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Barriers to International Trade

Trade barriers are government policies which place restrictions on international trade. Trade barriers can either make trade more difficult and expensive or prevent trade completely. Practically all nations impose some restrictions on the free flow of international trade. Since these regulations or restrictions deal with a country's trade and commerce they are called Trade Policies.

Some important instruments of trade policy:

Tariffs: A tariff is a tax on imports. Specific tariffs are levied as a fixed charge on each unit of goods imported. Ad-valorem tariffs are taxes that are levied as a fraction of the value of the imported goods. In either case the effect of a tariff is to raise the cost of shipping goods to a country. For example, a specific tariff of $10 on imported bicycles means that customs officials collect the fixed sum of $10 on each imported bicycle regardless of its price. In contrast, a 10% ad valorem tariff on imported bicycles would result in the payment to customs officials of the sum of $10 on each $100 imported bicycle.

Non-tariff Barriers (NTBs): Such barriers impose a physical limit on the quantity of goods that can be imported. Worldwide tariffs have been reduced steadily since 1945.

There are different classifications of non-tariff barriers. When we talk about tariff barriers related to trade then some popular NTBs are as follows:

Licenses: These are most common instruments of direct regulation of imports (sometimes exports). Almost all industrialized nations apply this. The license system requires that a state through a specially authorised office issues permit for international trade transaction of import and export commodities which are included in the list of licensed merchandises. The use of this system is based on international level standards agreements.

Quotas: Quotas are quantitative restrictions on imports and exports of certain goods. An import quota is a NTB that places a direct restriction on the quantity of some goods that can be imported. An export quota is the restriction on amount of goods that can leave a country. But because quotas are not permitted under current international trade rules, many countries have gone to great lengths to establish different varieties of trade restrictions that are functionally identical to quotas. A quota rent arises because an import quota on a product raises the domestic price of that product. An alert businessman can walk away with the rent if he purchases the import at the world price and sells it to the domestic market at higher price.

Agreement on Voluntary Export Restraints (VERs): Under a VER, a foreign industry, such as the Japanese car industry, agrees to limit the quantity of products it exports to a particular country. In the early 1980s the US negotiated a VER with the Japanese car industry that limited the number of Japanese cars that could be exported from Japan to the US.

Embargo: It is a specific type of quotas prohibiting the trade. Usually this is introduced for political reasons but has an impact on the economy of a nation.

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