

3.4: Reading- International Trade Barriers

Trade barriers are government-induced restrictions on international trade, which generally decrease overall economic efficiency.

KEY points

- Trade barriers cause a limited choice of products and, therefore, would force customers to pay higher prices and accept inferior quality.
- Trade barriers generally favor rich countries because these countries tend to set international trade policies and standards.
- Economists generally agree that trade barriers are detrimental and decrease overall economic efficiency, which can be explained by the theory of comparative advantage.

Terms

- *Tariff*: A system of government-imposed duties levied on imported or exported goods; a list of such duties, or the duties themselves.
- *Quota*: A restriction on the import of something to a specific quantity.

Examples


Trade barriers are government-induced restrictions on international trade. Man-made trade barriers come in several forms, including:

- Tariffs
- Non-tariff barriers to trade
- Import licenses
- Export licenses
- Import quotas
- Subsidies
- Voluntary Export Restraints
- Local content requirements
- Embargo
- Currency devaluation
- Trade restriction

Most trade barriers work on the same principle—the imposition of some sort of cost on trade that raises the price of the traded products. If two or more nations repeatedly use trade barriers against each other, then a trade war results.

Economists generally agree that trade barriers are detrimental and decrease overall economic efficiency. This can be explained by the theory of comparative advantage. In theory, free trade involves the removal of all such barriers, except perhaps those considered necessary for health or national security. In practice, however, even those countries promoting free trade heavily subsidize certain industries, such as agriculture and steel. Trade barriers are often criticized for the effect they have on the developing world. Because rich-country players set trade policies, goods, such as agricultural products that developing countries are best at producing, face high barriers. Trade barriers, such as taxes on food imports or subsidies for farmers in developed economies, lead to overproduction and dumping on world markets, thus lowering prices and hurting poor-country farmers. Tariffs also tend to be anti-poor, with low rates for raw commodities and high rates for labor-intensive processed goods. The Commitment to Development Index measures the effect that rich country trade policies actually have on the developing world. Another negative aspect of trade barriers is that it would cause a limited choice of products and, therefore, would force customers to pay higher prices and accept inferior quality.

In general, for a given level of protection, quota-like restrictions carry a greater potential for reducing welfare than do tariffs. Tariffs, quotas, and non-tariff barriers lead too few of the economy's resources being used to produce tradeable goods. An export subsidy can also be used to give an advantage to a domestic producer over a foreign producer. Export subsidies tend to have a particularly strong negative effect because in addition to distorting resource allocation, they reduce the economy's terms of trade. In contrast to tariffs, export subsidies lead to an over allocation of the economy's resources to the production of tradeable goods.

 Singapore

The Port of Singapore is one of the busiest in the world because Singapore must import most of its foodstuffs and consumer goods.

International trade barriers can take many forms for any number of reasons. Generally, governments impose barriers to protect domestic industry or to “punish” a trading partner.

GLOSSARY

Agriculture

The art or science of cultivating the ground, including the harvesting of crops, and the rearing and management of livestock; tillage; husbandry; farming.

Comparative advantage

The ability of a party to produce a particular good or service at a lower marginal and opportunity cost over another. The concept that a certain good can be produced more efficiently than others due to a number of factors, including productive skills, climate, natural resource availability, and so forth.

Currency

Money or other items used to facilitate transactions. In economics, currency is a generally accepted medium of exchange. These are usually the coins and banknotes of a particular government, which comprise the physical aspects of a nation’s money supply. Paper money.

Developing

Of a country: becoming economically more mature or advanced; becoming industrialized.

Economy

Collective focus of the study of money, currency and trade, and the efficient use of resources. The system of production and distribution and consumption. The overall measure of a currency system; as the national economy.

Efficiency

The extent to which a resource, such as electricity, is used for the intended purpose; the ratio of useful work to energy expended. The extent to which time is well used for the intended task. Improved efficiency was a principle goal of progressives, one they thought attainable by the application of scientific and rational thought to social problems.

Export

This term export is derived from the conceptual meaning to ship the goods and services out of the port of a country. To sell (goods) to a foreign country. Any good or commodity, transported from one country to another country in a legitimate fashion, typically for use in trade.

Free trade

Free trade is a policy by which a government does not discriminate against imports or interfere with exports by applying tariffs (to imports) or subsidies (to exports) or quotas. International trade free from government interference, especially trade free from tariffs or duties on imports.

Good

An object produced for market.

Import

Something brought in from an exterior source, especially for sale or trade. To bring (something) in from a foreign country, especially for sale or trade.

Industry

The sector of the economy consisting of large-scale enterprises.

Lead

Potential opportunity for a sale or transaction, a potential customer.

License

The legal terms under which a person is allowed to use a product.

Market

A group of potential customers for one's product. One of the many varieties of systems, institutions, procedures, social relations and infrastructures whereby parties engage in exchange.

Potential

Currently unrealized ability. A curve describing the situation where the difference in the potential energies of an object in two different positions depends only on those positions.

Price

The price is the amount a customer pays for the product. The quantity of payment or compensation given by one party to another in return for goods or services. The cost required to gain possession of something.

Product

Any tangible or intangible good or service that is a result of a process and that is intended for delivery to a customer or end user. Anything, either tangible or intangible, offered by the firm as a solution to the needs and wants of the consumer; something that is profitable or potentially profitable; goods or a service that meets the requirements of the various governing offices or society.

Resource

Something that one uses to achieve an objective. An example of a resource could be a raw material or an employee. Something that one uses to achieve an objective, e.g. raw materials or personnel.

Resource allocation

Resource allocation is used to assign the available resources in an economic way. It is part of resource management. In project management, resource allocation is the scheduling of activities and the resources required by those activities while taking into consideration both the resource availability and the project time.

Security

The condition of not being threatened, especially physically, psychologically, emotionally, or financially. proof of ownership of stocks, bonds, or other investment instruments.

Standard

Something used as a measure for comparative evaluations. A level of quality or attainment.

Trade war

The practice of nations creating mutual tariffs or similar barriers to trade.

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