use of quotas and tariffs has been forbidden by the GATT(General Agreement on Tariffs and Trade). But the VERs do not come under the GATT rules.

3: Export subsidy

- An export subsidy is a govt grant to an export firm to reduce the price per unit of goods exported abroad. It enables the firm to sell a larger quantity of its goods at a lower price in the export market than in the home market.

4: GOVT PROCUREMENT

- Govts discriminates between domestic and foreign suppliers. The discrimination may be in various ways. In certain countries, there is legislation to buy domestic goods and services even if they are available from abroad at low rates.